



CIRCULAR 02/2010

TO ALL PRACTICING MEMBERS

REFERRAL AUDITS

For various reasons, companies are sometimes incorporated in a country / jurisdiction other than that where management and the majority of shareholders reside, where decisions are actually made, and where the operations are conducted.

In Botswana's instance, such companies are frequently incorporated and operate within our national borders but do not maintain all their accounting records in Botswana.

It is therefore a relatively common procedure for a number of Practicing Members in Botswana to review Annual Financial Statements and sign audit opinions based on work done and representations made by their affiliated professional colleagues from a different country ("Performing Firm").

Council thought it appropriate to clarify the duties and responsibilities of the Botswana Practicing Members in this regard.

ISQC 1.6a defines the engagement leader as the partner or other person in the firm who is responsible for the audit engagement and its performance. In Botswana, this means that the audit practitioner signing the audit opinion (normally a partner in the "Signing Firm") is the engagement leader. This practitioner, on behalf of the Signing Firm, is taking legal and professional responsibility for the audit report, the audit work and the related procedures performed by the Performing Firm.

Accordingly, the Signing Firm engagement leader should be satisfied that:

- The audit was conducted in conformity with International Standards on Auditing, policies applied by his / her firm and with other applicable professional standards and regulatory and legal requirements.
- The working papers contain sufficient appropriate audit evidence to support his / her opinion on the Annual Financial Statements;

- The Annual Financial Statements comply with International Financial Reporting Standards;
- The audit report is appropriately worded and dated; and
- All levels of reviews have been performed and have been adequately documented in the working papers.

In particular, Practicing Members are advised to consider the following pertinent requirements of International Standards of Auditing as it may relate to such engagements:

- Where more than one partner is involved in the conduct of the audit engagement, it is important that the respective responsibilities of each are clearly defined and understood by the engagement team and by the client (ISA 220.29). Although audit decisions may be reached in consultation with others, the engagement leader is the person responsible for the audit and the Signing Firm's opinion and the responsibility for the final decisions rests with the engagement leader.
- Working papers should provide sufficient and appropriate evidence of the engagement leader's timely review and approval of client / engagement acceptance, and of planning, audit execution and completion activities as per ISA 220 and ISA 230.
- The audit working papers should provide sufficient and appropriate evidence of the auditor's consideration of Botswana laws and regulations impacting on the auditee (ISA 250). Such laws and regulations would include (but are not limited to) the Companies Act, Income Tax Act (including provisions relating to Employees Tax and Withholding Tax), Value Added Tax Act and Labour Law and Regulations (e.g., as it may relate to severance pay and gratuity requirements).
- The audit working papers should provide sufficient and appropriate evidence of the auditor's consideration of foreign laws and regulations impacting on the auditee (ISA 250). For example, certain foreign jurisdictions may seek to subject Botswana-registered companies to income tax in those jurisdictions where management and the majority of shareholders reside, where decisions are actually made, etc. through application of 'effective place of management' or alternative tax residency rules.
- Where inventory is material to the Financial Statements, the auditor shall obtain sufficient appropriate audit evidence regarding existence and condition of inventory (ISA 501).
- Where a service organisation (including Shared Service Centres) is utilised by the auditee for provision of certain services, the auditor should obtain an

understanding of the nature and significance of services provided by such service organisation, and should design and perform audit procedures responsive to the risk of material misstatement arising from such services (ISA 402).

- Audit working papers should include appropriate external confirmations / consideration of external confirmations in the audit process (ISA 505).

(Note: References to International Standards on Auditing should be read to as inclusive of current ISAs and Clarity ISAs.)

Practicing Members are also reminded of the requirements of Section 190 of the Companies Act, 2003, which stipulates that accounting records must be maintained in Botswana. This requirement is consistent with similar stipulations in the Income Tax Act and Value Added Tax Act.

These legal requirements should be considered by Practicing Members in their audit reporting and communications to those charged with governance within their client organisations.

ISQC 1.73i requires Practicing Members to establish policies and procedures for the retention of engagement documentation for a sufficient period. Accordingly, the practitioner is responsible for the retention of audit working papers supporting referral audit engagements in accordance with these requirements.

Such referral audit engagements must be included in the practitioner's client list when such lists are presented for quality assurance review purposes, and relevant working papers must be produced for quality assurance review in support of the opinion issued by the practitioner.

By order of Council

Duncan Majinda
Chief Executive Officer