

<u>King III</u>	<u>Boards Responsibilities:</u> <ol style="list-style-type: none"> 1. Provide effective leadership based on an ethical foundation. 2. Boards is responsible for ensuring integrity permeates all aspects of company and its operations 3. Company should be a responsible corporate citizen.
<u>Thought Process:</u> <ol style="list-style-type: none"> 1. Dominated by a person/block 2. Chairman independent non exec (if not, appropriate action) 3. Chairman also Chairs committee (member of audit committee) 4. Majority of board non- exec 5. Majority of non-exec independent 6. Audit committee appropriately constituted 7. At least 4 other committees 8. Other committees appropriately constituted 	<u>Remuneration:</u> Should be fair and reasonable with a balance between fixed and variable
<u>Audit Committee:</u> <ol style="list-style-type: none"> 1. Only independent non-executives 2. At least three members 3. Chairman should not be a member 4. Must have basic level of qualification and experience. 	<u>Boards and Directors:</u> <ol style="list-style-type: none"> 1. Board must always act in best interest of the company 2. Consider business rescue or other turnaround strategy as soon as company is in financial distress. (the
<u>Chairman:</u> <ol style="list-style-type: none"> 1. Must be an independent non-executive 2. The CEO shall not serve as chairman 3. If not independent non-executive, appoint a lead independent non-executive director. 4. If the board does the above this must be disclosed in the integrated report 5. Retired CEO should not become Chairman until three complete years have passed send end of executive term 6. Board must consider the number of outside chairmanships 7. Chairman may not sit on the audit committee 8. Chairman may not chair other committees but may be a member 	<u>Board Committees:</u> <ol style="list-style-type: none"> 1. At least : <ul style="list-style-type: none"> -risk -remuneration -nomination -audit 2. Board committees other than the risk committee should comprise only of non-executives of which the majority should be independent 3. Board committees should be chaired by an independent non-executive 4. External parties may be present by invitation but mat not vote
<ol style="list-style-type: none"> 4. No on individual or block of individuals should be able to dominate the board's decision making 5. Not independent if: <ul style="list-style-type: none"> - holds >5% interest in company -holds interest that is material to personal life -employed by company or group in last three years -Immediate family employed by group in last three years -Professional advisor -Has business or other significant relationship with the group 	<u>Composition of Board:</u> <ol style="list-style-type: none"> 1. Majority of non-executive directors 2. Majority of non-executives should be independent 3. Size, diversity and demographic

Companies Act

Memorandum of Incorporation (S15-16):

S15: MOI must be consistent with the act and is void to extent that it contravenes the act.

It may deal with additional issues and may impose greater restrictions.

S16: Amendments to the MOI requires a special resolution unless MOI provides otherwise.

Boards of Directors:

S66: Boards and prescribed officers

Minimum of three directors

S68: Election of Directors:

Must be elected by those eligible to vote

S69: Ineligibility:

Juristic person/un-emancipated

Disqualified:

- Court declares delinquent
- Un-rehabilitated insolvent
- Convicted of fraud

Conflicts of Interest:

S41 Shares for Related Parties:

Shares issued to directors, Company secretary or related entity must be approved by a special resolution of board if not go to S 77

S44 Assistance for Shares:

Only if:

- Pursuant to employee share scheme
- Pursuant to special resolution
- Solvency and liquidity test
- Fair and reasonable terms
- If not S 77

Loans for Directors:

The same principles as section 44 apply

S75 Directors interests:

List the procedure that must be taken if there is an interest. If not refer to S76 2(a) then S77 then an RI

Reckless Trading S22:

A company is trading recklessly if:

- Gross Negligence
- Fraud
- Cannot pay debts as they become due and in ordinary course of business.

Issuing Shares:

S36 Authorisation:

- MOI must set out classes, rights and max number of shares.
- This may be changed only by a special resolution. (exception)
- Must give notice

S38 Issue:

- May only issue shares within bounds of MOI

S40 Consideration:

- Consideration must be fair and adequate

<p align="center"><u>Companies Act & the APA</u></p>	<p><u>Reportable Irregularity:</u> <u>APA:</u> Definition:</p> <ul style="list-style-type: none"> - Unlawful act or omission by management which: - Has caused/is likely to cause material financial change - Is fraudulent or amounts to theft - Represents a material breach of any fiduciary duty - S45 contains duty and procedure to report
<p><u>Company Secretary:</u></p> <p><u>S86 Mandatory Appointment</u></p> <p>Every company must have a company secretary. The secretary must have requisite knowledge of laws.</p> <p><u>S89 Resignation or removal:</u></p> <p>Resignation requires one month written notice unless board requires less</p> <p>Removal may result in in secretary requiring board to make disclosure in AFS as part of director's report</p>	
<p><u>Other:</u></p> <p><u>S112 Disposal of Greater part of assets:</u></p> <p>Requires a special resolution unless S115 applies.</p> <p><u>S159 Protection for Whistle Blowers:</u></p> <p>Additional Protection</p> <p><u>S213 Breach of Confidence:</u></p> <p>It is an offence to breach confidence</p> <p><u>S214 False Statements, Reckless Conduct, and Non-Compliance</u></p> <p>Offence</p>	<p><u>Auditor and Audit Committees:</u></p> <p><u>S90 Appointment of Auditor:</u></p> <p>Must be appointed at AGM Must be registered and independent</p> <p><u>S92 Rotation:</u></p> <p>Same individual may not serve as auditor for more than 5 consecutive years, requires a 2 year break.</p> <p><u>S93 Rights of Auditors:</u></p> <p>Right of access at all time</p> <p><u>S94 Audit Committee:</u></p> <p>Need at least 3 members Must be independent non-executive Audit Committees duty to nominate auditor and determine fees</p>

Pre- Engagement

Considerations and Procedures (CPC210; ISQC 1)

1. Client Investigation

A client investigation should be performed and the following aspects taken into account:

- The firm's independence as auditor's (threats to independence)
- The clients business standing and risk, and the integrity of management (all the bad stuff they are doing and what this bad stuff indicates they could be doing)
- Whether there is any professional reason not to accept the engagement. CPC enquires of previous

The following should also be considered:

- Whether there was a vacancy in the position of auditors i.e. whether the existing auditors were legally dismissed in terms of the companies act.
- Whether the client is able to pay the audit fee on time.
- Whether the audits firm existing clients may have a conflict of interest.

2. Knowledge and Skills

The auditor should consider whether he and his team have the necessary knowledge, skills, time and staff to conduct the audit and obtain reasonable assurance.

3. Conditions of Engagement

If the engagement is accepted, the auditor should confirm the engagement and conditions per the engagement letter.

- The letter should outline management and the auditors' responsibilities for the audit.
- The letter should specify any additional services that the auditor will be required to carry out.

<p><u>Risk: Overall Financial Statement Level</u></p>	<p><u>Management Remuneration</u></p> <ul style="list-style-type: none"> - Bonus - Share Options - Share Ownership <p style="text-align: right;">} Incentive to manipulate Profits</p>
<p><u>Listed Company</u></p> <ul style="list-style-type: none"> - JSE listing Requirements - Fraud Risk: <ul style="list-style-type: none"> o Incentive to overstate financial position and profits 	
<p><u>Financial Difficulties</u></p> <ul style="list-style-type: none"> - List the problems - Going concern assumption may be inappropriate - Incentive to manipulate - Impairment indicator as assets may be overstated 	<p><u>Dispute with Previous Auditors</u></p> <p>Possible manipulation of financial statement to reflect more favourable position.</p>
<p><u>Complex Transactions</u></p> <p>Inappropriate revenue recognition R&D</p>	<p><u>Related-Party Transactions</u></p> <p>These transactions may not be accounted for correctly as specific presentation and disclosure requirements apply.</p>
<p><u>Provisions</u></p> <ul style="list-style-type: none"> - Going Concern issue if large - Understated - Presentation and Disclosure 	<p><u>Group Accounting</u></p> <p>If accounts are consolidated, group statements may be misstated due to:</p> <ul style="list-style-type: none"> - Transfer Pricing - Intercompany transactions - Different accounting policies
<p><u>Many Locations:</u></p> <ul style="list-style-type: none"> - Control may not be effective in all locations - Difficult to keep track of assets movements which is a fraud and error flag. 	<p><u>Lack of Integrity and Legal Non-compliance</u></p> <p>Directors may lack integrity which is motivation for manipulation of financial statements.</p>
<p><u>Listed in the USA</u></p> <p>Sarbanes Oxley Compliance</p>	<p><u>Cash Business:</u></p> <ul style="list-style-type: none"> - Fraud - Revenue completeness

<u>Risk: Assertion Level</u>	<u>Inventory:</u>
<p data-bbox="212 280 327 309"><u>Revenue:</u></p> <p data-bbox="212 349 667 378"><u>Completeness, Occurrence, Accuracy:</u></p> <ul data-bbox="260 423 778 842" style="list-style-type: none"> - Dependence on IT system increases the risk of errors - Dependence on outsourcers increases the risk of errors. - Risk that cash transactions are not record (related to Misappropriation of Funds) - Risk that revenue is calculated incorrectly, due to complex nature. - Revenue may not be recognised at fair value due to present value or related parties <p data-bbox="212 887 359 916"><u>Occurrence:</u></p> <ul data-bbox="260 960 778 1341" style="list-style-type: none"> - Credit Card fraud - Factious sales included - Revenue received upfront, results in recognition of prepaid revenue. - Revenue has the assumption of fraud especially if management has the incentive to overstate - Related party transactions may result in revenue - Government grants may be incorrectly recognised as revenue. <p data-bbox="212 1386 555 1415"><u>Presentation and Disclosure:</u></p> <ul data-bbox="260 1460 491 1525" style="list-style-type: none"> - Shown gross - Different types 	<p data-bbox="813 280 938 309"><u>Existence:</u></p> <ul data-bbox="861 349 1380 595" style="list-style-type: none"> - Inventories stored in different locations dispersed throughout the country may result in inventory being double counted - Inventories on consignment may be double counted/incorrectly included - Stolen goods included <p data-bbox="813 640 1082 669"><u>Rights and ownership:</u></p> <ul data-bbox="861 714 1380 1021" style="list-style-type: none"> - Goods in transit may not have passed into ownership of the entity - Goods on consignment may not belong to the entity - Goods may be held for customers until ready to collect and may be incorrectly included - If facilities are shared may include inventory that belongs to other party. <p data-bbox="813 1066 1098 1095"><u>Completeness/ Cut-Off</u></p> <ul data-bbox="861 1140 1380 1341" style="list-style-type: none"> - Items on consignment may not be included - Items ordered may be recognised in the wrong period - Goods in different locations may not be included <p data-bbox="813 1386 938 1415"><u>Accuracy:</u></p> <ul data-bbox="861 1460 1380 1662" style="list-style-type: none"> - Imports need to be at spot - May not include transport and customs duty costs - Manufactures may misallocate costs to finished products or work in progress <p data-bbox="813 1706 941 1736"><u>Valuation:</u></p> <ul data-bbox="861 1780 1380 1982" style="list-style-type: none"> - May be damaged-inventory on consignment - May be obsolete due to technical or specialised nature - NRV may be lower than cost especially for perishable goods.

<u>Risk: Assertion Level</u>	<u>Investment property & PPE</u>
<p><u>Accounts Receivable:</u></p> <p><u>Existence:</u></p> <ul style="list-style-type: none"> - Fictitious debtors may be included - Duplicate debtors may be included <p><u>Rights and Ownership:</u></p> <ul style="list-style-type: none"> - Debtors may have been factored <p><u>Completeness/Cut-off:</u></p> <ul style="list-style-type: none"> - Debtors may not have been recorded and included in year-end balance - Debtors may be included in incorrect period <p><u>Valuation and Accuracy:</u></p> <ul style="list-style-type: none"> - Accounts receivable may not be at present value - Incorrect calculation of amounts owed - Inclusion of amounts that will not be received (Bad-Debts not written-off) - Understatement of allowances for doubtful debts. (Estimates or Assumptions inappropriate.) 	<p><u>Existence:</u></p> <ul style="list-style-type: none"> - Property in-transit/in multiple or moving locations may not exist - Assets disposed of still included - Capitalisation appropriate? <p><u>Rights & Obligations</u></p> <ul style="list-style-type: none"> - Leased assets: - finance vs. operating/ inclusion of assets for which risks and rewards did not pass. <p><u>Completeness:</u></p> <ul style="list-style-type: none"> - Improvement costs may not be capitalised - Assets in other location may not be included - Internally –generated assets not capitalised - Borrowing costs not capitalised <p><u>Valuation and Accuracy:</u></p> <ul style="list-style-type: none"> - Revaluation/Fair value gains overstated - Insufficient allowance for depreciation (Residual value, EUL, Components) - Costs inaccurately computed (Spot rate, Transport costs, customs duty) - Impairment losses not recognised/ asset not written down to recoverable amount - Asset not recognised at Fair Value when acquired in a business combination
<p><u>Accounts Payable:</u></p> <p><u>Existence:</u></p> <ul style="list-style-type: none"> - Inclusion of amount for which no present obligation exists - Invalid purchase included <p><u>Completeness:</u></p> <ul style="list-style-type: none"> - Not all outstanding amounts included <p><u>Cut-Off</u></p> <ul style="list-style-type: none"> - Amounts included in incorrect period <p><u>Valuation and Accuracy</u></p> <ul style="list-style-type: none"> - Present value? - Incorrectly Calculated 	<p><u>Presentation and Disclosure:</u></p> <ul style="list-style-type: none"> - Incorrectly classified investment property in order to increase fair value gains and overstate profits.

<p style="text-align: center;"><u>Risk: Assertion Level</u></p> <p><u>Business Combinations & Goodwill</u></p> <ul style="list-style-type: none"> - SPVs consolidated <p><u>Goodwill</u></p> <p><u>Existence, Obligations:</u></p> <ul style="list-style-type: none"> - Recognition criteria met. FEB? - Recognition on effective date - Rights? <p><u>Valuation/ Allocation:</u></p> <ul style="list-style-type: none"> - Assets and Liabilities measured at Fair Value - Cost at fair value of consideration and correct amounts included - Fair value relates to effective date - Provisions appropriate <p><u>Impairment</u></p> <ul style="list-style-type: none"> - Allocated to a CGU? - Is this allocation appropriate? - Synergies - Risk that CA is less than RA - Value in use/FVLCTD <p><u>Completeness</u></p> <ul style="list-style-type: none"> - All assets and liabilities included 	<p><u>Treasury:</u></p> <p><u>General:</u></p> <ul style="list-style-type: none"> - Complexity of Accounting <p><u>Existence, Rights and Obligations:</u></p> <ul style="list-style-type: none"> - Assets and Liabilities may not exist - Firms rights and obligations under agreement may not exist - The nature of the rights and obligation may be complex and result in incorrect recognition <p><u>Valuation:</u></p> <ul style="list-style-type: none"> - Complexity in determination of fair values (reliance on judgements and estimates) - Maybe valued inappropriately or incorrectly - Counter parties may not be able to honour their obligations - Parties may intend not to honour investments <p><u>Completeness:</u></p> <ul style="list-style-type: none"> - Not all assets/liabilities included due to incorrect recording - Understated commitments and contingencies.
<p><u>Related Parties</u></p> <ul style="list-style-type: none"> - Disclosures - Arm's length transactions - Conflicts of interest with regard to companies act (S75 76 77) - Reportable irregularity 	<p><u>Intangibles:</u></p> <p><u>Existences, Rights & Obligations:</u></p> <ul style="list-style-type: none"> - Assets recognition criteria met - IAS 38 requirements met <p><u>Valuation and Allocation:</u></p> <ul style="list-style-type: none"> - Measurement at cost - Allocation between research and development - Only directly attributable costs - Amortisation appropriate based on EUL - FEB and Impairment <p><u>Completeness:</u></p> <ul style="list-style-type: none"> - All assets and liabilities recorded
<p><u>Provisions:</u></p> <p><u>Existence and Obligations:</u></p> <ul style="list-style-type: none"> - Present obligation due to past event - Probable - Estimates and assumptions <p><u>Valuation and Accuracy:</u></p> <ul style="list-style-type: none"> - Present value - Discount rate - All cost included <p><u>Completeness:</u></p> <ul style="list-style-type: none"> - All raised - Estimates and assumptions 	

<p><u>Response to Risk: Audit Plan</u></p>	<p>5. <u>Determine Audit Approach:</u></p> <p><u>Nature – Test Controls?</u></p> <p>1. Necessary?</p> <ul style="list-style-type: none"> - Complex transactions - Large volume transactions - Lack of audit trail <p>2. Possible?</p> <ul style="list-style-type: none"> - Adequate environmental and general controls to achieve VAC - Staff and expertise to be able to test controls. <p>3. Desirable?</p> <ul style="list-style-type: none"> - Cost vs. benefit - Value-added - Staff training opportunity - Client request/expectation - Can rely on prior year <p><u>Timing</u></p> <ul style="list-style-type: none"> - Roll-forward - Year-end vs. during the year - CAATS <p><u>Extent</u></p> <ul style="list-style-type: none"> - Materiality → increase or decrease - Significant risk - Reliance on Prior year
<p>1. <u>Obtain Knowledge of the Business:</u></p> <p>Including an understanding of:</p> <ul style="list-style-type: none"> - Industry - Legislation and regulation - Group structures - Management integrity - Accounting policies and IFRS applicable in the business - Difference in accounting policies between parent and sub 	
<p>2. <u>Obtain an Understanding of the control environment:</u></p> <ul style="list-style-type: none"> - Consider control environment and managements attitudes to, awareness of, controls and response to risk - Assess the competence of the management team - Do a preliminary assessment to determine whether reliance can be placed of controls 	
<p>3. <u>Do a Risk Assessment</u></p> <ul style="list-style-type: none"> - Summaries significant risks 	
<p>4. <u>Set Materiality</u></p> <ul style="list-style-type: none"> - Planning materiality 	<p>6. <u>Other Consideration</u></p> <ul style="list-style-type: none"> - Going concern - Reliance on internal audit - Staffing issues and use of an expert.

Nature of Audit Procedures - Specific Balances

1. Test Of Controls

- Necessary:

- Large volume transactions
- Complex transactions
- No audit trail
- Relates to significant risk



Will substantive procedures be sufficient to give necessary audit evidence? It is unlikely if an amount depends on controls especially if integrated

- Possible:

- Controls exist:
- General IT environment and Application
- Sufficient to ensure VAC
- Resources and Staff

- Desirable:

- Cost benefit due to reduced substantive testing
- Opportunity for adding value to management comments letter
- Clients request/expectation
- Opportunity for staff training
- Can rely on prior year testing

2. Testing General IT Controls

If you wish to place reliance on:

- Manual dependant controls
- Automated controls

CAATS

- Availability of Software
- Client co-operation
- Cost-efficiency.

You must test general IT controls:

- Programme Change Controls
- Programme Development Controls
- Access Controls
- Continuity of operations
- Personnel practices
- Control environment
- Standards
- Documentation

3. Test Application Controls

4. Major Substantive Procedures

Give overview only

Testing General IT Controls

1. Nature:

- Necessary:

- Highly complex transactions
- Large volume of transactions
- No audit trail
- System generated transactions
- Wish to place reliance on manual dependant and programme controls
- Computer controls relate to identified significant risk

- Possible:

- Do general IT controls exist to ensure VAC
- Can we place reliance on automated and manual dependant controls
- Can we test logic of computer
- Do we have sufficient staff and resources

- Desirable:

- Cost-benefit
- Opportunity for value added
- Staff training opportunities
- Client expectation/request
- Specific weakness in general IT environment were noted in previous audit and client has under taken to amend them
- Need to audit CG statement on effectiveness of internal controls
- Can rely on prior years' work if :
 - System/ personnel have not changed
 - Tested within previous three years
 - Not over a significant risk
 - Controls were found to be effective

2. Timing

- Roll forward- tight deadlines
- Concurrent testing
- Availability of data especially if outsourced

3. Extent

- Risk equation
- If system changes during year may need to test up to there
- CAATS may allow test of a whole population

Determining Which CAATS to Use

1. Necessary to rely on controls

- Large volume of transactions
- Complex transactions
- No audit trail
- Automated or systems generated transactions
- Information dependant on automated or manual dependant controls

2. Possible to rely on internal controls

- Can we rely on:
 - Independent manual controls
 - If adequate to ensure VAC a system CAAT is not required
 - Automated or manual dependant controls
 - If manual independent controls are insufficient can we rely on the above
 - We can only do so if General IT controls are sufficient
 - If so then we can rely on logic of programme and system CAATs
- Which System CAATs could be appropriate:
 - Test Data: only gives reliance over period or date tested
 - Concurrent technique: need deep knowledge of system as allows testing of whole period on which reliance is placed
- Possible to establish audit control of running of CAATs and the data produced:
 - Need access to outsourcers premises
 - Have sufficient independence
 - Have sufficient resources
 - Compatibility of hardware

3. Can CAATs be used for substantive procedures

- Select sample for testing
- Agree amounts/compare data from different files
- Reperform calculations
- Extract ratios
- Select items that meet specific criteria

4. Desirability to test CAATs

- As normal plus the ability to test 100% of data.

Response to Risk of Management Over-Ride

1. Overall Response (ISA 240)

- Assign and supervise personnel taking account of the risk of management over-ride
- Incorporate an element of unpredictability to nature, timing and extent
- Emphasis professional scepticism

2. Nature

- Perform substantive procedures on systems where general IT controls or application controls may be subject to management over-ride
- Review integrity of any changes in accounting policies or estimates
- Place reduced reliance on representation made by management
- Evaluate the selection of accounting policies, identify those where there is a possibility of reflecting financial statements in a favourable light

3. Timing

- Procedures concentrated at year-end

4. Extent

- Larger sample size
- Extend audit tests in areas where there are significant account balances which require judgement
- Extend audit test on adjusting journal entries.

Response to Non-Compliance

1. Importance of control being tested – Key Control?
2. Pervasiveness of control – general IT control or application control
3. Seriousness of deviation and potential effect on errors/irregularities
4. Cause of deviation- isolated mistake, or repetitive due to discernible factor
5. Existence of compensatory control
6. When to tell management- how serious?
7. Whether sample size was sufficient
8. Effects on other systems
9. Whether audit work should be extended:
 - Alternative test of controls
 - ARPs
 - Test of detail
 - Confirmation



Cost benefit of each option

Substantive Procedures: Common Student Omissions

3 S's:

- Schedule of balances
- Sample of transactions/items
- System: adequacy of controls and competence of staff

MEAT:

- Minutes of meeting
- Expert
 - Consider his qualification and experience
 - Evaluate his conclusion
- Adjustments especially at year end
- Tax (deferred and current)

4 A's:

- Accounting issues: IFRS
- Allowances: obsolescence, doubtful debts, depreciation/impairment
- ARP's
- Arithmetic Accuracy

Crap-M:

- Cut-off
- Representation letter
- Agree :
 - Schedules
 - Opening balances
 - Closing balances to GL, TB, FS
 - Subsidiary ledgers to control accounts
- Present value
- Models and assumptions

Substantive Procedures: ARPs

What are they?

- Defined as the analysis of significant:
 - Trends
 - Ratios
 - Relationships
- Includes investigation of:
 - Fluctuations
 - Unusual items
 - Lack of expected fluctuations
- Done by both management and auditors

What is "norm"?

- Prior periods
- Periods within current year
- Budgets
- Industry norms
- Trends within the above
- Non-financial information

Phrasing the Answer:

"Perform analytical review procedures as follows: (details)"

Investigate Fluctuation and unusual items.

When and why do ARPs?

- At planning and concluding stages:
 - Overall comparison of actual/budgeted/prior years
 - Whole spectrum of ratios
 - Consideration of industry factors
- At these stages not seeking reliance seeking:
 - Risk areas
 - Corroboration
 - Indicators of going concern
- ARPs:
 - Corroborate other findings
 - Highlight anomalies
 - May reduce risk
- Particularly persuasive in substantiating:
 - Less material items
 - Items with definite relationship
 - Regular items
- Less persuasive for:
 - Material items
 - Items with irregular relationships
 - Poor control environment
 - Items with subjective interpretation
 - Detecting understatement
 - Areas with high expected error rates

Technique:

- Analyse the financial information:
 - By product/category/cost centre
 - By period
- Comparison to a norm
- Comparison between financial and non-financial information
- Comparison between separate financial data
- Ratio analysis
- Review for reasonableness
- Review for obvious errors

Substantive Procedures: ARPs

Trading Balances (Payables, Receivables, and Inventories):

- Recon of last year's closing balance to this year's opening balance or recon of closing balances
- Number of days
- GP%
- Age analysis
- Obvious problems- Negative Balances
- Trends
- Allowance for DD/Balance
- Payments/Balance
- Ratio of components of inventories:
 - Classes of inventory
 - Costs included in inventories

Capitalised Costs:

- PPE/Development/Intangible
- Budget/Actual/Prior year
- Ratio
- Amortisation/depreciation
 - Absolute
 - As a percentage of the balance

Financial Assets/Liabilities:

- Income/investment
- Interest/debt outstanding
- Regular items:
 - 12 interest payments
 - 2 dividends
- Income/interest:
 - Prior year
 - budget

Trading Transactions:

- Trends
- Actual/budgeted
- Actual/previous year
- No days
- GP%
- All by:
 - Area
 - Product/service
 - Period
- For:
 - Revenue
 - Purchases
 - Expenses
 - Payments
 - Receipts

Overheads

- Trends
- Actual/Budgeted
- Actual/Previous
- 12 Entries
- Allocation to cost centre
- Compare about as a percentage to prior years

Payroll:

- Number of staff
- Hours:
 - Normal
 - Overtime
- Gross pay:
 - Normal
 - Overtime
- Deduction per type
- Net
- All of the above:
 - Actual/budget
 - Actual/prior
 - Per cost centre

Transaction Work

1. As you read the question identify documents and types of transactions
2. Inspect minutes of meeting of board of directors and management for pertinent information
3. Inspect contracts/agreements for rates, prices, signature, etc.
4. Obtain a schedule of transactions:
 - Reperform calculations and cast
5. Consider the adequacy of the system and competence of staff
6. Select a sample of initiating documents:
 - Check price/rates to master file/contracts
 - Reperform arithmetic accuracy of calculation
 - Reperform calculation of VAT and deductions
 - Inspect for signature (authorisation)
 - Inspect for sequential numbering
 - Check against policies
7. For a sample of documents selected, trace from initiating documents to relevant accounts and ledgers/journals
 - Inspect for correct classification
 - Agree one document to another
 - Verify goods delivered received in period
8. Select a sample of entries in journals/ledgers and trace to initiating documentation
 - Inquire about missing initiating documents
9. Select a sample of initiating documents from after year end and inspect journals/ledgers to ensure that these are not included in reporting period
10. Reconcile control account to ledgers
11. Enquire about models used and consider the appropriateness of these:
 - Consistency
 - Same for accounting policies and estimates
12. Inspect financial statements for correct presentation and sufficient disclosure
13. Obtain a management representation letter regarding all assertions
14. Perform ARPs :
 - Budget/actual/prior
 - Trends and unusual fluctuations
 - GP%
 - Unusual amounts/transactions
15. Reperform calculation of present values

<p><u>Substantive Procedures: Revenue & Deferred</u></p>	<p><u>Services:</u></p>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a management representation letter with regards to revenue and deferred revenue - Obtain a schedule with regards to changes in deferred revenue balance: <ul style="list-style-type: none"> ➤ Agree opening balance to prior years ➤ Reperform arithmetic accuracy of schedule - Consider the adequacy of the system and the competency of the staff involved in the revenue cycle - Enquire regarding models used for recognition of revenue and consider appropriateness there of - Ensure that VAT is excluded from all amounts recognised 	<ul style="list-style-type: none"> - Inspect contracts for terms of service agreement - Verify that it has been signed by customers - Inspect costly contracts and verify that contract income will be greater than cost - Check expenditure to date to supporting documentation - Compare annual expenditure to budget expenditure to determine reliability of forecasts - Reperform calculation of percentage of completion and revenue received or deferred
<p><u>Sale of Goods:</u></p> <ul style="list-style-type: none"> - General procedures for transactions - For contracts or with a few large customers, confirmation 	<p><u>Warranties:</u></p> <ul style="list-style-type: none"> - Inspect contracts/sales agreements for terms and conditions - Verify that warranty expense not netted off against revenue - Enquire regarding models/estimates used to determine expected uptake and consider appropriateness there of
<p><u>Bill and Hold Sales:</u></p> <ul style="list-style-type: none"> - Verify that risks and rewards of ownership have passed - Consider whether installation or inspection is a significant event and whether revenue recognition must be delayed until completion there of - Inspect contracts for details of transfer of risk or rewards - Verify that items are excluded from inventory - If the above not met then verify that revenue related to the above has been deferred. 	<p><u>Multiple Components:</u></p> <ul style="list-style-type: none"> - Inspect contracts/sales agreements for terms and conditions - Agree fair value of each component used to supporting documents (such as rate sheets) - Reperform calculation of the fair value - Verify that services provided over more than one year are discounted - Reperform present value calculation - Consider appropriate allocation of fair value to components
<p><u>Advertising and Subscriptions:</u></p> <ul style="list-style-type: none"> - Inspect contracts and invoices - For subscription Reperform calculation of monthly fee x no. months - Reperform calculation of revenue and amounts deferred - For adverts inspect adverts for publication - If not yet published inspect for deferral of revenue 	<p><u>Loyalty Points:</u></p> <ul style="list-style-type: none"> - Separate component of revenue - Reperform calculation of fair value of point - Reperform calculation of revenue deferred and subsequently recognised - Enquire from management/expert regarding models or assumptions used to determine the number of points to be exercised - Inspect supporting documents - Consider the reasonability

<p><u>Substantive Procedures: Trade Receivables</u></p>	<p><u>Valuation and Accuracy:</u></p>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule of movements of balances: <ul style="list-style-type: none"> ➢ Reperform calculation on schedule and cast ➢ Agree prior closing balance to current opening balance - Consider the adequacy of the revenue system and the competence of the staff involved - Verify that VAT is included in receivable balance - Reperform reconciliation of debtors ledger to accounts receivable account 	<ul style="list-style-type: none"> - From testing of sales - Reperform arithmetic accuracy of a sample of invoices - Review debtors list for credit balances - Present value and discounting can be reperformed - Foreign sales Reperform translation at spot - Reperform calculation of individual debtors balances
<p><u>Rights and Obligations:</u></p> <ul style="list-style-type: none"> - Enquire from management whether debtors book has been factored - Obtain confirmation from bank - Inspect minutes of board meeting for evidence of factoring or other such encumbrances to rights to debtors 	<p><u>Bad Debts and Allowances for Doubtful Debts:</u></p> <ul style="list-style-type: none"> - Inspect debtors age analysis and identify long-outstanding debts - Enquire from management as to recoverability of amounts - Consider whether debtors age analysis is showing debt is getting older compared to prior years - Perform extensive ARPs on allowances: <ul style="list-style-type: none"> ➢ Budget/actual/prior ➢ Allowances as a percentage of receivables ➢ Bad debts/prior year allowance - Enquire from management as to policies and models used to estimate allowances - Consider the appropriateness of these - Reperform calculation based on clients models - Enquire about impacts of changes in industry or economic environment on collectability of amounts
<p><u>Completeness:</u></p> <ul style="list-style-type: none"> - From testing of sales 	<p><u>ARPs:</u></p> <ul style="list-style-type: none"> - Prior/budget/actual - Days sales in receivables - GP% - Allowance absolute and as a percentage of receivables - Unusual fluctuations - Credit amounts in receivables
<p><u>Cut-Off:</u></p> <ul style="list-style-type: none"> - Obtain last delivery note of year - Inspect a sample of delivery notes after end of year and verify that they are not included in the current year - Inspect a sample of delivery notes from last day of year end and verify they are included in current year 	<p><u>CAATs</u></p>
<p><u>Existence:</u></p> <ul style="list-style-type: none"> - For a sample of debtors perform a positive circularisation - Investigate no response - Project errors onto entire population - Perform subsequent receipts testing: <ul style="list-style-type: none"> ➢ For a sample of payments received after year end trace to invoices and debtors journal 	

<u>Substantive Procedures: Trade Payables</u>	<u>Existence/Obligation:</u>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule of trade payables balances and movements - Reperform arithmetic accuracy of schedule - Agree opening balance to prior years financial statements - Obtain a management representation letter - Consider adequacy of expenditure system and competence of staff involved in system - Verify that VAT is included in all amounts - Reperform reconciliation of creditors ledger to accounts payable 	<ul style="list-style-type: none"> - From expenditure testing - From cut-off - Duplicate numbers
<p><u>Accuracy/Valuation:</u></p> <ul style="list-style-type: none"> - From expenditure testing - Reperform calculation of individual creditors balances - Reperform arithmetic accuracy of creditors ledger and creditors control 	<p><u>ARPs:</u></p> <ul style="list-style-type: none"> - Days purchases in payables - Budget/actual/prior - Unusual fluctuations - GP% - Debit amounts in creditors balances - Missing creditors from authorised suppliers list
<p><u>Completeness/Cut-Off:</u></p> <ul style="list-style-type: none"> - From expenditure testing - Generate exception report of missing suppliers invoices and delivery note numbers and investigate - Generate a list of goods received notes around year end - For a sample of goods received after year end verify that these are not included in the current year - For a sample of good received prior to year end verify that these are included in the current year - Generate a list of payments made after year end - Inspect supporting documents to ensure obligation existed at year end - If so trace to balance - Generate a list of unmatched good received notes awaiting processing to ensure that goods were received prior to year are included in balance - Carry out a creditors circularisation to all authorised suppliers 	<p><u>Roll-Forward:</u></p> <ul style="list-style-type: none"> - Update TOC for period after prior test to ensure the system is still operating efficiently and is capable of producing information that is VAC - Obtain a schedule of movements in balances after period or prior testing - Agree amounts in schedule to accounting records: <ul style="list-style-type: none"> ➤ Sales to sales journal ➤ Receipts to cash journal ➤ Payments to cash journal ➤ Bad debts to general journal - Compare amounts on schedule to prior periods and investigate any usual fluctuations - Reperform reconciliation of subsidiary to control accounts at year end - Perform cut off procedures at year end - Review account in GL for period after prior test and investigate any unusual or material entries - Review transactions for period after prior test and investigate for any unusual or material entries - Obtain a management rep letter for roll forward period
	<p><u>CAATs</u></p>

<u>Substantive Procedures:Accruals</u>	<u>ARPs:</u>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule of movements in and composition of sundry account balances - Reperform arithmetic accuracy of schedule - Agree opening balances to prior-year financial statements and working papers - Obtain a management representation letter - Consider adequacy and effectiveness of expenditure system and competence of staff - Verify that VAT has been included in balances and that deferred items have been adjust appropriately - Check related adjusting entries to accounting records and draft financial statements - Where adjusting journal entries are not passed consider the materiality of audit differences - Agree all audited balances to general ledger, trial balances and financial statements. 	<ul style="list-style-type: none"> - Compare : <ul style="list-style-type: none"> ➤ Budget/actual/prior ➤ Investigate unusual fluctuations ➤ Identify any unusual or missing items - Identify any duplicates - Identify debit balances <p><u>Completeness:</u></p> <ul style="list-style-type: none"> - Review cash books for period after year end to identify payments that occurred after year end - Enquire from management or staff regarding possible accruals - Review general ledger for missing items - There should be: <ul style="list-style-type: none"> ➤ 12 x telephone ➤ 52 x wages - If not these may be required accruals - Review all long-term agreements to determine whether provisions have been made for all accruals
<u>CAATs</u>	<p><u>Accuracy:</u></p> <ul style="list-style-type: none"> - Inspect contract/agreements for rates and Reperform arithmetic accuracy of accrual for each type of expenditure

<u>Substantive Procedures: Provisions</u>	<u>Completeness and Cut-off</u>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule showing movements and composition of all provision balances - Agree opening balance to prior year financial statements - Agree closing balance to general ledger, trial balance and AFS - Inspect adjusting journal entries for appropriateness and completeness - If adjusting entries not passed as required add to the list of audit differences - Reperform arithmetic accuracy of schedule - Verify that deferred tax on provisions has been correctly reflected 	<ul style="list-style-type: none"> - Enquire of legal counsel whether any law suits have been filed against the entity - Verify that obligation arose at year-end - Inspect general ledger for legal fee expenses - Follow up with management
<p><u>Existence and Obligations</u></p> <ul style="list-style-type: none"> - Enquire from an expert as to the probability of the outflow of economic resources - Consider his qualification and expertise and whether these are appropriate - Consider the appropriateness of his conclusions and assumptions - Consider from management whether cost can be reliably estimated - Inspect the costing the costing schedule and supporting documentation - Verify that there is a past event and that the provision only relates to expenditure attributable to the past event - Enquire from management as to the models and assumptions used to determine estimates for provisions - Consider the appropriateness 	<p><u>Valuation/ Accuracy/ Allocation</u></p> <ul style="list-style-type: none"> - Consider whether all cost have been included - Consider whether appropriate discount rate has been applied - Compare to WACC and market rates for entities with similar risk profiles - Tracing costing estimates to supporting documentation - Enquire from an expert as to appropriateness of costing estimates - Reperform calculation of provisions based on management assumptions - Verify that only directly attributable costs have been included not: <ul style="list-style-type: none"> ➤ Restructuring costs ➤ Future losses
	<p><u>Presentation and Disclosure:</u></p> <ul style="list-style-type: none"> - Consider whether appropriate disclosure has been made: <ul style="list-style-type: none"> ➤ Contingent assets ➤ Contingent liabilities - Verify that provisions have been presented gross and separate from any reimbursive assets
	<p><u>CAATs</u></p>

<u>Substantive Procedures: PPE</u>	<u>Additions:</u>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Schedules - o/b - c/b - arithmetic accuracy - rep letter - tax: deferred - models and assumptions: <ul style="list-style-type: none"> ➤ RUL ➤ Residual - Adjusting journals and audit differences - Obtain FAR 	<ul style="list-style-type: none"> - Obtain a schedule of additions for the year - Inspect purchase documentation to verify: <ul style="list-style-type: none"> ➤ Purchase price ➤ Date ➤ Description - Verify that VAT has been excluded from cost - Verify that transport, shipping installation have been included - For imported assets: <ul style="list-style-type: none"> ➤ Inspect bank documentation to verify spot rate ➤ Reperform translation of price at correct date with correct spot rate when R+R transferred
<p><u>Rights:</u></p> <ul style="list-style-type: none"> - Enquire whether an items of PPE is pledge as security - Enquire whether assets are leased on an operating lease - Verify that it is not capitalised - Inspect a sample of contracts/purchase documents for assets to ensure risks and rewards transferred 	<p><u>Self-Constructed:</u></p> <ul style="list-style-type: none"> - Obtain a schedule of costs - Reperform arithmetic accuracy - Trace maintenance costs to invoices/internal transfer documents - Trace labour to payroll/time sheets - Trace overheads to supporting documentations - Verify that FMOH is appropriate
<p><u>Existence:</u></p> <ul style="list-style-type: none"> - For a sample of assets on FAR inspect for physical existence - And agree description to FAR - Inspect schedule of PPE for evidence of any costs which could be incorrectly capitalised - Day to day service or maintenance 	<p><u>Impairment:</u></p> <ul style="list-style-type: none"> - Inspect PPE for signs of Impairment - For a sample of older assets compare carrying amount to appropriate value - Experts may be needed - Where assets appears to be impaired, Reperform impairment calculation - Trace to adjusting entry - Where client has impair consider appropriateness - Where client has not impaired add to audit differences
<p><u>Completeness:</u></p> <ul style="list-style-type: none"> - Select a sample from plant floor and trace to FAR verify the description - Inspect service or maintenance accounts for evidence of any cost which are required to be capitalised 	<p><u>Depreciation:</u></p> <ul style="list-style-type: none"> - Reperform calculation using basis consistent with prior year and consider the rates of current especially for older assets - Enquire from managements as to any changes in estimates - Inspect whether changes were appropriate and correctly applied - Consider Component approach
<p><u>Authorisation:</u></p> <ul style="list-style-type: none"> - Inspect minutes for approval of disposal/addition - Compare actual amount to authorised amount and investigate differences 	<ul style="list-style-type: none"> - Agree profits to accounting records - Review for unauthorised disposal
<p><u>Disposals:</u></p> <ul style="list-style-type: none"> - Obtain a schedule from cost to profit - Reperform arithmetic accuracy - Inspect sale documentation and bank records to sale proceeds check off FAR 	

<p><u>Substantive Procedures: Development</u></p>	<p><u>Amortisation:</u></p>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule of capitalised costs - Reperform arithmetic accuracy - Trace opening balance to prior years financial statements - Trace closing balance to GL, TB, AFS - Obtain a management rep letter - Adjusting items and audit differences - Tax: <ul style="list-style-type: none"> ➤ VAT excluded ➤ Deferred tax - IAS 38 met 	<ul style="list-style-type: none"> - Enquire of management as to estimates used, useful life and residual values - Consider appropriateness - May require an expert - Reperform the calculations
<p><u>Expenditure:</u></p> <ul style="list-style-type: none"> - For a sample of costs agree amounts to supporting documentation: <ul style="list-style-type: none"> ➤ Materials to invoices ➤ Employments costs to payroll ➤ Overhead cost to general ledger ➤ External costs to invoice - Perform audit work to ensure cost are correctly capitalised to products rather than to research or other products: <ul style="list-style-type: none"> ➤ For materials used enquire of an expert regarding appropriateness ➤ For employment costs, enquire of staff as to nature of work done and inspect time records ➤ Verify that all cost are directly attributable and necessary - Review basis on which overheads were allocated and consider appropriateness - Reperform calculation of individual cost capitalised: <ul style="list-style-type: none"> ➤ Material: price x quantity ➤ Labour: Rate x Hours ➤ Overheads: Appropriate Rate x Hours 	<p><u>Impairment:</u></p> <ul style="list-style-type: none"> - Determine the following: <ul style="list-style-type: none"> ➤ Value in use ➤ FVLCTS ➤ Verify that RA>CA ➤ If necessary Reperform calculation of impairment ➤ Trace to general ledger
	<p style="text-align: center;"><u>CAATs</u></p>

<u>Substantive Procedures: Goodwill</u>	<u>Calculation:</u>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule of capitalised costs - Reperform arithmetic accuracy - Trace opening balance to prior years financial statements - Trace closing balance to GL, TB, AFS - Obtain a management rep letter - Adjusting items and audit differences 	<p><u>Calculation:</u></p> <ul style="list-style-type: none"> - Inspect purchase documents to verify purchase price - Verify that transaction costs have been excluded from consideration paid - Verify that amounts deferred for payments are included at present value - Reperform calculation of consideration - Enquire of management on method or recognising NCI - Reperform % if applicable - Inspect supporting documents if at FV - Reperform/Consider appropriateness - Enquire whether all assets and liabilities have been taken into account, including operating leases, intangibles and contingent liabilities. - Search for additional liabilities - Verify that assets and liabilities have been measured at FV - Inspect supporting documents for FV - Enquire of an expert regarding FV: <ul style="list-style-type: none"> ➤ Consider his qualification and experience ➤ Consider the assumptions and conclusions for appropriateness ➤ Reperform calculation of NAV at date of acquisition ➤ Reperform calculation of goodwill
<p><u>Existence and Rights:</u></p> <ul style="list-style-type: none"> - Consider whether client has control over the entities - Past event inspect purchase documentation - FEB : inspect acquired entity's AFS and cash flow forecast and verify that present value is greater than NAV including goodwill 	
<p><u>Allocation:</u></p> <ul style="list-style-type: none"> - Enquire from management as to allocation of goodwill to CGU - Consider whether it meets the requirements "at lowest level in entity at which goodwill is monitored - Consider whether allocation reflects synergies and benefits associated with each CGU 	
<p><u>Impairment:</u></p> <ul style="list-style-type: none"> - Reperform calculation of RA of CGU at reporting date: <ul style="list-style-type: none"> ➤ FVLCTS ➤ VIU - Verify that RA>CA including goodwill - If not Reperform allocation on impairment - Inspect GL for adjustment - If client has not written down consider appropriateness there of 	

<u>Substantive Procedures: Inventory</u>	
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule of capitalised costs - Reperform arithmetic accuracy - Trace opening balance to prior years financial statements - Trace closing balance to GL, TB, AFS - Obtain a management rep letter - Adjusting items and audit differences - Tax: <ul style="list-style-type: none"> ➤ VAT excluded ➤ Deferred tax - ARPs 	<p><u>Goods Purchased Locally:</u></p> <ul style="list-style-type: none"> - Obtain a listing of inventory purchased by period and select a sample: <ul style="list-style-type: none"> ➤ Trace sample purchased to invoice and goods received notes whilst also agreeing the price and quantity - Obtain a cost schedule for sampled items: <ul style="list-style-type: none"> ➤ Ensure that Vat is excluded ➤ Ensure that transport and other relevant costs are included ➤ Inspect invoices from transport suppliers etc. to establish whether some cost are included erroneously - Reperform arithmetic accuracy of schedule - Reperform calculation of unit cost on WAC/FIFO
<p><u>CAATS:</u></p> <ul style="list-style-type: none"> - Use CAATS to extract the following ratios for current/ prior/ budget years: <ul style="list-style-type: none"> ➤ GP% ➤ Days sales in Closing inventory - Use CAATS to generate a list of : <ul style="list-style-type: none"> ➤ Items where current selling price is lower than cost ➤ Items where most recent date of purchase is after most recent date of sale ➤ Items where most recent sale is more than 90 days before year end ➤ Zero balances ➤ Negative balances/credit balances ➤ Items with missing/blank fields - Extract an inventory age analysis - Extract a schedule of movements in inventory balances - Extract/select a sample of: <ul style="list-style-type: none"> ➤ Goods with a value of over R10000 ➤ Imported goods 	<p><u>Manufactured Goods:</u></p> <ul style="list-style-type: none"> - Obtain a costing schedule of manufactured goods - Inspect supporting documentation for evidence of transfer of raw materials to WIP - Inspect documents for authorisations and use of correct cost - Reperform calculation of unit cost transferred - Agree labour hours to payroll documents agree labour rates to contract/ rate sheets - Agree FMOH and VMOH to supporting documents - Ensure that non-manufacturing cost are not included - Ensure FMOH is applied at practical capacity - Reperform calculation of FMOH
<p><u>Imported Goods:</u></p> <ul style="list-style-type: none"> - Obtain a listing of goods imported during the financial year and select a sample including some high value items - Obtain a cost schedule for these goods - Ensure that import and customs duties have been included in the costs - Ensure that the correct exchange rate was applied on transaction date - Reperform arithmetic accuracy of schedules - Reperform unit costs - Trace to invoices 	<p><u>Net Realisable Value:</u></p> <ul style="list-style-type: none"> - Select a sample of inventory items from count sheet/age analysis - Obtain a count sheet/age analysis - Enquire of management as to damaged or obsolete stock or slow moving - Inspect inventory
	<p><u>Rights and Obligations:</u></p> <ul style="list-style-type: none"> - Enquire from management whether inventory is held on consignment - Verify it is not included - Enquire from management or staff whether inventory is encumbered in any way (security)

<p><u>Substantive Procedures: Going Concern</u></p>	<p><u>Support of Third Parties:</u></p>
<p><u>Liquidity:</u></p> <ul style="list-style-type: none"> - Obtain a cash flow forecast - Consider adequacy of clients system for generating financial information - Consider the competence of the people generating the cash flow and their independence - Compare prior year forecast to actual performance - Compare current years forecast to performance to date - Consider appropriateness of any assumptions made - Reperform calculations based on management's assumptions - Obtain a management representation letter 	<ul style="list-style-type: none"> - Obtain confirmation of third parties - Consider ability to offer support: <ul style="list-style-type: none"> ➤ Inspect their AFS
<p><u>Shares:</u></p> <ul style="list-style-type: none"> - Inspect memorandum of incorporation to verify that share issues meet requirements - Inspect minutes of meetings of board for evidence of approval - Obtain confirmation from underwriters 	<p><u>Restructuring:</u></p> <ul style="list-style-type: none"> - Reperform calculation of costs and likely cost saving - Consider possible litigation from restructuring
<p><u>Loan Obligations:</u></p> <ul style="list-style-type: none"> - Obtain confirmation from banks regarding borrowings available and outstanding loans - Reperform calculation of current portion of loans - Obtain a schedule of repayments and trace to supporting documents - Reperform accuracy of payments: <ul style="list-style-type: none"> ➤ Recalculate payments at correct rate - Reperform interest calculation and consider cash flows 	<p><u>Disposals:</u></p> <ul style="list-style-type: none"> - Inspect contracts/offers - Consider managements estimates of proceeds - Enquire of an expert on likely proceeds of sale: <ul style="list-style-type: none"> ➤ Qualification & Experience ➤ Assumptions and Conclusions
<p><u>New Products:</u></p> <ul style="list-style-type: none"> - Consider the viability of assumptions made by management - Consider the impact on cash flows 	<p><u>General Search for additional Liabilities:</u></p> <p>Procedures under final concluding</p>
	<p><u>Covenants:</u></p> <ul style="list-style-type: none"> - Reperform Ratios - Inspect contracts for evidence of covenants - Inspect whether correct presentation and disclosure was applied if covenant was breached
	<p><u>Subordination of Loans:</u></p> <ul style="list-style-type: none"> - Enquire from management whether this is occurring - Consider whether the assumptions made are appropriate - Consider whether this is actually a viable option
	<p style="text-align: center;"><u>Always</u></p>

<u>Substantive Procedures: Treasury</u>	<u>Valuation and Accuracy:</u>
<p><u>General:</u></p> <ul style="list-style-type: none"> - Obtain a schedule showing movements and composition of all balances - Agree opening balance to prior year financial statements - Agree closing balance to general ledger, trial balance and AFS - Inspect adjusting journal entries for appropriateness and completeness - If adjusting entries not passed as required add to the list of audit differences - Reperform arithmetic accuracy of schedule - Verify that deferred tax on has been correctly reflected 	<ul style="list-style-type: none"> - Where applicable, agree market value of positions to supporting documents - Where an actual market does not exist obtain the clients valuation models for determining the fair value of instruments - Consider the appropriateness of assumptions and valuation models used - Reperform the calculation - Check details per the valuation model to the contract terms - Consider the appropriateness of discount rates used and whether or not appropriate risk premiums are included - Compare to bench mark and market rates - Where future cash flows are basis for estimates: <ul style="list-style-type: none"> ➢ Consider whether previous projections were reliable ➢ Check arithmetic accuracy of projections - Consider using an independent expert to assess the models and assumptions - Consider the experts: <ul style="list-style-type: none"> ➢ Independence and objectivity ➢ Qualification ➢ Experience ➢ Assumptions ➢ Results and conclusions - Where contracts are in the money consider whether there is a need for impairment in light of credit risk of counter party
<p><u>Existence, Rights and Obligations:</u></p> <ul style="list-style-type: none"> - Obtain written confirmation from counter parties concerning all open positions at year-end - Inspect correspondence for any changes in terms and conditions - Inspect contracts/obtain confirmation to ascertain the exact nature of the rights and obligations of the contract - Inspect contracts for evidence of authorisation - Check if it is within authorisation limit 	<p><u>Classification and Disclosure:</u></p> <ul style="list-style-type: none"> - Consider the adequacy and appropriateness of presentation and disclosure
<p><u>Completeness and Cut-Off:</u></p> <ul style="list-style-type: none"> - Review accounting records to ensure all open positions are included - Circularise all known counterparties including those with nil balances - Perform subsequent receipts/ payments testing to verify that assets/liabilities were included at year end - Inspect correspondence/contracts of transactions entered into after year-end and verify that these balances are not included at year-end 	

<u>System Changes and Implementation</u>	<u>Substantive Procedures:</u>
<p><u>Test of IT Controls:</u></p> <p><u>General:</u></p> <ul style="list-style-type: none"> - Test general IT controls through discussion with IT staff - Inspection of system documentation, flow charts etc. - Observation of access controls and organisational controls - Test conversion controls: <ul style="list-style-type: none"> ➤ Discuss procedures with management ➤ Inspect conversion reports 	<ul style="list-style-type: none"> - Test opening balance of new system - Reconcile opening balance to closing balance of old system - Test opening balance against source documentation - Test the application of the new system - Using system CAATS - Using Data CAATS - Observe edit/validation and access controls
<p><u>Specific IT Controls:</u></p> <ul style="list-style-type: none"> - Test the conversion process as follows <ul style="list-style-type: none"> ➤ Conversion plan must be inspected ➤ Minutes of meetings required for authorisation ➤ Reconcile old and new system balances to ensure correct cut-off ➤ Inspect recon from old and new system ➤ Inspect documentation relating to controls/supervision over conversion of new system ➤ Attend conversions and observe that procedures are followed ➤ Inspect training models and enquire of personnel as to training - Test general IT controls specific to system: <ul style="list-style-type: none"> ➤ Segregation of duties discussed with management ➤ Access control/security must be inspected and tested ➤ Maintenance/change controls must be discussed with management ➤ Organisational controls can be inspect and discussed with management 	

<u>Inventory Variances</u>	<u>Other:</u>
<p><u>CAATs:</u></p> <ul style="list-style-type: none"> - Use data CAATs to: <ul style="list-style-type: none"> ➤ Extract details for time taken for production in each cost centre and budgeted labour and overhead costs ➤ Extract details of quantities of materials used in each cost centre and budgeted and actual material costs ➤ Reperform computation of standard materials, labour and overhead cost for each item or cost centre ➤ Reperform computation of variances ➤ Extract a month by month comparison between budget and actual costs ➤ Identify any significant fluctuations in above ➤ Prepare a trend analysis from above 	<ul style="list-style-type: none"> - Discuss the times taken for production with client personnel and inspect documents supporting these estimates - Discuss the amounts used for production with the production manager and inspect the supporting documents - Discuss the reason for any significant variances with client personnel and inspect documents supporting reasons: <ul style="list-style-type: none"> ➤ Invoices from suppliers ➤ Cost/production reports - Review results of above and conclude whether or not variances indicate need to adjust standard cost - May require an expert - Where variances indicate need for adjustment to standard cost, Reperform computation of adjustment to inventory - Reperform proration of variances - Verify that FMOH under applied are not pro-rated

<u>Controls: Exam Approach</u>	<u>Documents:</u>
<p><u>SCRUM:</u></p> <ol style="list-style-type: none"> 1. Segregation of Duties 2. Custody of Assets: <ul style="list-style-type: none"> - Cash - Inventory - Confidential Documents - Physical access controls 3. Perform Reconciliations: <ul style="list-style-type: none"> - Control accounts to ledgers - Physical stock to theoretical 4. Control over unused Stationery: <ul style="list-style-type: none"> - For all documents affected 5. Management Controls: <ul style="list-style-type: none"> - Set policies - Authorisation - Monitoring - Reconciliations 	<ul style="list-style-type: none"> - Identify documents in cycle: <ul style="list-style-type: none"> ➤ Break up into stages - Each document should be pre-printed and pre-numbered - A copy of all documents should be sent to the person responsible for following up - Each document should be checked against those from earlier stages for: <ul style="list-style-type: none"> ➤ Price/rate ➤ Quantity ➤ Arithmetic accuracy ➤ Deductions and VAT ➤ Authorisation - At each stage document should be sequence checked and missing numbers followed up - At each stage documents should be prepared from previous stages documents - At initiation stage document should be check against policies.
<p><u>Computerised Environment:</u></p> <ol style="list-style-type: none"> 1. Application controls: <ul style="list-style-type: none"> - Master file controls - Access controls - Controls over input - Batch controls 2. General IT controls 	<p><u>Accounting:</u></p> <ul style="list-style-type: none"> - Identify accounts affected - Accountant to write up journals from prior stages documents - Accountant to perform regular reconciliations of control accounts and subsidiary ledgers - Account to perform regular reviews of applicable ledgers and journals for proper processing, classification and summarising

<u>Controls: Application Controls</u>	<u>Minimising Input:</u>
<u>Access Controls:</u> <u>Physical:</u>	<ul style="list-style-type: none"> - Scanners - Drop down menus - Touch screens
<ul style="list-style-type: none"> - Terminals should be kept in a secure office to which only authorised person has keys and door should be kept locked when not in room <u>Logical</u>	<u>Programme (Edit-Validation) Checks</u> <ul style="list-style-type: none"> - Missing data checks - Limit checks - Arithmetic accuracy - Alpha-numeric - Duplicate check - Sequence check - Verify checks against master file - Run-to-run totals
<ul style="list-style-type: none"> - Access to be restricted in terms of access tables at both system and application level based on least privileged basis: <ul style="list-style-type: none"> ➤ Person to have access to minimum possible privileges necessary for them to perform their duties ➤ Achieved by giving access to application and only function in application necessary - All terminals and sensitive applications to require personal login details to be submitted: <ul style="list-style-type: none"> ➤ Passwords must be unique ➤ Passwords to consist of numbers and letters ➤ Policy of confidentiality concerning passwords ➤ Password files to be encrypted ➤ Password changes every 90 days at least ➤ Password never shown on screen - Automatic logout from if application or interface idle after no longer than 10 minutes - Automatic blocking of terminal if incorrect password entered more than three times: <ul style="list-style-type: none"> ➤ Access violations to be logged automatically - Firewalls in place to prevent unauthorised access through internet - All sensitive data encrypted - Anti-virus software to be installed on all terminals - Assurance logos to be shown on website. 	<u>Management:</u> <ul style="list-style-type: none"> - Management to set policies: <ul style="list-style-type: none"> ➤ Password confidentiality ➤ Physical access - Management to grant access to modules/functions on least privileged basis - Management to review logs and reports and to follow up on significant unusual items: <ul style="list-style-type: none"> ➤ Audit trails ➤ Run-to-run totals ➤ Exception reports ➤ Activity reports ➤ Access/violation reports - Exceptions reports may include: <ul style="list-style-type: none"> ➤ Duplicate entries ➤ Negative amounts ➤ Zero amounts ➤ Missing data/numbers ➤ Access outside normal hours ➤ Not in terms of policy ➤ Minimum<rates>maximum ➤ Minimum<quantity>maximum - Staff training - Manuals

<u>Controls: Master File</u>	
<ul style="list-style-type: none"> - Access to master files restricted on least privileged basis, physical and logical - Amendments to be authorised by management, should be documented and signed - Each update backed up automatically and sequentially numbered - Management to perform regular sequence checks and follow up on missing numbers - All amendments to master file automatically logged - Management to review log on regular basis and follow up on significant or unusual changes - Controls on inputs should be minimized and edit validation checks should be in place or run 	
<u>Controls: SCRUM</u>	
<u>Segregation of Duties:</u> <ul style="list-style-type: none"> - At least between sequential stages - Or there must be a rotation of duties 	<u>Unused Stationary:</u> <ul style="list-style-type: none"> - Hard to copy is goal - Kept in locked safe place - Logs: <ul style="list-style-type: none"> ➤ Signed ➤ Reviewed - Pre-printed and sequentially numbered - Crossed when no longer used
<u>Custody of Assets:</u> <ul style="list-style-type: none"> - Physical security: <ul style="list-style-type: none"> ➤ Security ➤ CCTV - Physical access: <ul style="list-style-type: none"> ➤ Internal ➤ External 	<u>Management:</u> <ul style="list-style-type: none"> - Set policies and communicate - Authorisation: <ul style="list-style-type: none"> ➤ General ➤ Specific - Review of: <ul style="list-style-type: none"> ➤ Audit trails ➤ Logs ➤ Recons ➤ Customer complaints ➤ Non-financial information ➤ Exception reports ➤ Sequential numbers - Spot checks - Identify, correct and resubmit errors - HR: <ul style="list-style-type: none"> ➤ Hiring and firing ➤ Code of conduct ➤ Training
<u>Reconciliations:</u> <ul style="list-style-type: none"> - Between: <ul style="list-style-type: none"> ➤ Theoretical/underlying amounts of assets ➤ Subsidiary ledgers to control accounts ➤ Non-financial to financial information 	

<u>Controls: Treasury</u>	
<p><u>General:</u></p> <ul style="list-style-type: none"> - Regular reconciliations should be performed between: <ul style="list-style-type: none"> ➤ Dealing tickets and position reports ➤ Position reports and counterparty documents ➤ Above documents and accounting records - Daily bank reconciliations should be performed - All reconciliations should be reviewed by management and authorised - Management should do independent review of all valuation models, risk management models and inputs into computer software - Controls over unused stationary: <ul style="list-style-type: none"> ➤ Hard to copy ➤ Kept in a locked safe ➤ Pre-printed and sequentially numbered ➤ Log ➤ Crossed when no longer in use - Segregation between back office staff and dealing - All personnel to be properly trained - Code of conduct communicated to all staff members 	<p><u>Back Office:</u></p> <ul style="list-style-type: none"> - Counterparties send all documentation and correspondence directly to back-office - Back office should check deal tickets for: <ul style="list-style-type: none"> ➤ Arithmetic accuracy ➤ Authorisation by dealers and management ➤ That dealers are within limits ➤ That dealers are with authorised counterparties ➤ Agreement with counterparty documentation ➤ Sign off as evidence of checks - Back-office to perform daily sequence checks of dealing tickets and follow up any missing numbers
<p><u>Dealing:</u></p> <ul style="list-style-type: none"> - Management to set an approved list of counterparties - Management to authorise dealers to engage in in transactions: <ul style="list-style-type: none"> ➤ General ➤ Specific - Deal tickets to be pre-number <ul style="list-style-type: none"> ➤ Regular sequence check performed by back off and followed up - Dealing tickets to be signed by dealers and reviewed by management - Dealer telephone calls to be recorded and cell phones to be prohibited in front office - Dealing restricted to certain terminals only and strong access to controls to be placed over those terminals 	<p><u>Settlement:</u></p> <ul style="list-style-type: none"> - Payment should not be effected until all supporting documents have been checked and authorised - Signatories to be present with original documentation before settlement is made - Signatories to cancel all supporting documents to prevent duplicate payment - Documents to be reviewed daily and compared to recon to ensure all funds are received - Management to regularly monitor internal audit reports and the appropriateness of controls to manage risk

<u>Controls: USB</u>	<u>Unavailability of required information:</u>
<p><u>Policies and Procedures:</u></p> <p>Risks:</p> <ul style="list-style-type: none"> - A user does not understand his/her role regarding the responsibilities of a USB resulting in : <ul style="list-style-type: none"> ➤ Loss of physical USB ➤ Compromised confidentiality ➤ Compromised integrity of data <p>Controls:</p> <ul style="list-style-type: none"> - Media policies and procedures in place covering topics such as: <ul style="list-style-type: none"> ➤ Appropriate use ➤ Encryption ➤ Password protection ➤ Physical securities - Management must monitor implementation - Media policies communicated to and acknowledged by users: <ul style="list-style-type: none"> ➤ At point of employment ➤ Regular intervals - Part of anti-virus system 	<p>Risk:</p> <ul style="list-style-type: none"> - Due to unintended deletion <p>Controls:</p> <p>Read only options selected with access needed and authorisation for deletion of important information</p>
<p><u>Loss of Information:</u></p> <p>Risks:</p> <ul style="list-style-type: none"> - An authorised user loses a USB resulting in: <ul style="list-style-type: none"> ➤ Unauthorised disclosure of confidential/sensitive information ➤ Loss of business information <p>Controls:</p> <ul style="list-style-type: none"> - Confidential information not stored on USB sticks or removed as soon as no longer needed - Back-ups are maintained of all relevant business information - Formal reporting procedure of loss or theft of stick - Access to USB is protected by password and or encryption - Physical access controls 	<p><u>Unauthorised use of Information:</u></p> <p>Risk:</p> <ul style="list-style-type: none"> - An authorised user copies sensitive/confidential information to the USB and removes it to use in an unauthorised manner <p>Controls:</p> <ul style="list-style-type: none"> - A third party security tool is in place to log all files copied to unauthorised USB - Reviewed for unusual or significant items on a regular basis and followed up
	<p><u>Breach of Confidentiality (Reputational)</u></p> <p>Risk:</p> <ul style="list-style-type: none"> - Financial and or reputational loss due to breach <p>Controls:</p> <ul style="list-style-type: none"> - Employees to sign document saying that they are personally responsible for breach of confidentiality due to negligence

Benefits and Risks of a Database

Benefits:

- Reduced data redundancy. Data is consistent as it is only recorded and updated once
- Enables real time updates from the transaction system
- This improves client services ability
- Better management information. Management can easily integrate data using report generators or query language
- Customer data is pooled resulting in better consolidated company wide data
- The data is stored in one data base enabling a common GL to be kept for all business units
- Better security over data. Logical access controls over data are easy to implement

Risks:

- Risk of unauthorised:
 - Access to confidential information
 - Changes of standing data
 - Change of confidential information
- Lack of segregation of duties between different functions
- Data privacy being compromised
- System downtime will affect all business units therefore continuity of operations is a problem
- Inappropriate/insufficient back up procedures resulting in losses
- Reliance on key IT staff
- Volume of transactions may be too great
- Errors in one system could corrupt the other system
- General computer controls may be weak resulting in fraud/error

EDI

Controls to protect from unauthorised access to and modification of Third Party Interfaces

- Request information from third party before storing altering or copying any information
- Before performing any procedures on third party information must receive permission
- Take reasonable precaution to ensure computers are free from viruses and that viruses are not transmitted to third party computers
- Installation of anti-virus

<u>Wireless Network Installation and Use</u>	
<p><u>Risk:</u></p> <p><u>Integrity of information:</u></p> <ul style="list-style-type: none"> - Introduction of viruses - Unauthorised/inappropriate logical access to the network - Unauthorised/inappropriate changes to programs - Unauthorised/inappropriate changes to data <p><u>Accuracy and Completeness</u></p> <ul style="list-style-type: none"> - Inaccurate/incomplete transmission due to inexperience of users with technology <p><u>Confidentiality of Information</u></p> <ul style="list-style-type: none"> - Unauthorised/inappropriate use of information of output, especially private information <p><u>Efficiency and Effectiveness:</u></p> <ul style="list-style-type: none"> - Staff resistance to change - Increase risk of loss/left of notebooks/laptops <p><u>Availability:</u></p> <ul style="list-style-type: none"> - Interruption in processing due to hacking or technological break down - Destruction of data programs <p><u>Legal Exposure:</u></p> <ul style="list-style-type: none"> - Non-compliance with licencing agreement - Breach of confidentiality 	<p><u>Controls:</u></p> <p><u>General:</u></p> <ul style="list-style-type: none"> - Install anti-virus software - Develop and test a disaster recovery plan - Legal department to renew all contracts and ensure system compliance with all system legislature <p><u>Policies:</u></p> <ul style="list-style-type: none"> - Include paragraphs relating to WIFI usage in employee contracts - Determine policies in respect of: <ul style="list-style-type: none"> ➤ Development of WLAN including risking awareness among employees ➤ Installation of wireless access points installation of network interface and restriction of operations ➤ Access: users and time or day ➤ Operation manuals/help functions and staff training <p><u>Installation:</u></p> <ul style="list-style-type: none"> - Install the minimum number of WAPs for coverage required for business needs - Set WAP broadcast level to lowest possible level <p><u>Authentication and Authorisation devices:</u></p> <ul style="list-style-type: none"> - Configure encryption to highest level - Verify that device is authorised - Revoke device authority immediately on notification of loss or theft <p><u>Control Access to WLAN</u></p> <ul style="list-style-type: none"> - Install a wireless firewall - Encrypt traffic on WLAN with a VPN - Configure use to direct all traffic through VPN <p><u>Application Security:</u></p> <ul style="list-style-type: none"> - Implement application level user authentication and authorisation - Perform regular back-ups of data and programs <p><u>Supervision and Monitoring</u></p> <ul style="list-style-type: none"> - Regular review of access activity and employee complaints

Risk Arising from Outsourcing

<u>Risk</u>	<u>Consequences</u>
<p>Continuity:</p> <ul style="list-style-type: none"> - Reliance on outsourcers for continuity of business operations 	<ul style="list-style-type: none"> - May jeopardise going concern ability
<p>Confidentiality:</p> <ul style="list-style-type: none"> - Breach of confidentiality of sensitive information and possible use of such information by outsources (sell) 	<ul style="list-style-type: none"> - May compromise ability to price deals competitively - May lead to lower volumes/profits - Reputational damage - Risk of litigation - Risk of loss of customers
<p>Failure to perform timeously</p>	<ul style="list-style-type: none"> - Maybe unable to comply with deadlines - Negative reputational consequences - Loss of customers - Penalty fees - Potential litigation - Cash flow implications
<p>Economy:</p> <ul style="list-style-type: none"> - Risk of increased cost of outsourced service 	<ul style="list-style-type: none"> - If wish to end relationship to decrease cost may have to go through complicate process to regain information, hire staff and consolidation process - May lead to delays and errors
<p>Errors</p>	<ul style="list-style-type: none"> - Payment of incorrect amounts - Inability to make effective decisions
<p>Non-Compliance with Legislation</p>	<ul style="list-style-type: none"> - Cost/fines may have impact on profit - Reputational loss
<p>Fraud</p>	<ul style="list-style-type: none"> - Financial/reputational loss

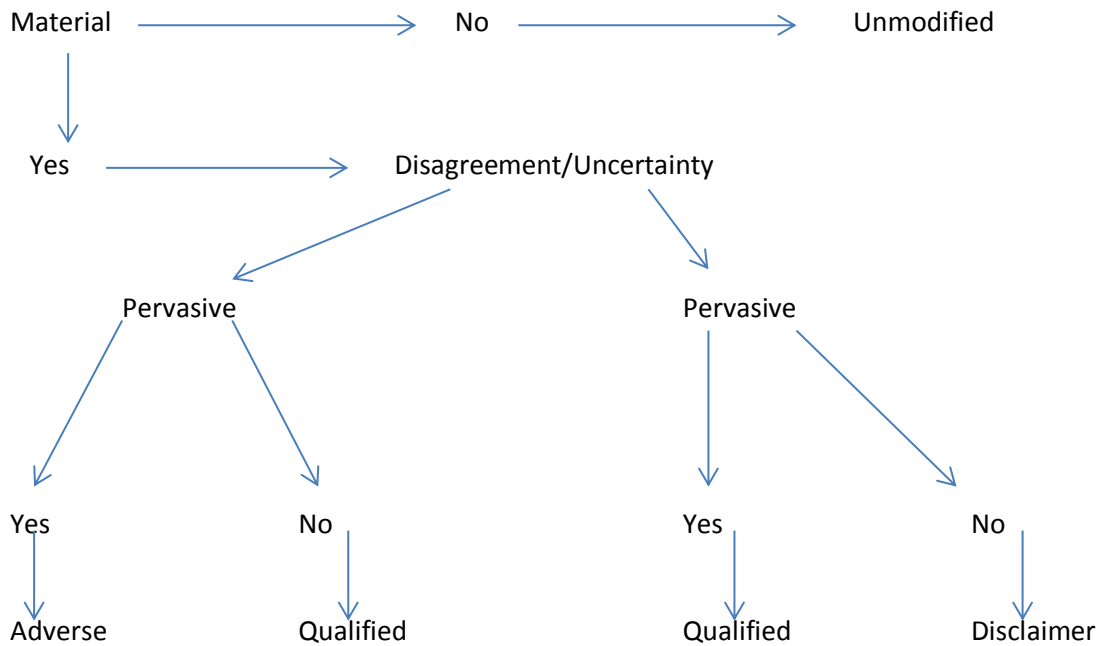
<u>Control over Initial Set-Up</u>	
<p><u>Validity:</u></p> <ul style="list-style-type: none"> - Financial manager to sign off key details prior to input - A programmed authorisation scheme must contribute in the following manner to ensure that only valid changes are made to initial setup data: <ul style="list-style-type: none"> ➤ Log-in authentication by password to ensure that only authorised persons are able to access set-up data ➤ Terminal of authorised personnel only allowed for set-up, changes, additions or deletion of set-up data ➤ Ad hoc changes to data to require specific authorisation - all attempts to changing, adding or deleting data must be logged - log must be periodically reviewed by management 	<p><u>General:</u></p> <ul style="list-style-type: none"> - Management must reconcile update control reports to identify unauthorised changes - Copy of set up data must be printed - Manger must compare the print out to actual changes and give evidence of approval - Managers to set policies and procedures to ensure that adequately trained person has been assigned responsibility for setup data update in event of absence of main authorising manager - Management review and follow up of any customer/suppliers/employee complaints
<p><u>Accuracy:</u></p> <ul style="list-style-type: none"> - Numerical data fields must be subject to validation checks: <ul style="list-style-type: none"> ➤ Alpha numeric ➤ Range and limit ➤ Missing Data - User friendly screen design or drop down menus should be used - Only the current version should be available to the application programs at any given time 	<p><u>Completeness:</u></p> <ul style="list-style-type: none"> - Data and sequence number of setup data changes to be reviewed to ensure all changes are made timeously - Automatic back-up of all changes: <ul style="list-style-type: none"> ➤ Automatic sequential numbering ➤ Sequence checked at regular intervals by manger with required follow ups

Reporting
Overview

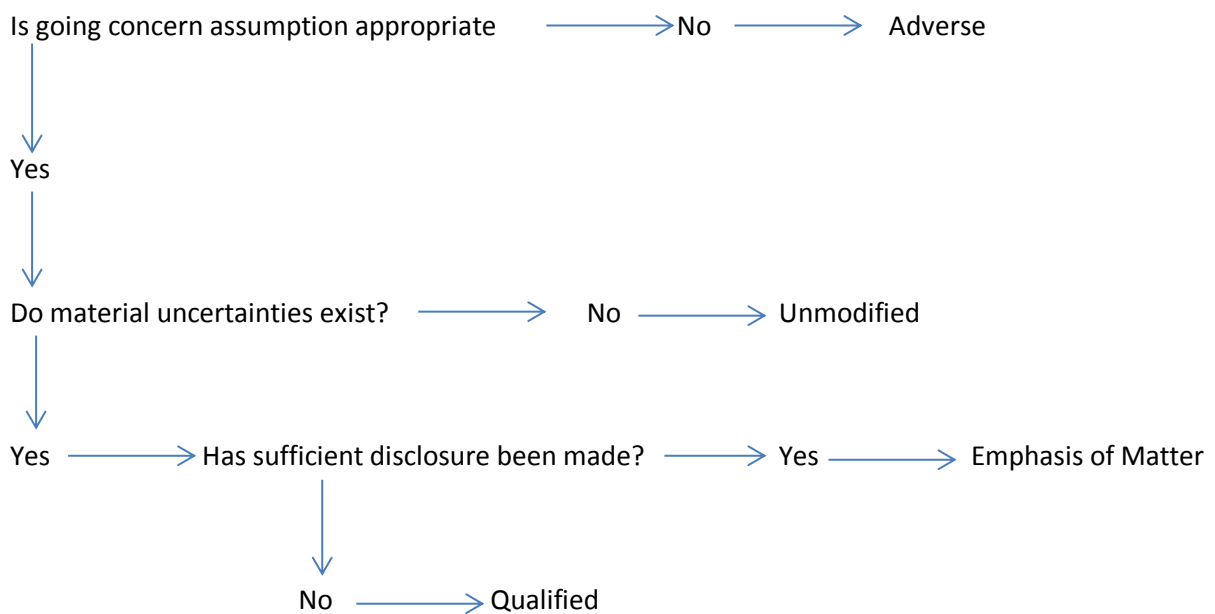
Pervasive:

- Not confined to a specific element/account/line item
- If confined, represents a substantial portion of AFS, or
- So significant that they are fundamental to users understanding of FS

Types of Audit Reports/Opinions:



Going Concern



Emphasis of Matter Paragraph

Material uncertainty:

- Going concern
- Other issue
- Where management have disclosed

Significant Uncertainty:

- The resolution of which depends on future event
- Which may affect financial statements
- Where contingency was disclosed

Contravention of Statute

Note: where adequate disclosure is not made in any above event the result is a qualification

Reportable Irregularity

Required to be disclosed under heading "Report on Legal and Other Requirements"

Using the Work of Internal Auditors

General:

- In terms of ISA 500 the onus is on the external auditor to obtain sufficient appropriate evidence to be able to draw reasonable conclusions on which to base the audit opinion
- If the external auditor places reliance on the work done by the internal auditors they must be satisfied that the work constitutes relevant and reliable audit evidence

Organisational Status and Objectivity

- Do they report to and have direct access to those charged with governance?
- Are they free from any conflicting responsibilities?
- Are they free from operational responsibilities?
- Are there any constraints or restrictions placed on the internal audit function?
- Are the internal auditor's members of relevant professional bodies?
- Is there sufficient audit committee oversight to ensure all of the above?

Technical Competence:

- Do internal auditors have adequate:
 - Resources
 - Qualifications
 - Experience

- Training and policies
- Are the policies for hiring and firing appropriate?
- Have they failed to pick up on anything obviously wrong?

Due Professional Care and Communication

- Are activities properly planned, performed, supervised and document?
- Are internal auditors free to communicate with external auditors?
- Are regular meetings held?

Assessing work already performed:

- Internal auditors work to be tested by:
 - Review of working papers
 - Perform tests on similar items
 - Reperform a sample of items already tested
 - Observation and enquiry of internal audit procedures
- The auditor should consider whether or not:
 - The work was performed by a person with adequate training and proficiency
 - Conclusions are supported by audit evidence and are appropriate
 - Exceptions, errors and abnormal items were properly resolved

Scope of Function and Reliance Thereof:

- Relevance of work of internal audit for external audit is likely to be limited
- Understanding of the system and controls will be required

Effect on Audit Risk:

- Decrease in IR: presence of effective internal audit function suggest a healthy control environment and shows commitment to governance and integrity
- Decrease in CR: controls more likely to be effective and monitored

Using the Work of Component Auditors

1. In order to establish whether or not in our view, the audit work complied with GAAP, perform the following procedures:

- Consider the auditors:
 - Ethical behaviour
 - Independence
 - Competence
- Consider the impact of these on reliance to be placed on work
- Perform ARP's of the other auditors financial statements
- Discuss the audit with the other auditors
- Request the auditors to complete consolidation questionnaires

- Request the auditor to provide a summary of issues and how this were resolved
 - Review the auditors audit file
 - Obtain representation from other auditors
 - The depth and extent of procedures would vary based on the materiality of the work covered
2. Prepare documentation concerning the depth extent of the procedures listed above and the conclusion reached
 3. Review the audit report for any modification

Testing Misc. Issues

Audit Sampling:

1. When to select a sample
 - Uniform population
 - No outliers
2. Factors that influence sample size: controls
 - Increase reliance placed on controls increases sample size
 - Increase expected deviation in population to be tested increases sample size
3. Factors that influence the sample size: Test of Controls
 - High control risk increases sample size
 - Use of other substantive procedures directed at same assertion decreases a sample size
 - High value/ significant account or transaction increases sample size
4. Factors that influence sample size: all
 - High confidence required increases sample size
 - High expected error increases sample size
 - Low tolerable error increases sample size
 - Stratification used decreases sample size
 - No of units in population has a negligible effect

Limitation of internal controls

1. Faulty judgement/human error
2. Management override
3. Non-routine transactions (no Control coverage)
4. Cost/Benefit
5. Changing conditions (procedures become irrelevant/outdated/ineffective)
6. Collusion by management or employees
7. Weakness in control environment

Using the Work of an Audit Expert

In appointing the expert the auditor should:

1. Obtain client permission
2. If client refuses use of expert, results in a limitation of scope which would result in a qualified opinion or a disclaimer of opinion
3. Consider the experts qualification, capability and objectivity. Factors to consider include:
 - Whether expert is a member of a professional body
 - Experts reputation and experience in industry
 - The experts independence and objectivity
 - Any published papers or books written by expert
4. Consult with the expert prior to engaging, regarding:
 - The objective of work
 - The basis to be used for valuations or models
 - Methods and assumptions to be used
 - The purpose for which the work is required

In evaluating the adequacy of the experts work

Consider:

- The relevance and reasonableness of the final conclusion
- The relevance and reasonableness of the models and assumptions
- The relevance, completeness and accuracy of source data used

Final Concluding

Further Audit Work to be completed

1. Consider sufficiency of audit evidence obtained at date
2. Consider adequacy of audit procedures performed:
 - If inadequate identify further audit procedures
3. Consider whether management comment letter has been issued
4. Consider whether control weaknesses identified require additional audit work or could result in a qualified opinion
5. Consider the adequacy of the working papers
6. Carry out final search for unrecognised liabilities:
 - Review minutes of meetings
 - Legal circularisation
 - Obtain a management rep letter
 - Audit work concerning related parties and related party transactions
7. Review of audit evidence to identify contingencies and commitments
8. Perform overall review of financial information, including:
 - Draft financials
 - Appropriateness and compliance with accounting policies

- Final ARP with further audit work for anomalies
- Disclosure issues
- 9. Consider any audit differences:
 - Are these material and or pervasive
 - Modification of report?
- 10. Consider any subsequent events:
 - Detailed procedures required if relates to adjusting post balance sheet events
- 11. Consideration of going concern:
 - Detailed procedures maybe required
- 12. Consideration of company law, and identification of:
 - Areas of non-compliance including IFRS
 - Possibility of RI
 - Need to report RI
- 13. Quality Controls:
 - Has review been completed
- 14. Whether reliance on work of others is appropriate
- 15. Whether ethical standards have been complied with

Types of questions:

1. "Discuss further action you would take" → no need to explain why
2. "Describe further audit procedures you would perform"
 - Need to explain why
 - No need to address RI or modification of report (this would need to be done for further action)
3. "Explain the further action" or "explain and discuss" requires all aspects

Discuss & Explain:

- Going concern
- RI
- Other

Actions:

- Going Concern Procedures
- RI Reporting
- Other Procedures

Audit Report Model Answer:

Materiality:

Given materiality is Rxxx

Quantitatively Material Individually

- Less than material
- Greater than materiality
- Significantly greater
- Therefore quantitatively material

Quantitatively Material in Aggregate

Aggregate effect on:

- Assets:
 - Current
 - Non-Current
- Liabilities:
 - Current
 - Non-current
- Profit before tax
- Therefore Quantitatively material

Qualitatively Material:

- Misstatement regarding:
 - Goodwill
 - Inventory Valuation
 - Impairments
 - Revaluations Recognised
 - CONTRAVENES IFRS
- Non- Compliance with IFRS = S29 Companies Act
- Management have bias to overstate profits and assets

Other:

- Misstatements undermine key Ratios
- Misstatements are known as hard errors or soft errors
- Managements unjustified refusal to adjust misstatements

Material and Pervasive

- The . . . misstatement are not confined to a single account/line item
- The . . . misstatements are so significant that they are fundamental to a user's interpretation of financial statements
- Therefore material and pervasive or just material

Type of Opinion

- Say why each is inappropriate and conclude which one is and why
- Refer to diagram on which opinion is required

Going Concern

- Either a qualified report or, if not appropriate, an emphasis of matter

Reportable Irregularity

- Modify report to draw attention to the fact that RI was reported to IRBA