COMPILATION, INDEPENDENT REVIEW & AUDIT

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On behalf of SAIPA
Profession Accountant

Moral, Ethics, and Ethical Dilemma

The Public Interest
Public Interest Score:
The public interest score is a mechanism introduced by the Companies Act that determines:
(i) the type of engagement that must be performed,
(ii) accounting framework that must be adopted, and
(iii) corporate governance issues that should be complied with
PUBLIC INTEREST SCORE - CRITERIA

- Average employees
- Beneficial interest
- Third party liabilities
- Revenue / Turnover
PUBLIC INTEREST SCORE - CRITERIA

• A number of points that equal the average number of employees during the financial year.

• One point for every R 1 million (or portion thereof) in third-party liabilities at the financial year end.

• One point for every R 1 million (or portion thereof) in turnover during the financial year

• One point for every individual who, at the end of the financial year, is known to directly or indirectly have a beneficial interest.
# PUBLIC INTEREST SCORE - APPLICATION

<table>
<thead>
<tr>
<th>Public Interest Score</th>
<th>Financial Reporting Standard</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIS ≥ 350</td>
<td>IFRS / IFRS for SMEs</td>
<td>YES</td>
</tr>
<tr>
<td>PIS ≥ 100 and &lt; 350 and AFS were internally compiled</td>
<td>IFRS / IFRS for SMEs / SA GAAP</td>
<td>YES</td>
</tr>
<tr>
<td>PIS ≥ 100 and &lt; 350 and AFS independently compiled</td>
<td>IFRS / IFRS for SMEs / SA GAAP</td>
<td>NO</td>
</tr>
<tr>
<td>PIS &lt; 100 and AFS independently compiled</td>
<td>IFRS / IFRS for SMEs / SA GAAP</td>
<td>NO</td>
</tr>
<tr>
<td>PIS &lt; 100 and AFS internally compiled</td>
<td>The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed</td>
<td>NO</td>
</tr>
</tbody>
</table>
PUBLIC INTEREST SCORE - APPLICATION
# PUBLIC INTEREST SCORE - PRACTITIONERS

<table>
<thead>
<tr>
<th>Category</th>
<th>Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>• Registered Auditors</td>
</tr>
</tbody>
</table>
| **Independent Review of Companies with a public interest score of 100-349** | • Registered Auditors  
• Members of IRBA accredited professional body |
Compilation Engagement [ISRS 4410]

Compilation Engagement: The objective of a compilation engagement is to compile financial statements or any other form of financial report.

Preparation & Compilation Engagement: The differences between a preparation and compilation engagement are:
(i) independence of the Professional
(ii) compliance to accounting standards
(iii) trust and reliance of users
Assurance:
A compilation does not involve and audit or review, no assurance about the financial statements is provided
Compilation provide “implied assurance” about the fair presentation and relevance of the financial statements (requirement of accounting standards) and the procedures prescribed in terms of ISRS 4410
Compilation - Legislation

- S 29 and s30 requires the compilation
- Competence required to perform the compilation
- Qualitative characteristics and presentation of financial information
- Responsibilities of the compiler and the procedures to follow

- Companies Act
- Accounting Standards
- ISQC 1
- ISRS 4410
# Compilation - Benefits

## Uses of Compilation Engagements

<table>
<thead>
<tr>
<th>Uses</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise of a Professional Is Required</td>
<td>Expertise of the practitioner is required by the client to compile the financial statements but no assurance is required.</td>
</tr>
<tr>
<td>Within Other Engagements</td>
<td>Compiled financial statements may be a useful, and ancillary addition to, other engagements, such as income and cash flow projections, financial or tax planning services, or taxation reporting engagements. They may also be supplemental in nature (i.e. for interim purposes to supplement an annual review or audit report).</td>
</tr>
<tr>
<td>Transaction Purposes</td>
<td>Any number of transaction related purposes may be supported by a compilation report. For example, a change to the entity’s ownership or restructured financing (i.e. merger to acquisition).</td>
</tr>
</tbody>
</table>
# Compilation - Benefits

## Benefits of Compilation Engagements

<table>
<thead>
<tr>
<th>SME Benefits</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative Service</td>
<td>Trend towards higher audit exemptions.</td>
</tr>
<tr>
<td></td>
<td>May be less time consuming for client.</td>
</tr>
<tr>
<td>Cost Effective</td>
<td>A compilation engagement is normally a lower cost for an entity than an audit or a review engagement.</td>
</tr>
<tr>
<td>Reported Involvement From a Professional</td>
<td>Accompanying report states expertise in accounting and financial reporting applied to assist in the preparation and presentation as well as adherence to relevant ethical requirements.</td>
</tr>
</tbody>
</table>
Compiler’s Responsibilities

Compiler

- Independence
- Financial statement risks
- Verification of information
Compilation – Engagement Letter

- Purpose & objective
- Financial statement risk
- Engagement letter
- Mgmt’s responsibility
- Accounting framework
- Procedures
- Reporting
Compilation - Procedures

1. Obtain preliminary knowledge of the client
2. Can the engagement be accepted?
   - Yes
   - No
     - Decline engagement

3. Obtain knowledge and understanding to compile financial statements
4. Compile financial statements using information provided by management
5. Financial statements materially misstated or misleading
   - Yes
     - Amend the compiled financial statements
   - No
     - Issue practitioner's compilation report in required form, and the compiled financial information

6. Propose amendments to ensure that financial statements are not materially misstated.
   1. Financial statements should be compiled in accordance with the applicable framework
   2. Choice and application of an acceptable framework
   3. Applicable framework properly referred to describe in the compiled financial statements

7. Management agrees proposed amendments
   - Yes
   - Amend the compiled financial statements
   - No
     - Withdraw from engagement
Agreed Upon Procedures Engagement: Agreed upon procedures engagements is a task agreed on by the practitioner and a third party to report on factual findings.

Agreed Upon Procedures Engagement: Agreed upon procedures engagements is a factual findings report for specified users where no assurance is provided or opinion is expressed.
Agreed on Procedures – Engagement Letter

Nature of task

Purpose of task

Use

Financial information

Format of report

Procedure

Engagement letter
Agreed on Procedures - Procedures

- Inquiry & analysis
- Re-computation
- Agreed on procedures
- Accuracy checks
- Observation
- Inspection
- Confirmation

Compilation, Review & Audit
Agreed upon Procedures - Report

- Information
- Restricted use
- Governing standards
- Report
- Factual findings
- Independent
- Purpose of engagement

Compilation, Review & Audit 20
Review Engagement: Review by an independent professional to express an opinion that the financial statements, in all material aspects, comply with the accounting framework – provide negative assurance.

Review Engagement: The reviewer must assess financial statement risk through the application of professional judgement/scepticism, analytical procedures and inquiry – only need to obtain evidence for items which were identifies to have material risks.
Parties Responsibilities

Management

- Financial statements
- Systems of internal control

Reviewer

- Negative assurance
- Risk assessment
- Evidence

Compilation, Review & Audit
Review – Engagement Letter

Purpose & objective

Financial statement risk

Mgmt’s responsibility

Restriction on scope

Procedures

Reporting

Engagement letter
Assessing Materiality

- Prior results
- Material risks
- Industry practice
- Mgmt’s judgement
- Transactions
Review - Procedures

Understand business

Information risk

Accounting systems

Financial statement assertions

Review procedures

Accounting framework

Analytical procedures
Review – Expression an Opinion

Negative Assurance:
Reviewer is satisfied based on the evidence obtained that the financial statements are free of misstatements.

Qualification of Assurance:
The nature of matters may render the financial statements misleading, a qualified or adverse opinion may be expressed.
## COMPARATIVE ANALYSIS

<table>
<thead>
<tr>
<th>Level of assurance obtained by Accountants or Auditors that the financial statements are not materially misstated</th>
<th>Compilation</th>
<th>Independent review</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant does not obtain or provide any assurance that there are no material modification that should be made to the financial statements</td>
<td>Accountant obtains limited assurance that there are no material modification that should be made to the financial statements</td>
<td>The auditor obtains a high, but not absolute, level of assurance about whether the financial statements are free of material misstatement</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Objective</th>
<th>Compilation</th>
<th>Independent review</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>To assist management in presenting financial information in the form of financial statements without undertaking to provide any assurance that there are no material modifications that should be made to the financial statements</td>
<td>To obtain limited assurance that there are no material modification that should be made to the financial statements</td>
<td>To obtain a high level of assurance about whether the financial statements as a whole are free of material misstatement thereby enabling the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects</td>
<td></td>
</tr>
</tbody>
</table>
## COMPARATIVE ANALYSIS

<table>
<thead>
<tr>
<th>Assurance provided to the user of the financial statements</th>
<th>Compilation</th>
<th>Independent review</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>None – the report states that no assurance is provided</td>
<td>None – the report provides a statement that the accountant is not aware of any material modifications that should be made to the financial statements</td>
<td>None – the auditor provides an opinion as to whether the financial statements present fairly, in all material respects, the company’s financial position, results of operations and cash flows</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Situations requiring different levels of service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generally appropriate or privately held companies and are often prepared for simple situations (e.g., a lender needs IFRS financial statements instead of the statements the internal accounting system produces or the lender needs the comfort provided by knowing that an accountant read the financial statements)</td>
</tr>
</tbody>
</table>
ASSURANCES

Non-assurance services
Services from which a level of credibility is derived

- No assurance
  - Compilation [ISRS 4410]

Assurance services
Provide assurance through expression of an opinion or conclusion

- Moderate assurance
  - Review [ISRE 2400]

- Reasonable assurance
  - Audit [ISA 100 - 800]
Quality Control [ISQC 1]
ISQC1 – Risk of Non-compliance

Leadership responsibility

- No on-going review of policies and procedures
- No cold file reviews (audit)

Monitoring

- Lack of supervision and control
- Methodology (audit) not effective

Independence & ethical requirements

- Independence declaration from staff not obtained
- Register of identified threats & safeguards not maintained

Client acceptance & continuance

- No integrity checks plus client identification
- Procedures not documented
- Engagement letters not issued

Human Resources

- References not obtained for new staff
- Fit and proper declarations not obtained
- Insufficient training on ISA/IFRS and record keeping
- Staff appraisals not done or informal

Non-compliance with ISQC1

Policies and procedures not documented
Leadership responsibility

- Organisation structure
- Setting tone from the top
- Leadership responsibility
- Establish policies & procedures
- Document policies & procedures
- Communicate with staff
- Enforcement of policies
Ethical Requirements

Code of Conduct

Ethical dilemma procedures

Independence
Independence

Independent of decision-making

Compilation

Independent of business entity

Audit

Independent review

Independent of record keeping & compilation
Independence

Appointment → Services agreed upon → Execution of performance → Regulations & standards

Independence

Acceptance & continuance → Engagement letter & planning → Engagement performance → Compliance of performance
Ethics & Independence

01 Obtain information
Obtain information on potential threat to independence & ethics

02 Evaluate
Evaluate any threats to independence & ethics

03 Action
Take appropriate action to mitigate the risks to ethics & independence

04 Document
Document & report on conclusions
Acceptance & Continuance

Integrity of the client

Acceptance and continuance

Can comply with ethical requirements

Practice is competent and has sufficient time, resources & competence

Can comply with ethical requirements
Engagement Letter

- Nature & scope of engagement
- Right & responsibilities of client
- Rights & responsibilities of service provider
- Regulations governing performance
- Performance deliverables
- Reporting channels
Human Resource

Recruitment and Appointment

Professional development

Ability/Aptitude

Competence

Performance evaluation, compensation & promotions

Values

Motivation

Quality of work

ISQC1 - Quality assurance
Assignment of Engagement Team

Identity and role of engagement partner communicated

Engagement partner has appropriate capabilities, competence, authority & time

Responsibilities of engagement partner clearly defined & communicated
Engagement Performance

Professional Standards

Regulatory requirements

Performance obligations

ISQC1 - Quality assurance
## Engagement Performance

<table>
<thead>
<tr>
<th>Performance Activity</th>
<th>Performance Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagement letter</td>
<td>Service/agreed upon deliverables</td>
</tr>
<tr>
<td>Resource allocation</td>
<td>Competence-engagement fit</td>
</tr>
<tr>
<td>Planning engagement</td>
<td>Responsibility &amp; accountability duties</td>
</tr>
<tr>
<td>Monitoring</td>
<td>Quality assurance – supervision &amp; review strategies &amp; reports</td>
</tr>
<tr>
<td>Work flow planning</td>
<td>Integrated work plan documented and sign off</td>
</tr>
<tr>
<td>Reporting</td>
<td>File &amp; report review processes</td>
</tr>
<tr>
<td>Performance obligations</td>
<td>Document discussions &amp; communications</td>
</tr>
</tbody>
</table>
Consultation or Secondments

- Appropriate consultation has taken place on difficult issues
- Sufficient resources available to enable appropriate consultation
- Nature and scope of consultations documented
- Conclusions reached from consultations are documented & implemented
# Consultation or Secondments

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervision</td>
<td>Risk identification &amp; provide guidance</td>
</tr>
<tr>
<td>Monitoring</td>
<td>Continuous quality assurance review to prevent risks</td>
</tr>
<tr>
<td>Review</td>
<td>Ensure compliance &amp; correction of risks</td>
</tr>
<tr>
<td>Documentation</td>
<td>Proof of evidence</td>
</tr>
</tbody>
</table>

ISQC1 - Quality assurance
Establish a monitoring process designed to provide it with reasonable assurance that policies & procedures relating to the system of quality control/assurance are relevant, adequate & operating efficiently.

- **Internal assessment**: Functionality & compliance
- **External assessment**: Relevance & benchmarking
- **Professional assessment**: Inspection & compliance
Establish policies & procedures designed to provide it with reasonable assurance that it deals appropriately with complaints & allegations that work performed by the firm fails to comply with professional standards & applicable legal/regulatory requirements.