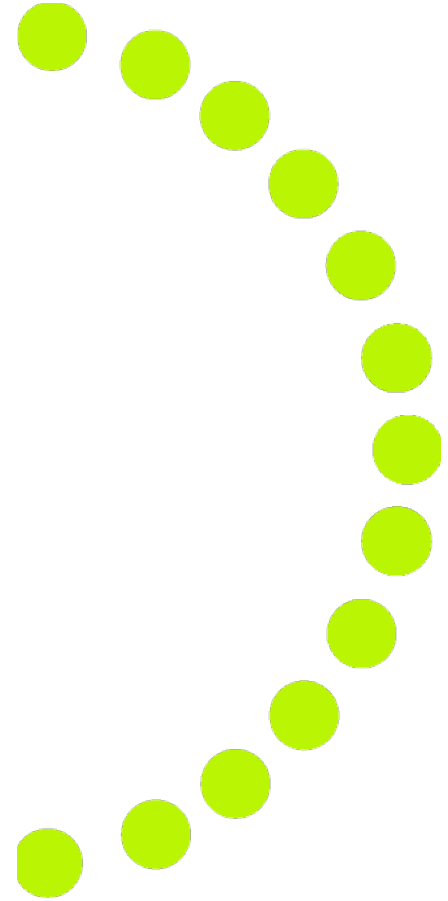


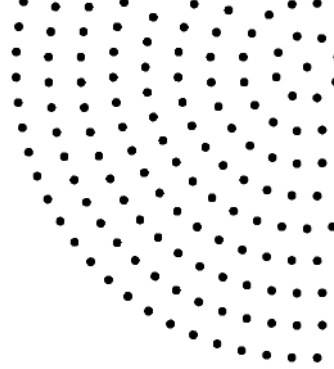
# Preparing your client for an audit

MARCH 2022

PRESENTED BY

Annalien Carstens





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SAIBA DESIGNATIONS

# ABOUT THE PRESENTER

**Annalien Carstens**  
**MCom, CA(SA), Registered Auditor, Master Tax Practitioner**  
**(SA)**



Annalien is the Managing Director of Altimax. Her areas of specialism include IFRS, IFRS for SMEs, GRAP and IPSAS. For the past 18 years she has been the lead director for the implementation of several turnaround, audit improvement, adoption of new reporting frameworks and training projects in more than 50 large and listed entities, more than 165 public entities, more than 130 municipalities, 9 legislatures and several provincial departments. She has trained for 9 years for the Auditor General of South Africa country wide as well as for National Treasury and several Provincial Treasuries, professional bodies and audit firms. Before Altimax Annalien served her articles at a Big 4 on listed clients and she was also a senior lecturer in Accounting and Auditing and undergraduate and post-graduate level at the Rand Afrikaans University (now University of Johannesburg). Annalien has also presented in several international countries and published in subject popular magazines and research journals both locally and abroad.

# CPD CERTIFICATE



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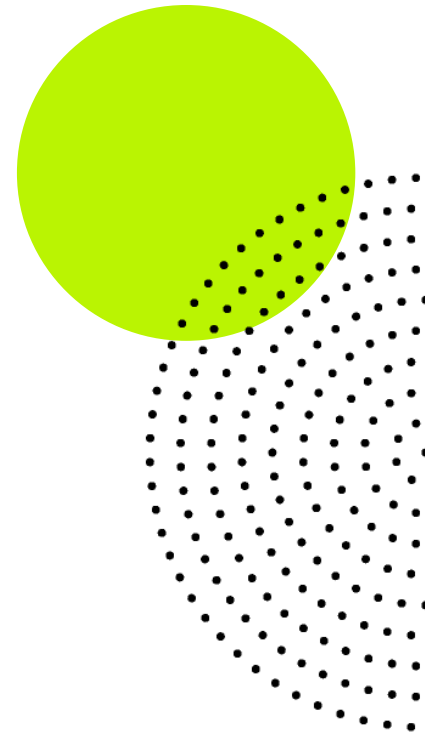
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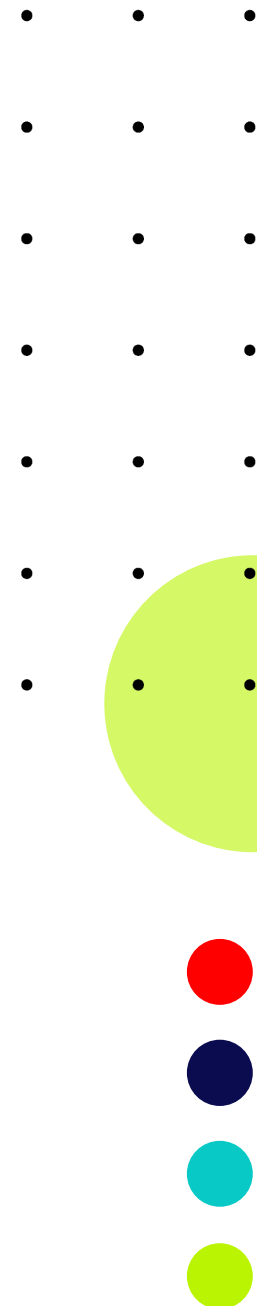


# Special notes



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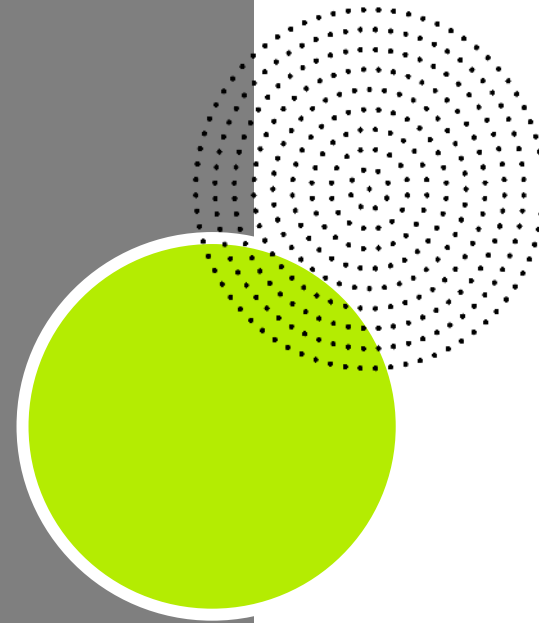
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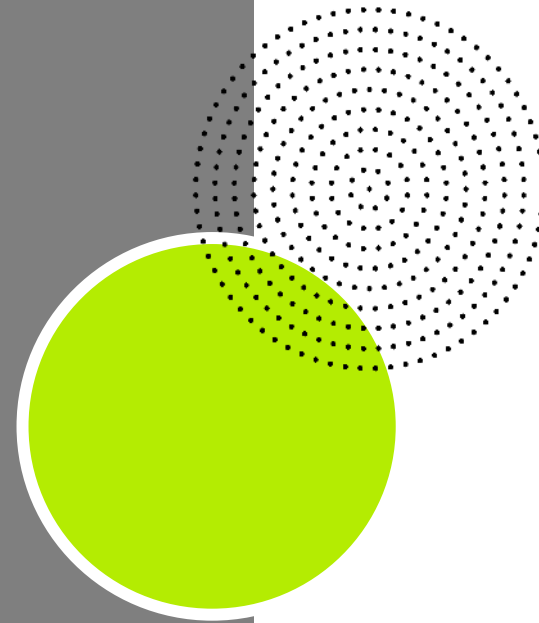
# CPD INDEX

1. Introduction
2. International Audit Standards and how they guide the process of preparing your client for an audit
3. What are the basics that an auditor requires when reviewing a working paper
4. Preparation of a working paper when understanding the auditor's point of view



# CPD INDEX

5. What should be included in your audit file as a minimum
6. What you need to know when developing an audit checklist for your client
7. Why is it important to split the preparation of the AFS compilation and the audit
8. Closure and summary



# 1. Introduction



# Introduction

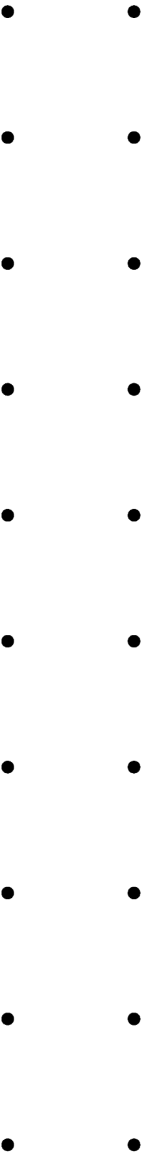
- Overview of the course
  - Topic 1 – Introduction
  - Topic 2 - International Audit Standards and how they guide the process of preparing your client for an audit
  - Topic 3 - What are the basics that an auditor requires when reviewing a working paper
  - Topic 4 - Preparation of a working paper when understanding the auditor's point of view
  - Topic 5 - What should be included in your audit file as a minimum
  - Topic 6 - What you need to know when developing an audit checklist for your client
  - Topic 7 - Why is it important to split the preparation of the AFS compilation and the audit
  - Topic 8 – Closure and summary

# Introduction

- After you attend this course, you will understand:
  - Audit requirements and how it guides working paper preparation
  - Minimum requirements for an audit file
  - Understanding the principles of creating a checklist for your client's specific needs
  - How to meet the needs of the auditors
  - Why it is important to split the preparation and audit of the AFS

# Introduction

- Companies Act of 2004
- Chartered Accountants of the Institute of Chartered Accountants of Namibia (ICAN)
- Public Accountants and Auditors Board 2014
- International Auditing and Assurance Standards Board (IAASB)

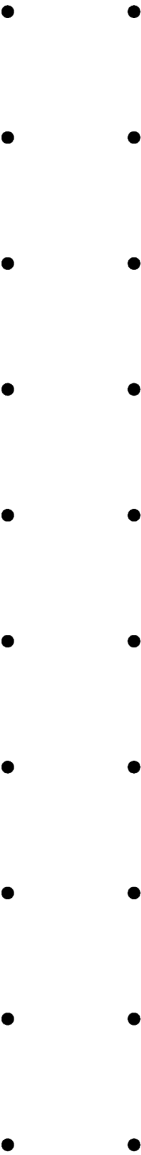


## 2. International Audit Standards and how they guide the process of preparing your client for an audit



# International Audit Standards

- Globalisation led to the standardisation of global accounting treatment
- Standardisation of audit standards
- Establishment of The International Federation of Accountants (IFAC) in 1977
- International Auditing and Assurance Standards Body (IAASB)





# International Audit Standards

- Types of audits:
  - Audits of historical financial information – which we will be focussing on;
  - Compliance audits;
  - Agreed-upon-procedures; and
  - Certain others which we will not touch upon today

# International Audit Standards

- Audit of historical information

*“In terms of the ISAs, an auditor must provide an audit opinion for such an appointment and in that opinion, they must provide reasonable assurance that the financial statements are free from material misstatement.”*

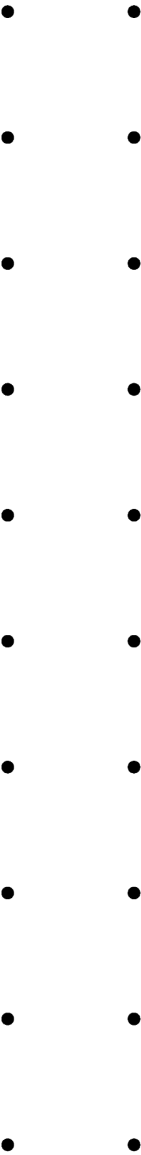


# International Audit Standards

- Reasonable assurance:
  - Sufficient and
  - Appropriate audit evidence to
  - Reduce the engagement risk
  - To an acceptably low level to support the auditor's conclusion
- Engagement risk
  - this is the risk that the auditor expresses an incorrect audit opinion

# International Audit Standards

- International Standards on Auditing are principal based
- Audit activities:
  1. Engagement activities
  2. Planning of the audit
  3. Performance of the audit to obtain audit evidence
  4. Evaluation, conclusion and reporting



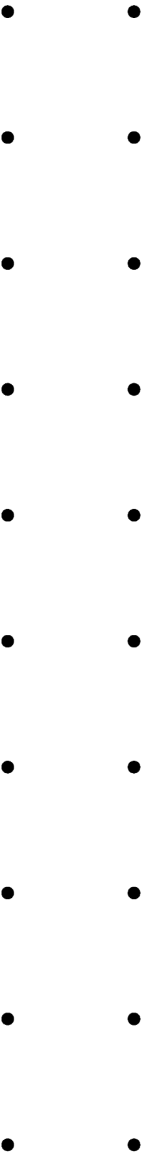
# International Audit Standards

- Engagement Activities
  - Auditor must consider:
    - Independence
    - Integrity of the client
    - Changes in the client
    - If the auditor has the skills to perform the audit
    - If the auditor set the terms of the engagement



# International Audit Standards

- Engagement Activities
  - How does it affect your client preparations:
    - Fully documented year-end plan
    - Summary of accounting policies
    - Prepared document with proposed meeting dates



# International Audit Standards

- Planning of the Audit
  - Planning at overall financial statement level and determining overall audit strategy
  - 5 specific activities:
    1. Obtain an understanding of the entity and its environment
    2. Obtain an understanding of the entity's internal controls, including IT systems
    3. Assessing the risk of material misstatement at the overall financial statement level
    4. Determining materiality
    5. Determining overall audit strategy

# International Audit Standards

- Planning of the Audit
  - Planning at overall financial statement level and determining overall audit strategy
    1. Obtain an understanding of the entity and its environment
  - How does it affect your client preparations:
    - Budget vs actual reports
    - Strategy documents
    - Minutes of important meetings
    - Investment schedules
    - Loan schedules
    - Planned loan applications
    - Schedule of management profitability calculations
    - Draft accounting policies indicating changes from prior years



# International Audit Standards

- Planning of the Audit
  - Planning at overall financial statement level and determining overall audit strategy
- 2. Obtain an understanding of the entity's internal controls, including IT systems
- How does it affect your client preparations:
  - Process flows
  - Self-review reports
  - Availability of staff

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# International Audit Standards

- Planning of the Audit
  - Planning at overall financial statement level and determining overall audit strategy
- 3. Assessing the risk of material misstatement at the overall financial statement level
  - How does it affect your client preparations:
    - No preparation can be done
- 4. Determining materiality
  - How does it affect your client preparations:
    - No preparation can be done

# International Audit Standards

- Planning of the Audit
  - Planning at overall financial statement level and determining overall audit strategy
- 5. Determining overall audit strategy
- How does it affect your client preparations:
  - No preparation can be done

# International Audit Standards

- Planning of the Audit
  - Planning at assertion level
  - How does it affect your client preparations:
    - Ensure affairs are in order



# International Audit Standards

- Obtaining audit evidence through performance of audit procedures
  - Auditor guided by ISAs
    - ISA 200 – 299
    - ISA 300 – 499
    - ISA 500 – 599
    - ISA 600 – 699
    - ISA 700 – 799
  - How does it affect your client preparations
    - Basic information required to provide sufficient and appropriate audit evidence

# International Audit Standards

- Evaluation, conclusion and reporting
  - Auditor will during this stage:
    - Evaluate all the differences identified during the engagement
    - Determine final materiality
    - Determine whether adjustments are required
    - Where adjusted compare new financial statements to accounting records and journals
    - Evaluate the remaining audit differences in terms of final materiality
    - Conclude on the fair presentation of the financial statements
    - Issue a management letter
    - Issue an audit report

# International Audit Standards

- Evaluation, conclusion and reporting
  - How does it affect your client preparations
    - No impact on preparation other than understanding regarding audit adjustment documentation



### 3. What are the basics that an auditor requires when reviewing a working paper





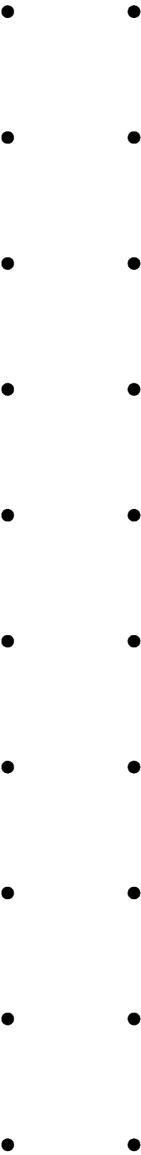
# Basics when reviewing a working paper

- Recap:

“To express an audit opinion – the auditor must obtain enough evidence of the right kind to lower the risk that he/she could express an incorrect opinion to an acceptable level”

# Basics when reviewing a working paper

- Key areas auditor will review:
  1. Verify that the working paper in the audit file is the final working paper
  2. Verify process followed to prepare the working paper
  3. Verify the calculations performed
    - Accuracy of formulas
    - Consistency of methods applied

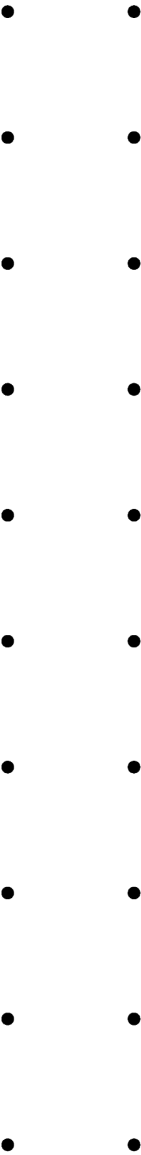


# Basics when reviewing a working paper

- Key areas auditor will review:
  - 4. Verify if the figures included in the working paper agree to:
    - The trial balance
    - The general ledger
    - The financial statements
    - External supporting documentation
  - 5. Verify whether the calculations are consistent with:
    - The accounting policy
    - The financial reporting framework

# Basics when reviewing a working paper

- Key areas auditor will review:
  - 6. Confirm the disclosure in the financial statement is accurate and correct in terms of:
    - The financial reporting framework
    - The terms and conditions of contracts, if applicable



# 4. Preparation of a working paper when understanding the auditor's point of view



# Preparation of working papers

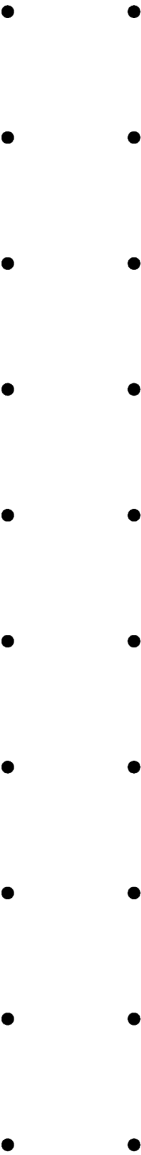
- **Response to audit procedure: Verify that the working paper in the audit file is the final working paper**
  - Member of client management as a reviewer
  - Implementation of a control procedure
  - Management understands information included in their financial statements

# Preparation of working papers

- **Response to audit procedure: Verify process followed to prepare the working paper**
  - Working paper should always be stand alone
  - Document procedures – “Roadmap”
  - For example:
    - What specific report
    - What was the report date
    - Who did you obtain the report from
    - Which cells you used
  - Always conclude if financial statements are valid, accurate and complete

# Preparation of working papers

- **Response to audit procedure: Verify the calculations performed**
  - Always include formulas in working papers
  - Ensure formulas are consistently applied
  - Ensure procedures document exact description of how and why





# Preparation of working papers

- **Response to audit procedure: Verify if the figures included in the working paper**
  - Include in working paper adequate referencing to:
    - Latest trial balance
    - Financial statements under audit
    - Relevant supporting schedule in the audit file
  - Ensure procedures include a comparison of general ledger to trial balance
  - Most important thing to remember is referencing and cross-referencing

# Preparation of working papers

- **Response to audit procedure: Verify whether the calculations are consistent**
  - Ensure procedures document:
    - Requirements of the reporting framework
    - How accounting policy meets the needs of the reporting framework
    - How calculations are in line with accounting policy

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# Preparation of working papers

- **Response to audit procedure: Confirm the disclosure in the financial statement is accurate and correct**
  - Include disclosure requirements and tick how they were complied with
  - Cross-reference to working papers

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## 5. What should be included in your audit file as a minimum



# Minimum audit file

- International Accounting Standards 1 – Presentation of Financial Statements, paragraph 54
- International Accounting Standards 1 – Presentation of Financial Statements, paragraph 82
- Not be dealing with items of a specialised nature such as IFRS 17 and IFRS 5



# Minimum audit file

- Information to be included in all sections:
  - A lead sheet that agrees to the amounts presented in the financial statements and is referenced and cross-referenced to all support in the audit file
  - The accounting policy for the relevant item



# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Fixed assets (includes PPE, Investment property and Biological assets)
      - Fixed asset register
      - Reconciliation between fixed asset register(all columns) and:
        - Note in financial statement
        - General ledger
    - Evidence for:
      - Reassessment of useful lives
      - Revaluations
      - Disposals
      - Additions
      - Leases
      - Asset verifications

# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Intangible assets
      - Fixed asset register
      - Reconciliation between fixed asset register(all columns) and:
        - Note in financial statement
        - General ledger
    - Evidence for:
      - Reassessment of useful lives
      - Internally generated assets capitalisation
      - Disposals
      - Additions
      - Assessment where the asset has no useful life

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# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Financial assets
      - Schedule of financial assets
      - Supporting documents:
        - Third party statements
        - Third party confirmations
        - Share certificates
      - Evidence for:
        - Impairment reviews
        - Impairment calculations

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# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
  - Investments accounted for using the equity method
    - Schedule of investments held
    - All calculations of equity method
    - Assessment of why equity method is used
    - Supporting documents:
      - Audited financial statements of entities
      - Management accounts and additional verification procedures

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# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Inventories
      - Stocktake information
      - Evidence of net realizable value calculations & support
  - Trade and other receivables
    - Monthly age analysis
    - Reconciliation of Monthly age analysis vs control account
    - Payment after year-end schedule per debtor
    - Impairment documentation per financial reporting framework

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# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Cash and cash equivalents
      - Monthly bank reconciliations
      - Monthly bank statements
      - Monthly petty cash reconciliations
      - Supporting documents for transactions after year-end
      - Authorisations for bank confirmations
  - Equity
    - Copy of shareholders' register
    - Copy of shareholders' certificates

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# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Trade and other payables
      - Monthly age analysis
      - Reconciliation of Monthly age analysis vs control account
      - Payment after year-end schedule per creditor
      - Creditor reconciliations
      - Payroll creditor reconciliations
  - Provisions
    - Schedule of provision calculations
    - Supporting documents for all assumptions

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# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Financial liabilities
      - Schedule of financial liabilities
      - Supporting documents for all balances
  - Lease liabilities
    - Schedule of lease liability calculations
    - Classifications sheets
    - Supporting contracts

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# Minimum audit file

- Specific information in the following sections:
  - Statement of financial position
    - Tax & Deferred tax liabilities
      - Income tax reconciliations
      - Deferred tax calculations
      - Supporting schedules for temporary differences

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# Minimum audit file

- Specific information in the following sections:
  - Statement of profit or loss
    - Revenue
  - Cost of sales
  - General expenditure
  - Employee cost

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# Minimum audit file

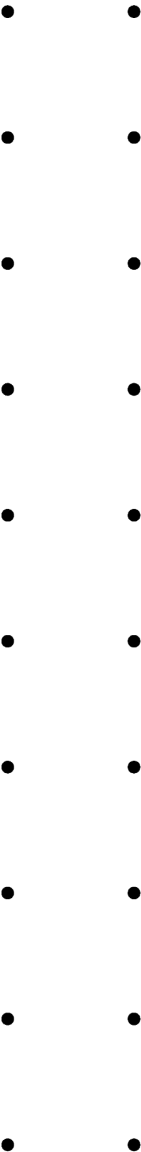
- Specific information in the following sections:
  - Disclosure notes
    - Related parties
    - Contingencies and commitments
    - Going concern
    - Events after reporting date
- Other
  - Prior year error vs change in accounting policy vs change in estimate

## 6. What you need to know when developing an audit checklist for your client



# Developing an audit checklist

- Steps to develop the audit checklist
  1. Prepare a draft checklist and divide it into a different sections
  2. For each section identify the relevant information required
  3. Add each item into the checklist with place for a planned submission date by preparer, reviewer and final review
  4. Ensure that your client understands and agrees that the checklist is complete for the audit file checklist



# 7. Why is it important to split the preparation of the AFS compilation and the audit

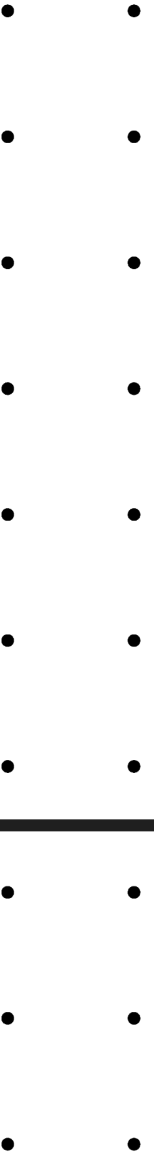


# Importance of splitting audit and preparation

- International practice
- Independence



# 8. Closure and summary



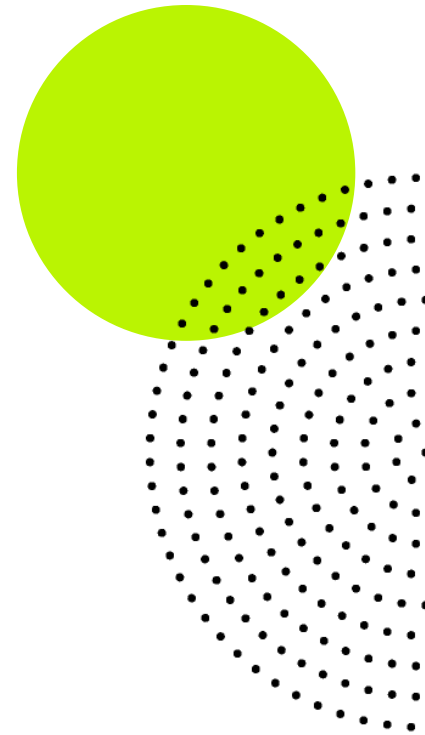
# Closure and summary

- What must an auditor do to issue an audit opinion
- What are the 4 stages that must take place as part of the audit process
- What does an auditor look for when reviewing a working paper
- What do you need to include in your basic audit file
- How do you develop an audit checklist for your client
- Why is it important to split the preparation of the AFS from the audit of the AFS

# QUESTIONS & ANSWERS

Email questions to:

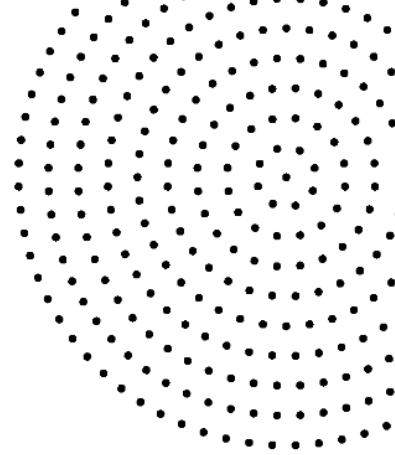
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