



**Public Accountants and Auditors Board (PAAB) Zimbabwe**  
**Phase 1: Inspection Cycle 1: June to November 2025**

**CONSOLIDATED REPORT ON SYSTEM  
OF QUALITY MANAGEMENT AND ENGAGEMENT  
FILE REVIEWS: KEY FINDINGS AND  
GOOD PRACTICE**





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# 1. Introduction

## 1.1 The Importance of Audit Quality and the Role of the PAAB

The Public Accountants and Auditors Board (PAAB) is mandated to protect the public interest by ensuring the highest standards of financial reporting and auditing in Zimbabwe. A robust audit profession is the bedrock of investor confidence and economic stability. In the challenging Zimbabwean environment—characterised by high inflation, currency volatility, and heightened fraud risk—a firm’s System of Quality Management (SOQM) is the primary defence against audit failure.

## 1.2 Inspection Activity and Approach

This consolidated report presents findings from the PAAB’s first phase of inspections following the December 2022 adoption of the revised quality management standards. Conducted between June and November 2025, the activity comprised:

- System Evaluation: An assessment of the SOQM at 20 registered audit firms (ISQM 1, ISQM 2, ISA 220).
- Engagement Reviews: A risk-based inspection of 68 individual audit engagement files (at least one per partner).

## 1.3 Objective of this Report and “Phase 1” Context

The objective of this report is to drive a rapid elevation of audit practices by providing firms with anonymised benchmarks. Phase 1 Context: This report covers the first 20 firms (market leaders and representative mid-tiers). It does not represent the entire profession yet. Phase 2 will follow for the remaining firms, culminating in a final consolidated report.



## 2. Part A – System Of Quality Management (SOQM)

### 2.1 Summary of Key Findings

Most firms have not yet established a fully effective, Zimbabwe-specific SOQM. Global templates were frequently adopted with minimal tailoring to local risks like hyperinflation.

Primary Deficiencies (with prevalence across the 20 inspected firms):

Deficiency	Prevalence	Risk Rating
Monitoring and Remediation (Component G)	90% (18 firms)	High/Very High
Risk Assessment (Component B)	80% (16 firms)	Materially deficient
Engagement Performance (Component E)	90% (18 firms)	Materially deficient

Risk Rating Implications:

Rating	Implications
Low	No concerns; best practice.
Medium	Minor improvements; no sanctions.
High	Substantive remediation required; potential follow-up inspection.
Very High	Threat to quality/independence; possible sanctions/referral to disciplinary committee.

See Appendices B, C, and D for deep dives into these key areas.

### 2.2 Good Practice Highlights

- One mid-tier firm supplements its global SOQM tool with an annually updated “Zimbabwe Risk & Response Addendum” approved by the Assurance Technical Committee—this is now regarded as leading practice.
- Three firms have fully automated independence declaration and conflict-checking workflows with mandatory hard stops—no audit planning memorandum can be finalised until 100% confirmation is received.
- A smaller firm introduced compulsory pre-issuance “cold file reviews” by a partner unconnected with the engagement—this identified 40% more issues than traditional hot reviews.
- Several firms now require root-cause analysis templates for every negative engagement-level inspection finding, with the results feeding directly into the annual SOQM evaluation.



## 3. Part B – Engagement File Inspection Findings

### 3.1 Objective and Methodology

The objective is to verify the operating effectiveness of the SOQM. Inspectors evaluated the sufficiency of evidence and professional scepticism across 68 files.

### 3.2 Key Messages and PAAB Expectation

Engagement deficiencies were widespread. Areas of concern include Revenue (IFRS 15), Provisions (ECL), and climate-related disclosures. Expectation: Basic errors in reports will no longer be tolerated. From 2026, presentation errors will lead to “High Risk” ratings.

Positive practices observed include rigorous use of experts in complex valuations and innovative cold file reviews that enhanced quality (see Section 2.2 for more examples).

## 4. Summary Of Detailed Findings

This section summarises common themes across the profession.

### 4.1 Planning And Risk Assessment

#### Background

Effective planning and risk assessment are critical in auditing because they form the foundation for a high-quality, efficient, and reliable audit. Auditors cannot test everything, therefore robust risk assessment helps identify areas where material misstatements are most likely to occur at both the financial statement and assertion level.

Well-executed planning and risk assessment ensures an efficient and effective audit where the nature, timing and extent of the audit procedures performed are focused on higher risk areas.

#### Findings

- Superficial planning procedures and a resulting poor understanding of the entity and its environment, leading to inadequate appreciation of key risks inherent in an entity and a poorly executed audit.
- Inappropriate interpretation of results of planning activities (design and implementation, operating effectiveness of internal controls) leading to missed and unmitigated audit risks.
- Reliance on untested and non-existent internal controls to mitigate significant risks.
- Poor assessment of fraud risks, including revenue recognition and management override of internal controls.
- Poor linkages between identified risks and audit procedures.

### 4.2 Revenue recognition

#### Background

Revenue is a significant driver of reported performance and a key area of fraud risk. High-quality audit work is essential to ensure revenue is recognised in line with IFRS 15 and that audit procedures respond appropriately to risks of material misstatement.

#### Findings

- Some engagement teams often accepted management’s accounting treatment without demonstrating how IFRS 15’s five-step model was evaluated. Revenue streams with multiple components were treated as a single obligation without assessment.





- In several files, auditors relied solely on management-generated revenue listings without performing completeness testing or evaluating controls that ensured all transactions were recorded.
- Auditors accepted management assumptions without corroborating evidence. Manual revenue journals were not tested for bias or improper override.
- In some instances, specialist skills (data analysts, IT specialists) were not appropriately or effectively deployed to test complicated revenue arrangements that had variable consideration or unusual terms.
- Review of disclosures were sometimes superficial. Material omissions included disaggregation of revenue, contract assets/liabilities, and judgment disclosures.
- Deferred revenue, an adjustment to certain revenue transactions, was not tested appropriately, resulting in unmitigated risk of materially misstated income.

### 4.3 Provisions including expected credit losses (ECL)

#### Background

The determination of provisions is complex, and usually involves significant judgment, estimation, and potential management bias. It is therefore critical to corroborate inputs and judgments to be able to conclude over the material completeness and accuracy of recorded provisions. This may require the use of experts to assess the appropriateness of assumptions and determine whether recognition is in accordance with applicable financial reporting standards.

#### Findings

- Poor documentation of management judgements – no support for key judgments, probability estimates and scenarios, undocumented rationale for changes in estimates between periods.
- Inadequate procedures to assess the completeness, recognition and valuation of provisions, including failure to challenge contradictory evidence.
- Insufficient evidence to support provisions, with pervasive weaknesses across risk assessment, data testing, model evaluation, assumptions and post-model adjustments.
- Poor identification and testing of the completeness and accuracy of critical data elements used in the establishment of provisions.
- Use of unreliable or outdated economic assumptions.

### 4.4 Impairment of non-current assets

#### Background

Impairments of non-current assets are considered a **key audit area** because they involve significant judgement, high estimation uncertainty, and material financial statement impact. Impairment reviews are inherently subjective and changes in key assumptions could result in impairment charges.

External or internal indicators of impairment (market decline, reduced cash flows, sustained losses or declining earnings) require careful evaluation, and entities may overlook or downplay these indicators.

Auditors should perform sufficient procedures to evaluate the impairment models prepared by management and corroborate and challenge the key assumptions applied within those models.

#### Findings

- Subdued economic activity and going concern uncertainty on some engagements were not identified as triggers for impairment considerations and testing.





- Lack of sufficient procedures to evaluate impairment models and challenge management assumptions.
- Inappropriate reliance on management representations as evidence of recoverability of recoverability of assets on underperforming entities.

## 4.5 Valuation of assets and liabilities

### Background

Assets and liabilities are the core components of an entity's statement of financial position. Their valuations are therefore critical because they directly impact the accuracy, reliability, and fairness of a company's financial statements at a specific point in time.

Valuations of assets or liabilities can be complex and subject to significant judgement and estimation, and auditors should obtain sufficient and appropriate evidence to support whether the valuation appropriately reflects the fair value of those assets or liabilities, including challenging and corroborating the key judgements in management's valuation models.

### Findings

- Inability to critically challenge management's assumptions and inputs into valuation models for assets and liabilities, resulting in unmitigated risk of misstatement.
- Inappropriate testing of complex inventory valuation methods in a multicurrency environment
- Incorrect responses to audit exceptions that pointed to valuation risks, such as confirmation and re-computation differences.
- Untested and unchallenged useful lives of property, plant and equipment.
- Impairment indicators that were not factored into asset valuation considerations.

## 4.6 Use of experts

### Background

The use of experts (auditor's expert and management's expert) is a critical part of ensuring accuracy, especially in areas requiring complex, technical or specialized knowledge beyond the auditor's expertise, such as actuarial valuations, valuation of financial instruments, tax calculations, IT systems and environmental liabilities.

The auditor remains fully responsible for the audit opinion, even when relying on an expert. Using an expert does not shift legal or professional responsibility, but it can strengthen the quality of audit evidence. Therefore, it is important for the auditor to evaluate the expert rigorously, and integrate his findings carefully into the audit evidence. In assessing an expert, the auditor must evaluate the expert's competence, capability and objectivity.

### Findings

- Insufficient procedures to assess whether the prior year models prepared by an expert continued to be appropriate to use as a basis for the current year assessment.
- Expert's competence, capability and objectivity not assessed or documented in the engagement file.
- Key valuation assumptions employed by a valuation expert not corroborated or challenged by the engagement team.
- Expert's procedures not documented, and expert findings not integrated into the engagement file.

## 4.7 Journal entry testing

### Background

Journal entry testing is a key audit procedure that is performed to address the risk of management override of controls, involving reviewing and analysing the journal entries recorded in an organization's financial system.





Effective journal testing requires a robust assessment of a sampling strategy and risk profiling, ensuring that selections are not only representative, but also focused on areas of heightened risk. Auditors must verify the completeness and accuracy of the journal entry population obtained from the entity's systems to ensure the integrity, accuracy, and reliability of financial statements.

### Findings

- Standard and unsophisticated sampling strategies applied in complex and high-volume journal environments, resulting in unfocused and misdirected journals testing that did not address risk.
- Sampling journals from incomplete populations not reconciled to the general ledger system.
- Mechanical and obligatory testing of journals performed to tick the box.

## 4.8 Group audit oversight

### Background

Group audits often involve multiple components across different locations, business lines or jurisdictions, and participation by different auditors, making them inherently complex and higher risk. The group auditor is responsible for the direction, supervision and performance of the group audit, including work at a component level. The group auditor should design an appropriate audit strategy and approach for components, and review and evaluate the appropriateness of the work performed, audit evidence obtained and conclusions reached by component auditors.

### Findings

- Weak group audit strategy, resulting in limited involvement in the component auditor's work, inadequate direction, supervision and evaluation of components, no planning workshops with component auditors, and no site visits conducted.
- The audit team conducted reviews and reperformed key audit procedures to ensure alignment with both UK and International auditing standards.
- Not obtaining sufficient, appropriate audit evidence over a financially significant components due to deficiencies in audit strategy.
- The group audit team did not reperform key audit procedures of component auditors to ensure alignment International Standards on Auditing (ISA).

## 4.9 Assessment of Audit Errors

### Background

Audit errors refer to mistakes or inaccuracies identified during the audit of financial statements. These errors are generally unintentional, unlike fraud, which is deliberate.

Auditors must thoroughly understand the nature and how they arose to errors to assess their impact. Errors and misstatements identified during the audit, other than those that are clearly trivial, must be accumulated, evaluated, and if material, adjusted.

### Findings

- Inappropriate assessment of errors in isolation, instead of projecting them over test populations, resulting in potentially incorrect conclusions and uncorrected material misstatements.
- No attempt shown on certain work papers to assess, understand, explain and accumulate identified errors.
- Errors incorrectly interpreted, resulting in potentially incorrect audit conclusions.
- Weak explanations tendered for audit differences, errors and misstatements as a substitute for performing investigative follow up procedures.





## 4.10 Going concern

### Background

The going concern assumption is a fundamental principle in the preparation of financial statements. Auditors should assess the appropriateness of management's use of the going concern basis of accounting and whether there are any material uncertainties that should be disclosed to the users of the financial statements and included within their auditor's report. Auditors must critically evaluate management's forecasts, assumptions and mitigation plans, and consider both internal and external factors that could affect the entity's viability. This assessment is particularly important in unstable economic environments, such as the Zimbabwean economy.

### Findings

- Insufficient procedures performed over management's going concern assessment, including not challenging or testing budgets, cash flow forecasts, and the assumptions underlying the assessment.
- Weak or non-existent challenge of management's going concern assessment, including use of independent scenarios.
- Non-disclosure of material uncertainty related to going concern despite identification of multiple material uncertainties that cast significant doubt over an entity's going concern status.
- Inadequate going concern disclosures in the financial statements, which omitted information proving the efficacy of management's measures to mitigate going concern risks.

## 4.11 Subsequent events review

### Background

Certain events occurring after the balance sheet date, but before the financial statements are issued, provide additional evidence about conditions that existed at year-end.

Properly executed subsequent events procedures help ensure that financial statements present a complete, accurate, and fair picture of an organization's financial position up to the date they are issued, thereby reducing audit risk, supporting going-concern assessment, and protecting financial statement users.

### Findings

- Inappropriate and over-reliance on management representations as a substitute for the auditor's responsibilities to identify and evaluate subsequent events.
- Time lags between completing the audit work and signing the financial statements that were too material to ensure the continued effectiveness of subsequent events review procedures.

## 4.12 Non-compliance with laws and regulations

### Background

Laws and regulations impose legal and reporting obligations on entities. Assessing non-compliance and is essential because it affects financial statement accuracy, stakeholder protection, professional responsibilities, and the auditor's ability to form a reliable opinion, therefore has a material impact on the auditor's risk assessment.

### Findings

- Failure to identify newly enacted regulations with a material impact on the current year audit, exposing both the auditor and the client to potential regulatory censure and sanction.
- Non-compliance by a number of companies with the regulatory requirement for directors to sign the statement of financial position, which rendered their financial statements legally defective under Zimbabwean company law.





## 4.13 Audit opinion matters

### Background

The audit effort culminates in the issuance of the auditor's report, which is a formal opinion issued by the independent auditor after examining a company's financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained.

### Findings

- A number of audit opinions omitted to identify the financial reporting framework and other statutory reporting guidelines applicable to an entity.
- Key audit matters in some audit reports included audit responses that did not reconcile to the actual work performed on the engagement file.
- Wording in adverse and qualified opinions was sometimes awkward or lacked technical precision.
- Several reports with adverse opinions lacked the recommended clarifying language to separate the key audit matters from the basis for the adverse opinion, creating potential user confusion.
- Basic errors were noted on a number of audit reports, including spelling errors, typographical errors, incorrect reporting frameworks and incorrect dates.

## 4.14 Matters related to audit conclusion

### Background

At the conclusion of an audit, the auditor needs to carefully consider multiple factors to ensure that their conclusions are robust, well-supported, and aligned with professional standards. Key audit conclusion considerations revolve around evidence sufficiency, risk assessment, materiality, compliance, management judgment, and subsequent events, all clearly documented and communicated.

Management representations are a key part of the process of concluding the audit process. They are formal statements or confirmations that management provides to the auditor regarding the accuracy and completeness of information in the financial statements. However, they are not a substitute for the for the audit.

### Findings

- Some management representation letters predated the financial statement by weeks or months. The engagement files did not document reasons for the time lag, or any audit procedures performed to address the intervening period.
- For certain engagement files with qualified or adverse audit opinions, engagement teams accepted clean management representation letters that made no reference to the specific matters leading to the audit report modification.

## 4.15 Financial statement disclosures and reporting

### Background

Robust financial statement disclosures that comply with financial reporting standards provide context for interpreting the numbers in the financial statements, particularly in areas involving significant judgement, estimation uncertainty or complex transactions, and provide relevant and reliable information to influence informed decision-making. Transparent disclosures support fair pricing of securities, and build trust and credibility, which can lower a firm's cost of capital. Overall, strong disclosure practices contribute to efficient, stable, and well-functioning financial markets.

Auditors should perform sufficient procedures over the completeness, accuracy and appropriateness of such disclosures. This includes evaluating whether disclosures are consistent with the underlying evidence, aligned with the applicable financial reporting framework, and tailored to the specific circumstances of the entity.





## Findings

- Deficient and technically shallow disclosures that fell short of the minimum requirements of the financial reporting standards.
- Omitted, insufficient, incomplete, inaccurate, contradictory or outdated accounting policies, notes and other disclosures.
- Deficient non-financial disclosures, including climate-related disclosures.
- Group and component disclosures that were not in alignment.
- Disclosures out of sync with or not adequately supported by audit procedures.

## 5. Detailed Engagement Findings: Authoritative Learning Resource

### Purpose of these Findings:

While each entity has already received its individual report, the following detailed findings (Section 5.1 onwards) are included here as an **authoritative learning resource** for the entire profession to see real-world examples of “what not to do.”

### 5.1 Planning and risk assessment

Auditors are required to identify and assess the risks of material misstatement at both the financial statement and assertion level. This must include documented rationale for the identification (or non-identification) of significant risks and clear linkage between assessed risks and the audit procedures performed at assertion level.





Background	Issue
<p><b>Ineffective risk assessment at a Bank:</b> For one commercial banking institution, the engagement team performed walkthrough tests as part of the process to understand the bank's key principal business cycles. The key findings from these tests were as follows:</p> <p>a) Loans and advances business cycle: 5 selections were tested and results were largely unsatisfactory. Exceptions identified included lack of loan facility agreements signed by the bank and borrower, lack of customer tax clearance certificates, missing or insufficient KYC documentation, missing details of ultimate beneficial owners for some corporate clients.</p> <p>b) Customer deposits business cycle: 10 selections were tested and results were unsatisfactory. Material exceptions were noted in respect of insufficient KYC documentation for customers.</p> <p>c) Operating expenses business cycle: 10 selections were tested and results were largely unsatisfactory. Material exceptions were noted for all 10 selections, including procurement documents not available, and tax clearance certificates not provided, yet the mandatory 30% withholding tax was not deducted by the bank against payments to the suppliers.</p>	<p>Notwithstanding these material process and internal control deficiencies, the auditor's conclusions were favourable for all three business cycles, as follows:</p> <p>a) Loans and Advances: "Based on work done, there is a reasonable assurance that the procedures detailed in the loans operating manual are being adhered to."</p> <p>This conclusion missed the fact that, according to other documentation on the planning section of the engagement file, the Reserve Bank of Zimbabwe's (RBZ) Financial Intelligence Unit (FIU) had conducted on-site testing of the bank's KYC processes during the current financial year and also identified material weaknesses, resulting in financial penalties being levied on the bank.</p> <p>b) Customer Deposits: "Based on work done, there is a reasonable satisfaction that the controls documented are being fulfilled". As with the Loans and Advances business cycle walkthrough tests, this conclusion was at variance with the fact that the bank was fined by the FIU for weak KYC processes.</p> <p>c) Operating Expenses: "Based on work done, there is a reasonable assurance that controls over expenses are effective and are being adhered to. However, we are still waiting for procurement documents".</p> <p>By concluding inappropriately and failing to identify the risks posed by these business process and internal control weaknesses, the engagement team:</p> <ul style="list-style-type: none"> <li>Failed to identify material inherent risks that could have a significant impact on client acceptance procedures.</li> <li>Failed to identify and respond to potential fraud and other audit risks that could have an impact on the scope, depth and focus of their audit tests.</li> <li>Exposed themselves to the risk of performing inappropriate audit procedures that did not respond to the correct risks inherent in the engagement.</li> </ul>
<p><b>Impact of cyber-breach on risk assessment not evaluated:</b> While performing procedures to understand the information technology environment of one entity, the engagement team discovered and documented that the entity had suffered a cyber-breach during the reporting period.</p>	<p>Despite this discovery, the engagement team did not consider or document the risks posed by the cyber-breach and its potential impact on the audit approach.</p>





<p><b>Revenue cut-off risk from walk-through tests missed:</b> Revenue walk-through tests for one entity revealed that there were lags between the ledger date and the invoice date, which sometimes ran into months.</p>	<p>The engagement team explained these date differences simply as “attributable to batch processing”. The engagement team failed to identify this lag as a potential cut-off risk requiring the modification of the planned audit approach or the design audit procedures that addressed the risk.</p>
<p><b>Controls design and implementation tests not used effectively to identify audit risks:</b> One of the key considerations on audits humanitarian non-profit organisations is the need for robust testing of the design and implementation of internal controls as a way of obviating fraud and other revenue leakages.</p>	<p>For one non-profit organisation, revenue walk-through procedures were performed “To test the design and implementation and effectiveness of controls”. However, from the work that was performed in this regard, it was not clear how this objective had been achieved, due to the nature and quality of the audit procedures, where the following shortcomings were identified:</p> <ul style="list-style-type: none"> <li>• The so-called revenue control involved simply testing the raising of an invoice by the Accounts Clerk.</li> <li>• There was no testing of any process of reconciliation in use, e.g. recorded revenues versus banked revenues, a key system of internal control.</li> <li>• There was no testing of how this system prevents revenue leakage, such as though non-recording of revenue on invoices and subsequent non-banking and pocketing of receipts.</li> </ul>
<p><b>Preliminary analytical reviews note used appropriately to identify audit risks:</b> use of Preliminary analytical procedures are meant to be a risk assessment tool that auditors employ at the planning stage of an engagement to gain an understanding of the business, identify potential risks of material misstatement in financial statements, and inform the nature, timing, and extent of further audit procedures.</p>	<p>Instances were noted on a number of engagement files where preliminary analytical reviews were incorrectly used to explain year-on-year movements in balances and financial trends rather than to identify irregular and unexpected financial trends that point to potential risks at the planning stage of the audit.</p>
<p><b>Risk of management override of controls not considered:</b> ISAs presume a high risk of manipulation and fraud in financial statements through the override of internal controls by management due to their privileged and powerful role in the business. This risk is even higher where the owners of a business are also its management.</p>	<p>The owners of one company, a husband-and-wife team, were pervasively involved in the day-to-day management of the entity, which prepares general purpose financial statements that have a broad stakeholder base. Against this backdrop, there was no documentation on file to evidence whether the auditor had considered the risk of management override of controls, assessed it and responded to it through the design of responsive audit procedures.</p>
<p><b>Risk of fraudulent expenditure not considered:</b> The operations of non-profit organisations are generally susceptible to fraud and abuse as a result of unsanctioned expenditures. The auditor therefore needs to design appropriate audit procedures to address these risks.</p>	<p>The per diems of one non-profit entity exceeded salaries 3 to 1 for the current year, and 2 to 1 for the comparative year. Despite this anomalous situation, there was no audit evidence on the engagement file to indicate that the engagement team had considered and performed audit work to eliminate this unusual expense trend as a potential risk of invalid per diems.</p>





<p><b>Significant valuation risk not identified:</b> In terms of one network firm’s audit methodology, the engagement team was required to respond at the planning stage to a consideration as to whether engagements involved “complex transactions” or “high degree of subjectivity in the measurement”, and plan appropriate audit responses where this was the case.</p>	<p>On one engagement, the revenue of an SMI was sometimes settled in treasury bills, for which determination of the exchange value is complicated and technically challenging exercise. Notwithstanding this complication, the engagement team responded NO to these planning considerations. Consequently, this significant valuation risk for both the revenue and treasury bills was not unaddressed on the engagement.</p>
<p><b>Risks omitted or inappropriately addressed on testing:</b> On certain engagements inspected, some audit risks were appropriately identified in the planning phase of engagements, but were either inappropriately addressed in the execution phase, or completely missed altogether by the auditors on some of the engagements.</p>	<p>The following are examples of missed or inappropriately addressed audit risks:</p> <ul style="list-style-type: none"><li>a) In line with the requirements of ISA, the planning section of one engagement indicated that “The useful lives and residual value estimates are applied to each category of PPE on an overall level. The assessment of these estimates will be performed in section A of the audit file”. However, this planned audit procedure was omitted from the engagement.</li><li>b) In the planning section of an SMI the auditors aptly identified a revenue cut-off risk arising due to “a delay in the recognition of revenue as a result of a lag time in the receipt of documents required to raise the revenue”. However, the crucial actual cut-off test was then completely omitted file.</li><li>c) At the planning stage of an audit, the engagement team resolved to perform audit steps requiring the auditor to “Obtain client investment property title deeds and examine titles” and to “Perform reasonableness checks on valuation assumptions and compare them with market data and comparable properties”. However, these audit procedures were never carried out.</li><li>d) To address the risk of existence and ownership of livestock on one engagement, the auditor resolved at planning stage to “conduct physical count of the livestock, examine documents..., confirm ownership through documentation”. None of these planned were then performed in the substantive phase of the audit engagement.</li></ul>
<p><b>Vague inventory count instructions not addressing risk:</b> On one engagement, the entity had multiple stock locations and a long list of inventory lines. Instructions to the audit team attending the year-end stock count were simply to “Decide on locations and items to test count”.</p>	<p>These inventory count instructions were too general and did not ensure that high risk and high value stock items would be selected as part of the inventory count procedures to reduce audit risk.</p>





<p><b>Inappropriate blanket risk assessment:</b> Against the three possible levels of audit risk (high, medium and low) on a pension fund audit, one firm’s risk assessment applied the “high” risk rating to each of inherent risk, analytical risk, and control risk, and to each account balance, class of transactions and applicable assertion, which meant the engagement team was required to invoke the maximum level of substantive testing on all audit areas.</p>	<p>This blanket approach was indicative of a lack of understanding of the risk profile of the entity’s account balances and classes of transactions and related assertions, and therefore a concomitant inappropriate approach to the assessment of risk for these areas, resulting in a potentially inefficient approach to audit testing.</p>
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## 5.2 Revenue recognition

### 5.2.1 Testing over complex revenue streams and arrangements

Auditors shall obtain sufficient appropriate audit evidence (ISA 330) to confirm that revenue is not materially misstated.

Background	Issue
<p><b>Revenue at a bank not audited:</b> For one commercial banking entity, revenue was substantially not audited, despite the fact that:</p> <ul style="list-style-type: none"> <li>• Revenue recognition is a presumed significant fraud audit risk area according to the auditing standards.</li> <li>• Revenue was the most material class of transactions on the bank’s statement of profit or loss.</li> </ul> <p>The only attempt by the engagement team to test revenue consisted of one work paper prepared by the engagement team’s ICT resource. The work paper contained system screenshots in respect of one small loan balance that the engagement team tried to pass as a recomputation of interest income and the accompanying charges – loan application fees, loan establishment fees and insurance.</p>	<p>However, even this work paper was deficient in a number of significant aspects:</p> <ol style="list-style-type: none"> <li>a) The work paper was not initially included in the engagement file submitted for inspection, and had to be obtained separately from the ICT team member.</li> <li>b) The work paper did not indicate an audit approach, and it was difficult to establish the actual objective for which it was created.</li> <li>c) The work paper contained no evidence of review by the engagement manager, the engagement partner or the engagement quality reviewer.</li> <li>d) Technically, the work paper did not constitute a revenue recomputation as it neither proved any of the interest or the non-funded revenues, nor reconciled any of these amounts to the ledger.</li> </ol>
<p><b>Estimates in revenue not audited:</b> A material component of the revenues of a large utilities company was based on estimates at year-end. In the company’s auditor’s report, revenue was therefore appropriately classified as a key audit matter given its complex nature and the fact that it included estimates that were difficult to evaluate. The KAM included a statement to the effect that “Post-paid billing system generates numerous bills, some of which are based on estimates”.</p>	<p>Whilst accounting estimates are presumed by International Standards on Auditing (ISA) to be a significant audit risk area, the engagement team omitted to perform appropriate substantive audit procedures to test these revenue estimates and address this risk, indicating instead simply that “Post-paid account customers have consumption patterns monitored by the Commercial Divisions at the Regions. We relied on management reports”.</p>





## 5.2.2 Deferred revenue

The measurement of variable consideration, the identification of performance obligations satisfied over time, and the estimation of the stand-ready obligation or remaining performance obligations (IFRS 15.120–122) often involve significant management judgement and estimation uncertainty.

Auditors are required to obtain sufficient appropriate audit evidence over the constraints on variable consideration (IFRS 15.56–58) and the pattern of transfer of control where revenue is recognised over time (IFRS 15.39–45).

Background	Issue
<p><b>Deferred revenue not audited:</b> The auditor's report for a large utilities company identified revenue as a key audit matter (KAM).</p> <p>The entity carried material deferred revenue at the year-end reporting date, and the KAM in respect of pre-paid billing for utilities and the resulting deferred revenue read "Pre-paid billing records revenue when utilities are purchased and estimates are involved when determining deferred revenue for unused utilities as at year-end".</p>	<p>In response, the auditor's report had four audit procedures purported to have been performed by the engagement team to address the revenue KAM. However, in regard to these four procedures:</p> <ol style="list-style-type: none"> <li>None explicitly addressed the audit of deferred revenue, a key accounting estimate, and a complex area of audit and therefore a significant audit risk.</li> <li>The engagement file had no evidence of any testing of the deferred revenue balance, for validity, accuracy, or completeness, thereby ensuring that reported revenue had been correctly adjusted for this unearned income.</li> </ol>

## 5.2.3 Other revenue-related matters

Auditors shall obtain sufficient appropriate audit evidence (ISA 330) to confirm that revenue is not materially misstated.

Background	Issue
<p><b>ISA-presumed revenue risk not responded to:</b> ISAs presume that there is a significant risk of fraud related to recognition of revenue, and require that the auditor assigns this risk to appropriately identified aspects of revenue, then design and perform audit procedures to address the risk.</p>	<p>A large number of engagement teams failed to identify and to address this risk altogether on their audits, whilst others failed to test it appropriately, resulting in undertesting of revenue, as well as an unmitigated significant risk of fraud related to recognition of revenue, and non-compliance with ISA.</p>
<p><b>Planned CAATS testing not performed:</b> The substantive audit plan to test revenue for one entity indicated that revenue would be tested for accuracy, occurrence, and classification, and that completeness of revenue would be tested by way of computer assisted audit techniques (CAATS), due to the high number of the transactions generated.</p>	<p>The purported CAATs work to test the completeness of revenue could not be availed for inspection. Consequently, the engagement team was not able to prove that the completeness assertion for revenue had been addressed, resulting in an unmitigated risk of potentially incomplete revenue.</p>





<p><b>Significant risk missed from trend analysis:</b> The Chairman’s Report in the financial statements of an entity in the motor industry highlighted the following year-on-year sales decreases, in units:</p> <ul style="list-style-type: none"><li>• Sales volumes – 24%</li><li>• Agricultural and construction equipment sales – 66%</li><li>• Passenger vehicle sales – 35%</li><li>• Sales of trucks and buses – 14%</li><li>• Tractor sales – 5%</li></ul>	<p>Notwithstanding these downward sales trends, the entity’s reported revenue reflected a 10% increase over the prior year in United States dollars, a stable currency.</p> <p>Against the backdrop of the ISA-presumed risk of fraud related to the recognition of revenue, the engagement team was not able to explain how, despite these material reductions in units of vehicles sold, the entity was still able to achieve an overall increase in revenue of 10%.</p>
<p><b>Non-compliance with donor revenue disclosure requirements:</b> The split between restricted and non-restricted income is an important disclosure requirement in donor funded activities and the auditor’s responsibility in this regard is to document on the engagement file the donor requirement for this disclosure, and ensure that the disclosure requirements are complied with in the financial statements.</p>	<p>The financial statements of a significant non-governmental organisation omitted to disclose the split between restricted and non-restricted income.</p>
<p><b>Nature of business not articulated in financial statements:</b> A clear description of the nature of an entity’s business in its financial statements is critical as it gives the user of the financial statements an understanding of how the entity earns its revenues, and informs how the revenue is accounted for and reported in those financial statements.</p>	<p>The financial statements of an investment property entity did not clearly describe whether the entity was an investment property owning company or an investment property management company.</p>





### 5.3 Provisions including expected credit losses (ECL)

The measurement of expected credit losses involves significant management judgement and estimation uncertainty, particularly in respect of forward-looking macroeconomic scenarios, probability weights, and the assessment of significant increases in credit risk. Audit teams should consider the subjectivity of management’s judgements and evidence the performance of appropriate procedures commensurate with the associated risks.

Background	Issue
<p><b>Planned ECL testing not performed:</b> A company operated out of 8 different locations during the reporting period, and these were all audited separately, each with its own materiality and trial balance.</p> <p>Consequently, the estimated credit losses (ECL) in respect of each unit’s trade receivables, and a key area of judgement, was supposed to be tested in each of these different units’ engagement files.</p>	<p>The was no audit evidence on the engagement files to indicate that the engagement teams had audited the ECL balances were fairly stated:</p> <ul style="list-style-type: none"> <li>a) For most of these units, accounts receivable balances differed from the receivable sub-ledger balances by material amounts, yet reconciliations of the two balances were not on file. Where such reconciliations were available, the reconciling amounts were not audited.</li> <li>b) The purported ECL work papers for most of these units contained no actual audit work performed.</li> </ul>
<p><b>Weaknesses in ECL testing:</b> The management of a bank employed a model to determine the ECL allowance on loans and advances to customers.</p> <p>The engagement team performed substantive audit procedures over critical data elements related to the ECL.</p>	<p>The audit team did not obtain sufficient audit evidence to support the appropriateness of the ECL allowance recognised. Weaknesses identified in the audit work performed on ECL included the following:</p> <ul style="list-style-type: none"> <li>• The identification and testing of the completeness and accuracy of critical data elements used in the ECL model, e.g. staging of loans in arrears</li> <li>• Assessment of internal controls to ensure the integrity of the of the model throughout the period of testing</li> <li>• The assessment and testing of significant increase in credit risk</li> <li>• Rigor of risk assessment</li> <li>• Quality control and review procedures over ECL</li> </ul>





<p><b>Incorrect ECL treatment no addressed:</b> The engagement team on one assignment indicated in the report to management that the estimated credit losses in respect of an entity’s trade receivables were not performed correctly in accordance with IFRS9 principles.</p>	<p>The auditors did not perform the next steps in regard to this matter, either:</p> <ul style="list-style-type: none"> <li>a) Recompute the correct IFRS 9 ECL amount and propose an adjustment to the financial statements if deemed material</li> <li>b) Qualify their auditor’s report in respect of the matter</li> </ul>
<p><b>ECL not provided:</b> Whilst IFRS 9 does not require all receivables to be provided for, it does require all financial assets with credit risk, including receivables, to have an expected credit loss allowance recognized, based on a forward-looking expected loss model.</p>	<p>An entity had material receivable balances at the reporting period. However, the financial statements did not carry an ECL against the balance, and the engagement file did not evidence the engagement team’s considerations as to why this was the case.</p>
<p><b>Inappropriate ECL methodology not challenged:</b> ECL for a motor industry engagement with material accounts receivable was not determined in accordance with IFRS 9. The provision for expected credit losses was established simply as the sum of four out of the eight receivable balances in the 120-day receivables age category.</p>	<p>The engagement team omitted to challenge this approach by management, which was clearly not in line with the provisions of IFRS 9, and also omitted to establish the implications of this approach on the auditor’s report.</p>
<p><b>Inadequate provisions disclosure:</b> IAS 37 Provisions, Contingent Liabilities and Contingent Assets require a reconciliation for each class of provision, showing the opening balance, additions made during the reporting period, amounts used, and the closing balance.</p>	<p>The financial statements of a mining promotion entity disclosed a material balance in respect of provision for leave pay at year-end. However, the requisite reconciliation required by the financial reporting standards was not provided.</p>

## 5.4 Impairment of non-current assets

### 5.4.1 Evaluation and challenge of management assumptions

Impairment reviews are inherently subjective and reasonably possible changes in key assumptions are required to be disclosed and, in extreme cases, where such changes would cause the carrying amount of the cash-generating unit to equal or exceed its recoverable amount. The engagement team shall perform audit procedures that are appropriate in the circumstances and sufficient to support the audit opinion to evaluate the impairment models prepared by management and corroborate and challenge the key assumptions applied within those models.





Background	Issue
<p><b>Impairment not tested:</b> A company acquired a material new intangible asset (software) during the reporting period, which accounted for 79% of its non-current assets at year-end.</p> <p>At the same year-end, the company reflected a going concern uncertainty, which is an indicator of impairment under IAS 36 Impairment of Assets.</p>	<p>As an impairment indicator, the existence of the going concern uncertainty would require that management perform an impairment test on the new, material intangible asset. The auditor would in turn need to test the impairment calculations and the underlying assumptions.</p> <p>However, the financial statements and the audit engagement file did not disclose or evidence such an impairment test in terms of IAS 36.</p>
<p><b>Impairment not tested:</b> A securities market intermediary (SMI) made an investment into a greenfield hospitality project during the reporting year. The entity's accounting policy was to account for this investment at fair market value.</p> <p>At the close of the year, the project had not yet kicked off, which raised questions about the recoverability and the fair valuation of the SMI's investment.</p>	<p>At year-end, the fair value for the investment was neither established by management nor tested by the engagement team.</p> <p>In addition, despite the requirements of the accounting policy, as well as the engagement team's audit approach, which mandated the auditor to "Review the methodology and assumptions used for impairment calculations", no impairment considerations were applied to the investment by both the client and the auditors.</p>

## 5.5 Valuation of assets and liabilities

### 5.5.1 Challenge the assumptions for assets and liabilities

The valuation of assets and liabilities can be inherently subjective and may be susceptible to management bias or error. Auditors should challenge and corroborate the key judgments in management's valuation methods and models.





Background	Issue
<p><b>Material investee not subjected to audit:</b> One of the largest pension funds in the country had assets in the form of two financially material subsidiaries domiciled in the United Kingdom, which were carried in the fund's books as financial assets.</p> <p>Whilst one subsidiary was subjected to a full scope audit by another auditor in the UK, the other subsidiary was subjected instead to a review by the engagement team in Zimbabwe. This review consisted of a single work paper, a trial balance of the UK subsidiary on which the objective was stated as "To verify the completeness, existence and valuation of British main assets".</p> <p>Some of the key asset and liability balances on the reviewed subsidiary's trial balance included:</p> <ul style="list-style-type: none"> <li>• UK investment properties</li> <li>• A Jersey loan balance</li> <li>• UK money market balances</li> </ul>	<p>The approach adopted by the engagement team was deficient in the following significant respects:</p> <ol style="list-style-type: none"> <li>a) There was no documented motivation on the engagement file as to the appropriateness of carrying these investments in the pension fund's books as financial assets.</li> <li>b) The engagement team could not explain why a review of the one subsidiary was more appropriate than a full scope audit, considering its materiality.</li> <li>c) The review work paper did not document the approach adopted in respect of the review process.</li> <li>d) The review work paper did not indicate the source of the trial balance or describe how the engagement team obtained satisfaction as to the authenticity, completeness and accuracy of its numbers.</li> <li>e) Whilst the objective of the work paper was indicated as "To verify the completeness, existence and valuation of British main assets", how this was actually achieved by this review was not documented – property valuations were not tested, loan balances were not confirmed, confirmations for money market investments were not obtained.</li> <li>f) The tax computation for the entity was meant to have been performed by tax experts in the UK, yet this critical aspect remained outstanding at the date of signing the financial statements.</li> </ol>
<p><b>Material errors in testing lease liability computation:</b> A holding company leased its head office facilities from a third party and recognised a right of use asset and a lease liability at the lease commencement date. The lease was renewed towards the end of the financial year, and was denominated in United States dollars.</p> <p>Financial reporting standards require that a lease liability be initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the entity's incremental borrowing rate, or interest rates from various external financing sources appropriately adjusted to reflect the terms of the lease and type of the asset leased.</p>	<p>An audit step for testing the valuation of the lease liability balance read "Obtain the inputs used by the client and ascertain their reasonability". A key variable of the computation of the lease liability at renewal was the ZWG borrowing rate of 35% discount future rentals at the lease renewal date.</p> <p>The following deficiencies were noted in regard to the use of this rate:</p> <ol style="list-style-type: none"> <li>a) The use of a ZWG borrowing rate as the lease agreement was in USD. The computation should thus have applied USD borrowing rates, which are much lower and in the range of 15% to 20%.</li> <li>b) The present value calculation for the lease liability inadvertently included the full financial year, instead of the present value of lease payments that were not paid at the lease renewal date, resulting in an overstated lease liability.</li> </ol> <p>The combined impact of correcting a) and b) using 15% and 20% was an adjustment 8 and 18 times, respectively, the entity's audit materiality. The financial statements of the entity were therefore materially misstated, and an inappropriate opinion may have been issued for the reporting period.</p>





<p><b>Material related party receivable incorrectly accounted for and disclosed:</b> An entity had a material long term interest free loan receivable from a related party that was repayable 10 years from the statement of financial position date, which was misclassified as a current asset.</p>	<p>The attributes of the loan should have triggered a number of accounting and disclosure obligations in terms of IFRS, which both the client and the engagement team missed, for example:</p> <ul style="list-style-type: none"><li>• Under IFRS 9, this long-term, interest-free loan should have been measured at its fair value (the present value of future cash flows discounted at a market interest rate) upon initial recognition, not at its nominal value. This was not done, resulting in a materially overstated asset.</li><li>• There was no assessment and disclosure of an expected credit loss (ECL) for the loan receivable as required by IFRS 9 for all financial assets.</li><li>• The liquidity risk disclosures in the notes to the financial statements inappropriately excluded this loan receivable.</li></ul>
<p><b>Material weaknesses in inventory valuation testing:</b> The inventory for one reporting entity in the motor vehicle sales industry was a large balance of US\$15 million. The policy of the entity was to value inventory using the weighted average cost (WAC) basis.</p> <p>To test the valuation of this balance, the engagement team selected a sample of 7 inventory items, indicating that the sample “was judgmentally selected from fast-moving items”.</p>	<p><b>A review of the WAC valuation audit work revealed some significant deficiencies:</b></p> <ol style="list-style-type: none"><li>a) The value of the sample drawn was for a mere US\$1,110 (one thousand).</li><li>b) For an entity that was primarily in the business of selling vehicles, the sample selections did not include a single vehicle but was comprised of minor spares and consumable stocks, hence the insignificant value of the sample drawn.</li><li>c) Against the recorded WAC of US\$1 110 for the seven selections tested, the auditor’s recomputed value was US\$863, a variance of US\$247 (22%). There was no attempt shown on the work paper to investigate the difference or to project it over the total inventory population.</li></ol>
<p><b>Payables testing weaknesses:</b> For one non-profit entity, the engagement team attempted to audit the completeness and valuation of accounts payable through confirmation of creditor balances.</p>	<p><b>The completeness audit test for payables was unsuccessful, as follows:</b></p> <ul style="list-style-type: none"><li>• An audit comment on a work paper in the payables testing workbook reflected that by the time the financial statements were signed off, a large unresolved difference remained between the ledger and the payables sub-ledger balances.</li><li>• The payables circularisation work in the workbook was incomplete. It contained 31 creditor balances selected for confirmation that had no responses. No alternative tests were performed to validate the balances for these selections.</li><li>• The audit conclusion in the same workbook read “Based on the work done, payables are not valued correctly”.</li></ul> <p>Notwithstanding the foregoing payables matters, the auditor still issued an unqualified audit opinion.</p>





<p><b>Recoverability of assets not tested:</b> IFRS 6 Exploration for and Evaluation of Mineral Resources requires that exploration and valuation assets be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.</p> <p>In one instance, the financial statements of a mining entity reflected a material balance in respect of exploration and evaluation assets. However, the entity's mining operations had been subdued for a few years, a situation that would suggest that the entity's exploration and evaluation assets may not be fully recoverable and needed to be assessed for impairment.</p>	<p>The only available audit evidence in respect of the test of the recoverability of exploration and evaluation assets on the mining entity's engagement file comprised simply of a statement by the engagement team that said, "We reviewed templates of future cash flows from projects approved by the Board".</p> <p>The said future cash flows were not included on the engagement file, and there was no evidence indicating that the engagement team had interrogated them, their underlying assumptions, or any other supporting audit evidence to prove that the mining operations could still support the recoverability of the exploration and evaluation assets for the foreseeable future.</p>
<p><b>Testing of authorisation for loan excesses not evidenced:</b> A number of loans were issued at a non-profit entity in excess of the thresholds applicable at the organisation, and the individual amounts were substantial but not quantified by the engagement team.</p>	<p>The engagement file did not document whether there was application of appropriate authorizations of these loans in excess of the approved thresholds. The sample documents referred to do not show the documentation of the authorisations.</p>
<p><b>Inputs into expert valuation not challenged:</b> The mine rehabilitation provision for a mining entity was established on the basis of an assessment performed by SIRDC, the Government environmental experts, in 2017. A discount rate of 3% was employed to establish the mine rehabilitation provision at that time.</p>	<p>The engagement team was not able to satisfy the inspector as to how the reasonableness of the 3% discount was assessed, especially when comparing with other mining entities in the Zimbabwean market that employed discount rates of up to 15% for this purpose.</p> <p>A note in the engagement work papers simply stated that this discount rate "is a market-based, pre-tax rate that captures the time value of money" and did not indicate its source.</p>
<p><b>Unreasonable buildings useful life not challenged:</b> For a large utilities company, buildings were assigned a useful life of 25 years, compared to up to 45 years for plant and equipment.</p>	<p>This was a material anomaly, considering that the company's buildings significantly predate the year 2000, an aspect that the engagement team clearly missed and did not challenge in response to the requirements of IFRS. The annual financial statements were potentially materially misstated in respect of depreciation and residual values of buildings.</p>





**Grossly inadequate testing of nominee statement of financial position:**

The Securities & Exchange Commission of Zimbabwe "Directive to Securities Market Intermediaries (SMI) on Enhanced Audited Financial Statements Disclosures" of August 2024 set out the following requirements.

"... SMIs who maintain trust and nominee accounts, shall cause the books of accounts relating to these trust and nominee accounts to be audited at the end of the financial year by a registered public auditor. The audited trust and nominee accounts shall be submitted to the Commission accompanied with the SMI's audited financial statements".

Relative to this requirement, the nominee statement of financial position included in the audited financial statements of one SMI was subjected to a materially inadequate audit.

One SMI had audited assets of ZWG X million. In comparison, the assets that the SMI managed for that year on behalf of its clients as disclosed in the nominee statement of financial position presented as a note to the SMI's financial statements were 84,6X times those of the SMI. Against this backdrop we believe that the audit work performed on this Nominees Balance Sheet was grossly inadequate, as follows:

- Whilst an entire audit file exists in respect of the SMI, the audit of the Nominees Balance Sheet was represented by only one small workbook within the SMI engagement file.
- There was no materiality computed and applied to the audit of the nominee's assets, or evidence to indicate whether the assets were tested for ownership by the respective investors.
- The purported audit of the nominee's statement of financial position consisted of some tests of controls on the operation of nominee and trust accounts, and some existence, occurrence and completeness tests. For these tests, sampling was done subjectively.
- The audit of the nominee's statement of financial position elements was comprised simply of some vague annotations:
  - a) Bank balances/money market investments (10.1X ZWG) – "Verified to nominal accounts bank statements"
  - b) Stock market investments (58.5X ZWG) – "Agreed to ZSE and VFSE"
  - c) Investment property (3,7X ZWG) – "Agreed to valuation reports"
  - d) Other investments (12.5X ZWG) – "Agreed to broker valuation"

These ambiguous and blanket annotations would imply a 100% verification of these balances, which could not have been practical, feasible, or efficient, given the size of the balances. In addition, such annotation did not constitute sufficient appropriate audit evidence in terms of auditing standards.





### 5.2.4 Recoverability of deferred tax assets

Accounting Standards state that deferred tax assets shall be recognised for unused tax losses only to the extent that it is probable that such losses can be utilised against future taxable profits. Audit teams should robustly evaluate and challenge the appropriateness of management’s forecasts.

Background	Issue
<p><b>Recoverability of deferred tax asset not adequately evidenced:</b> A company recorded a significant deferred tax asset relating primarily to unused tax losses, plus other temporary differences.</p>	<p>The engagement file included a deferred tax computation, which had the following material audit deficiencies:</p> <ol style="list-style-type: none"> <li>There was no documented evidence of consideration of the recoverability of the deferred tax asset, given the company’s long history of losses.</li> <li>The computation on the file did not tie to the signed financial statements e.g. in respect of loss (historical) before tax.</li> <li>There were no audit tick marks or notes accompanying the computation, and no references to the ledger or the financial statements. The source of the numbers and the completeness and accuracy thereof was not evidenced.</li> <li>For such a significant aspect of the audit engagement, this tax computation had no evidence of engagement manager review, engagement partner review or EQR review.</li> </ol>

### 5.2.5 Business combination accounting

Acquisition accounting often involves significant judgement and may be subject to management bias. Auditors should obtain sufficient, appropriate audit evidence to ensure the methodology and assumptions applied by management for acquisition accounting are reasonable.

Background	Issue
<p><b>Weaknesses in testing of accounting for a business combination:</b> A reporting entity had an investment in a joint venture, which was recognised in the annual financial statements using the equity method in terms of IFRS 11.</p>	<p>The engagement file had the following shortcomings in respect of this accounting treatment:</p> <ul style="list-style-type: none"> <li>There was no evidence on file of any audit work performed to assess the appropriateness of classifying the investment as a joint venture.</li> <li>The audit file did not document an evaluation of whether the underlying contractual arrangement met the definition of joint control</li> <li>There was no documented assessment of the key terms of the joint arrangement, or of whether the arrangement resulted in joint control and shared rights over the investment’s net assets.</li> </ul>





## 5.6 Use of experts

Auditors frequently failed to obtain sufficient appropriate audit evidence when management's expert or an auditor's expert was used in valuations, impairment tests, expected credit loss models, or other areas involving significant judgement. Common deficiencies included lack of documentation of the assessment of the expert's competence, capabilities and objectivity, acceptance of summary conclusions instead of full reports, no testing of source data provided to the expert, and insufficient evaluation of the work performed by the expert.

Background	Issue
<p><b>Reliance of expert not documented:</b> Property, plant and equipment for a mining entity was revalued by a valuation expert during the year, and financial statements carried the necessary revaluation adjustments.</p> <p>The engagement team described the elaborate process they had gone through to audit the asset revaluations, indicating that they:</p> <ul style="list-style-type: none"> <li>Assessed valuation methodologies for consistency with industry</li> <li>Assessed the key assumptions used for reasonableness</li> <li>Validated input data, such as mine life projections and production data, and corroborated these through discussions with management and reviewing internal documentation</li> <li>Reviewed supplier quotes, cost trends, and industry indices used by the valuer to support assumptions on asset replacement costs</li> <li>Noted that the expert reviewed and re-assessed the useful lives of the assets that were revalued</li> </ul>	<p>None of the procedures described by the engagement team were actually documented on the engagement file, and neither were copies or excerpts of the expert's valuation report.</p>
<p><b>Considerations for reliance of expert not documented:</b> The audit engagement team used an expert from a separate department of the audit firm to audit the expected credit losses and staging of non-performing loans.</p>	<p>There was no documentation of the ISA considerations relating to the reliance on the work of an expert. This was still required notwithstanding the fact that both the engagement team and the expert are part of the same firm.</p>





**Insufficient audit procedures on asset revaluations:** The management of one entity engaged an external expert to perform the valuation of property and equipment at the year-end. The audit team performed an assessment of the expert’s qualifications, competency, objectivity and independence.

The engagement team did not perform sufficient audit procedures on the property and equipment revaluations. The following were identified shortcomings:

- The engagement team did not corroborate, and challenge key valuation assumptions employed, or test the integrity of the valuation model
- Discussions were not held with the valuation expert on the valuation process
- Key valuation assumptions employed in the valuation process were not challenged
- There was no testing of exchange rates used to convert US\$ numbers from valuation report into ZWG for reporting purposes

**5.7 Journal entry testing**

Journal testing is performed to address the risk of management override of internal controls. Auditors should test the appropriateness of journal entries, including examining the supporting evidence for the items selected.

Background	Issue
<p><b>Weaknesses in journals testing:</b> Auditing standards presume a significant risk of management override of internal controls, with a view to manipulating financial statements.</p> <p>As a response to this risk, the standards require auditors to design and perform audit procedures to test for validity journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>Journal tests are mandated by the auditing standards irrespective of the auditor’s assessment of the risk.</p>	<p>Regarding this presumed significant risk, the inspection revealed weaknesses in the testing of journal entries on a number of engagements reviewed, as follows:</p> <ul style="list-style-type: none"> <li>• Consolidation and other elimination manual entries for final accounts preparation purposes were excluded from journals testing.</li> <li>• Journals testing was omitted altogether on certain engagements, with no documented justification provided.</li> </ul>





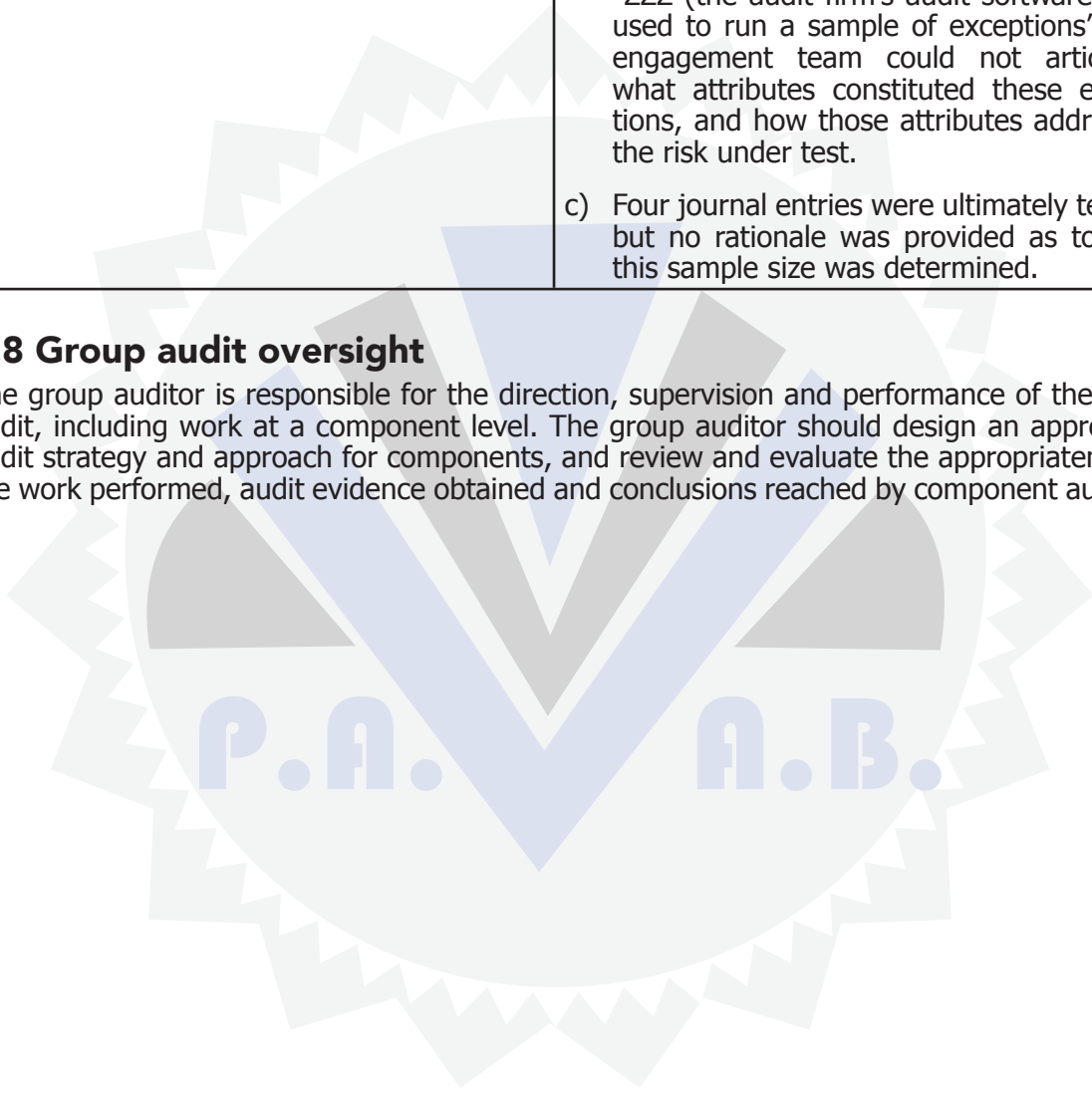
**Inadequate journals testing:** On one engagement, journal entries were tested in response to the significant ISA-presumed risk of financial statement fraud through management override of internal controls. This test took the form of a one-page work paper.

Technically this one-page worksheet fell short of ISA expectations in the following respects:

- a) The audit approach was simply set out as "Obtain journal file from the client and scrutinize every journal". There was no indication as to what should be scrutinized for. In addition, the approach was not practical given the size of entity under audit and its potentially massive journal entry population.
- b) A note on the work paper indicated that "ZZZ (the audit firm's audit software) was used to run a sample of exceptions". The engagement team could not articulate what attributes constituted these exceptions, and how those attributes addressed the risk under test.
- c) Four journal entries were ultimately tested, but no rationale was provided as to how this sample size was determined.

## 5.8 Group audit oversight

The group auditor is responsible for the direction, supervision and performance of the group audit, including work at a component level. The group auditor should design an appropriate audit strategy and approach for components, and review and evaluate the appropriateness of the work performed, audit evidence obtained and conclusions reached by component auditors.





Background	Issue
<p><b>Material weaknesses in group audit oversight:</b> The holding company of a large group was audited by one audit firm as the principal auditor, and its numerous subsidiaries were audited by several different audit firms as the component or other auditors.</p> <p>The considerations of ISA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) therefore applied to this engagement.</p>	<p>The inspection revealed several deficiencies in the administration and audit of the group relative to the requirements of ISA 600:</p> <ul style="list-style-type: none"><li>a) The principal auditors obtained only the comprehensive set of audit returns of one sub-group audited by a component auditor and performed a detailed review.</li><li>b) Although the rest of the subsidiaries were financially material, the principal auditor reviewed and filed only those entities' audit opinions and reports to management. None of the other returns that had been requested by the group auditors per their instructions to the component auditors were on file, e.g. the "Component auditor acceptance" return, the "Initial Questionnaire" return, the "Independence Confirmation" return, the "Related parties" return.</li><li>c) Meetings convened between the group auditors and the component auditors as part of the group auditors' supervision of the component auditors' engagements were not formally documented on the group engagement file.</li><li>d) The group auditors' "summary of opinions and reports to management" indicated that the holding company's sub-group issued "unmodified" opinions but with key audit matters on asset valuations and the change in functional currency during the reporting year. On the contrary, the holding company's audit opinion was qualified with respect to these same matters. There was no documentation on the file reconciling the subsidiary entities' audit opinions to the group audit opinions on these matters.</li><li>e) The "group auditors' "summary of opinions and reports to management" indicated that two subsidiaries' audit reports had an emphasis of matter related to going concern, asset valuations, payables valuations and inventory valuations. These matters, however, did not filter through to the holding company's auditor's report. The justification for this disparity was not documented on the holding company's engagement file.</li></ul>





## 5.9 Assessment of audit errors

Auditing standards require the auditor to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Background	Issue
<p><b>Audit errors and misstatements not assessed appropriately:</b> In assessing errors, these are some of the conditions and rules that the auditing standards apply:</p> <ul style="list-style-type: none"> <li>The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.</li> <li>Projected misstatements are the auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.</li> <li>The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements.</li> </ul>	<p>The recomputation of invoice amounts as part of revenue completeness audit tests on an FMCG engagement with a number of branches across the country revealed a high level of errors on some of the selections and samples, for example:</p> <ol style="list-style-type: none"> <li>Four selections on four different branches reflected variances of 86%, 69%, 85% and 70% between the recorded and the recomputed invoice amounts.</li> <li>The sample of ten USD invoices for one branch had a total of US\$345 equivalent variance on a US\$2 855 worth of invoice amounts – 12% variance</li> </ol> <p>There was no attempt on any of the work papers to assess and explain the errors, or to project them on the overall revenue population. In addition, despite these differences, the work paper conclusions against these tests were invariably "Based on the work done, revenue was recorded in the ledgers at the correct amounts".</p> <p>As a result of these deficiencies, there was a high risk that material misstatements in the overall revenue balance went undetected.</p>
<p><b>Inappropriate assessment of errors:</b> Five audit engagements were reviewed in respect of one audit firm. However, none of the five engagements files included a schedule of audit differences, for both the current year and the previous year.</p> <p>Not only was this situation a statistical anomaly, but against the backdrop of instances where variances in audit selections and audit samples were not correctly assessed as unearthed by the inspection, it also revealed that errors and misstatements on engagements were not being appropriately addressed in line with the requirements of the auditing standards.</p>	<p>This scenario at the audit firm suggested one or more of the following shortcomings in regard to the handling of audit misstatements on audit engagements:</p> <ul style="list-style-type: none"> <li>Audit variances and misstatements were not always assessed, analysed or interpreted correctly or appropriately.</li> <li>Audit variances on audit samples were not appropriately projected over audit populations.</li> <li>Audit variances were simply not being booked on schedules of uncorrected misstatements for overall assessment, correction and reporting to those charged with governance.</li> <li>File reviews and engagement quality reviews were not robust.</li> </ul>





<p><b>Inappropriate assessment of errors:</b> In one motor vehicle dealership’s engagement file, certain revenues reflected a number of numerous material differences between invoice amounts and ledger amounts, with invoice amount higher in some cases than ledger, and vice versa. For all these differences, the blanket explanation given on the work paper was that “the invoices were inclusive of other accessories”.</p>	<p>This blanket explanation could not have been valid for all selections with differences as some of the differences were in fact the result of a higher ledger amount than invoice amount.</p> <p>This situation suggested that the engagement team did not interrogate audit differences robustly, resulting in an unmitigated risk of misstated revenues.</p>
<p><b>Inappropriate assessment of errors:</b> The following were some of the audit conclusions reached by the engagement teams of one firm on two assignments:</p> <ol style="list-style-type: none"> <li>On rental revenue – “Rent received was inaccurately recorded”</li> <li>On property, plant and equipment – “Asset values are accurate except for buildings”</li> <li>On insurance contract receivables – “Impairment was not correctly and accurately recorded”</li> <li>On inventory valuation – Inventory was valued on the WAC basis as per accounting policy, but incorrectly at the cost of the latest supplier invoices</li> </ol>	<p>Notwithstanding these conclusions, the engagement team did not perform further steps to:</p> <ul style="list-style-type: none"> <li>Assess the materiality of the inaccuracy (or departure from stated policy) and quantify the error and its impact</li> <li>Suggest the correcting adjustment</li> <li>Document if and how the matter was eventually resolved</li> <li>Consider the impact on the auditor’s report</li> </ul>
<p><b>Inappropriate audit assessment and treatment of prior year errors:</b> The statement of changes in equity of one company’s financial statements reflected a material movement in the current year reserves. This movement did not have an accompanying financial statement note, and was not supported by any audit work on the engagement file.</p>	<p>Investigations during the inspection revealed that this amount represented land balances omitted in the prior financial year. Consequently, the auditors missed the fact that this movement should have been processed in the books as the correction of prior year errors, and the financial statements should have included the appropriate corrections and disclosures.</p>
<p><b>Assessment of errors not evidenced:</b> The assessment of errors and misstatements for one banking entity was not evidenced or inappropriate.</p>	<ol style="list-style-type: none"> <li>The loan confirmation of one primary school had a material difference from the loan amount in the bank’s books. Whilst the engagement team insisted that the school re-submitted a corrected confirmation that agreed with the bank’s records, this confirmation could not be found on the engagement file.</li> <li>In confirming one selected loan balance, a bank’s customer confirmed for the two loan balances that they had with the bank. Both loan confirmations reflected a material difference that was neither investigated further nor included on the bank’s schedule of audit differences for overall assessment with other errors and misstatements.</li> </ol>





<p><b>Audit errors not accumulated:</b> Auditing standards mandate that the auditor to accumulate misstatements identified during the audit, other than those that are clearly trivial (CT).</p>	<p>On a number of engagements inspected, absolute and projected misstatements higher than CT were not always included on the schedule of audit misstatements for purposes of a) overall error assessment and (b) reporting to those charged with governance.</p>
<p><b>Carry-over effects of prior year uncorrected errors not assessed:</b> In evaluating the effect of uncorrected misstatements, the auditor is required to:</p> <ul style="list-style-type: none"> <li>• Consider the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.</li> <li>• Communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures and on and the financial statements as a whole.</li> </ul>	<p>On the majority of engagement files inspected, there was no evidence on the files of the engagement team’s consideration or assessment made of the carry-over effect of prior year misstatements on the current financial statements.</p>

### 5.10 Going concern

The going concern assumption is a fundamental principle in the preparation of financial statements. Auditors should assess the appropriateness of management’s use of the going concern basis of accounting and whether there are any material uncertainties that should be disclosed to the users of the financial statements and included within their auditor’s report.

Auditors are required to evaluate management’s going concern assessment for a period of at least twelve months from the date the financial statements are authorised for issue and to consider whether material uncertainties exist that require disclosure. Inspectors frequently noted insufficient evidence of challenge to management’s cash flow forecasts, inadequate consideration of post-reporting-date events, and failure to obtain written representations covering the full assessment period.

Background	Issue
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<p><b>Inappropriate going concern assessment and disclosures:</b> A company's current financial position, a massive negative working capital, was created with the same key customers that existed under its previous contracts.</p> <p>The client provided the engagement team with a budget to support its assertions in respect of its completed going concern assessment. However, this budget was not included on the engagement file, and sufficient disclosures in respect of going concern were not included in the financial statements. The engagement team cited an "effort to keep the finer details of the client's business confidential".</p> <p>In respect of this budget, management maintained that the business would be a going concern for the foreseeable future based primarily on the premise that "we renewed our contracts".</p>	<p>Simply renewing a business relationship that, based on the audit evidence, was either unprofitable or cash-negative would not, in and of itself, address the going concern problem, and could on the contrary be argued that it simply locked the company into another period of the same cash-draining performance that created the going concern risk in the first place.</p> <p>Going concern disclosures in the notes to the financial statements were critically weak in that they omitted the information that would prove the renewal was a valid remedy. They failed to state if and how these new contracts were different, including:</p> <ul style="list-style-type: none"> <li>• Significantly higher commission rates</li> <li>• Guaranteed higher transaction volumes</li> <li>• More favourable payment terms, e.g. the company would get its cash faster</li> <li>• Lower direct costs, e.g. the customer would now bear a cost that the company used to incur</li> </ul>
<p><b>Going concern red flags not addressed:</b> A financial institution had substantial going concern red flags:</p> <ol style="list-style-type: none"> <li>a) A material capital shortfall relative to the requirements set by its regulator, the Reserve Bank of Zimbabwe (RBZ)</li> <li>b) A high non-performing loan ratio exceeding the 5% regulatory threshold</li> <li>c) Was experiencing sustained financial losses</li> <li>d) System deficiencies that led to asset pilferage</li> <li>e) Had been placed under corrective order by the RBZ.</li> </ol>	<p>Despite these going concern risk indicators, no material uncertainty related to going concern was disclosed in the financial statements, in contravention of IAS1's requirement to disclose uncertainties that cast significant doubt on an entity's going concern status, even where shareholder support is pledged.</p>
<p><b>Going concern risk not addressed:</b> The risk assessment section of one entity correctly identified going concern as a significant risk, owing to perpetual losses, sub-optimal revenue tariffs and excessive borrowings.</p>	<p>The planned response to the identified going concern risk was stated simply as "the inspection of management's going concern assessment". The engagement team did not perform and document its own independent assessment of the entity's ability to continue in operation as a going concern for the foreseeable future, as required by the auditing standards.</p>
<p><b>Inadequate going concern disclosures:</b> One entity had significant net liabilities and was in breach of its loan covenants, situations that created a material uncertainty about its ability to continue as a going concern, which the entity disclosed.</p>	<p>In particular, the going concern note lacked disclosures such as cash flow analyses, details of any creditor support arrangements, and timelines, leaving users unable to properly assess the entity's ability to continue in operation as going concern.</p>





<p><b>Inadequate approach to testing of going concern:</b> A group was making sustained losses, had high levels of debt, and was battling legal issues regarding ownership of some of its assets. Notwithstanding these and other significant going concern red flags, the audit team's only response to this critical matter was obtaining and filing the assessment performed by management to validate the entity's ability to continue in operation as a going concern.</p>	<p>This was an inappropriate and materially inadequate approach to testing the entity's ability to continue in operation as a going concern, and should have included detailed testing of the following:</p> <ul style="list-style-type: none"> <li>• Assessing and challenging the achievability of the future budgets and forecasts prepared by management.</li> <li>• Interrogation of the reasonableness of the assumptions underlying these budgets or stress-testing thereof.</li> <li>• Critically testing the availability of mechanisms to fund these future plans.</li> </ul>
<p><b>Going concern risk not addressed:</b> An entity in the brick-making industry was in operational distress, facing liquidity challenges, and had accumulated losses.</p>	<p>Notwithstanding these clear going concern red flags, the engagement team did not perform and report on any audit work to assess the entity's ability to continue in operation as a going concern.</p>

### 5.11 Subsequent events review

Auditing standards require the auditor to consider the effect of subsequent events on the financial statements and on the auditor's report.

Background	Issue
<p><b>Weaknesses in subsequent events review:</b> The auditor must document sufficient audit procedures covering the period between the last date of audit fieldwork and the date of the auditor's report, especially where there is a significant time lag between these two dates.</p>	<p>In numerous instances where there was a significant time lag between the completion of audit procedures and the time when the opinion was actually signed off, engagement teams did not perform and document sufficient audit procedures between the two dates, relying solely on the management representation letter to address the gap. This practice was flawed in that:</p> <ol style="list-style-type: none"> <li>a) It failed to meet the ISA 560 requirement to perform procedures "as near as practicable" to the audit report date.</li> <li>b) There was an over-reliance on the management representations, which ISA 580 warns are not sufficient audit evidence.</li> </ol>
<p><b>Weaknesses in subsequent events review:</b> For one insurance broking company, the subsequent events review procedures were performed during late February and early March, while the financial statements were signed off more than two months later on 21 May.</p>	<p>The time gap between completing the audit work and signing the financial statements was too material to ensure the continued effectiveness of the subsequent events review procedures, especially where the engagement file did not include updates to the audit work papers for that period.</p>





<p><b>Planned subsequent events review not performed:</b> On the audit of a large non-profit organisation, the subsequent events audit approach included the following steps:</p> <ul style="list-style-type: none"> <li>• Examining subsequent journal entries, bank statements, and donor receipts.</li> <li>• Inspecting and investigating large subsequent large or unusual transactions.</li> <li>• Inquiring about subsequent legal proceedings, government investigations, or policy changes that could impact the entity.</li> <li>• Reviewing subsequent board minutes, legal correspondence, and contracts.</li> </ul>	<p>None of these planned subsequent events audit steps were actually carried out on the engagement file, presenting the risk that material subsequent events requiring adjustment in the audited financial statements may have been missed.</p>
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## 5.12 Non-compliance with laws and regulations

Auditing standards requires auditors to obtain evidence about compliance with laws that have a direct effect on the financial statements and to perform procedures to identify instances of non-compliance that may have a material effect.

Background	Issue
<p><b>Material non-compliance with laws and regulations:</b> The Securities &amp; Exchange Commission of Zimbabwe (SECZ) "Directive to Securities SMIs on Enhanced Audited Financial Statements Disclosures" of August 2024 set out the following requirements.</p> <p>a) "... SMIs who maintain trust and nominees accounts, shall cause the books of accounts relating to these trust and nominee accounts to be audited at the end of the financial year by a registered public auditor. The audited trust and nominee accounts shall be submitted to the Commission accompanied with the SMI's audited financial statements".</p> <p>b) "All SMIs shall be required to disclose their risk assessment processes, which include identifying and assessing the risks associated with money laundering and terrorist financing specific to their operations. The audit should assess the application of the risk assessment by the SMI."</p> <p>c) "All SMIs shall disseminate and publish their audited financial statements no later than 90 days after the end of the financial year either in a local newspaper or on the respective SMI's website...".</p>	<p>On the audit of one SMI, the auditor and the client failed to comply with these requirements, exposing both the auditor and the client to censure by the regulator, as follows:</p> <p>a) Against the first requirement, material shortcomings we identified in the audit of the client's nominee statement of financial position that was disclosed in the notes to the SMI's financial statements.</p> <p>b) Against the second requirement, the engagement team did not include on the engagement file their assessment of the application of SMI's evaluation of the risks associated with money laundering and terrorist financing specific to the SMI's operations.</p> <p>c) Against the third requirement the SMI's financial statements were signed off some days after the 90-day deadline.</p>





**Non-compliance with companies' regulations:** Some companies' and business entities' statements of financial position were not signed by the directors, contending that

this requirement was satisfied by the directors' approval of the financial statements on the Directors' Responsibility statement.

Section 188 of the Companies and Other Business Entities Act (Chapter 24:31) states that "Every statement of financial position of a company shall be signed on behalf of the board by two of the directors of the company." Therefore, because this is a statutory requirement, any unsigned statements of financial position render financial statements legally defective under Zimbabwean company law.





### 5.13 Audit opinion matters

The ultimate objective of an audit is the formulation of an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained, and to express clearly that opinion through a written report.

Background	Issue
<p><b>Audit report errors and shortcomings:</b> Errors and other shortcomings were identified on auditors’ reports for a number of entities signed annual financial statements.</p>	<p>Errors and shortcomings noted included the following:</p> <ul style="list-style-type: none"> <li>• The introductory paragraph of the auditor’s report for a pension fund omitted to identify the financial reporting framework applicable to the pension fund, i.e. the reporting requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans, and to indicate that the financial were prepared in the manner required by the Pensions and Provident Funds Act (Chapter 24:32) and the Insurance and Pensions Commission Financial Reporting Guidelines of January 2025 and Circular 8 of 2025.</li> <li>• A company’s audit responses to a key audit matter in the audit report in respect of the measurement of treasury bills did not include sufficient detail for the users of the financial statements to appreciate the materiality of the treasury bills and the complexities inherent in their valuation.</li> <li>• The basis of opinion paragraph asserted inadvertently that the auditors were independent of “the Authority” instead of “the Company”.</li> <li>• The auditor’s report for a company incorrectly carried an emphasis of matter paragraph on the adequacy of capital when the company was in fact adequately capitalized. This resulted from a preliminary position that cured following the processing of audit adjustments, which the engagement team omitted to update on the audit report.</li> <li>• One auditor’s report inadvertently identified other information as comprising only of the directors’ report, and omitted to include numerous other information included with the financial statements, such as the corporate governance report, the group CEO’s report, the sustainability report, the chairman’s report.</li> </ul>





## 5.14 Matters related to audit conclusion

Background	Issue
<p><b>Material time lag between dates of management representation letters and audit reports:</b> ISA 580 Management Representations dictates that "The date of the written representations shall be as near as practical to, but not after, the date of the auditor's report..."</p>	<p>On numerous engagements, management representation letters inspected predated the financial statement sign-off date by weeks and sometimes months. In an extreme case, a 31 December 2024 year-end management representation letter was signed by management on 27 January 2025 while financial statements were only signed more than five months later on 8 July 2025.</p> <p>In all these cases, the engagement files did not document reasons for the significant time lag between the two dates, or audit procedures performed to address the intervening period and to confirm validity of the earlier-dated management representations.</p>
<p><b>Insufficient information in qualified entities' management representation letters:</b> For certain engagement files with qualified or adverse audit opinions, engagement teams accepted "clean" management representation letters that made no reference to the specific matters leading to the audit report modification.</p>	<p>While this is not a strict breach of auditing standards, it is a high-risk practice that did go against best practice.</p>
<p><b>Material time lag between auditors and management's financial statement sign-off:</b> The auditor's sign-off, which marks the completion of the audit, must be on or after the date that the financial statements were signed by the directors.</p>	<p>In some extreme cases, there was a lag of up to a month between the date of approval of the financial statements by the directors and the auditor's report sign-off date.</p>





## 5.15 Financial statement disclosures and reporting

### 5.15.1 IFRS and related disclosures

Background	Issue
<p><b>Incorrect disclosure of monetary gain/loss:</b> IAS 29 Financial Reporting in Hyper-inflationary Economies requires the gain or loss on the net monetary position to be included in profit or loss. Whilst the standard does not prescribe its exact line-item placement within the statement of profit or loss and other comprehensive income, this gain or loss is typically treated as an integral part of operating or other income or expenses, often before profit before tax.</p>	<p>Some entities reporting in the hyper-inflationary Zimbabwean currency included the monetary gain or loss after profit or loss before tax and income tax expense.</p> <p>This presentation, reflecting a net profit or loss before monetary gain is unconventional and posits that the monetary gain or loss is an item of other comprehensive income (OCI) or an extraordinary item, which is not the case.</p>
<p><b>Boilerplate accounting policies:</b> Accounting policies disclosed in the financial statements of a subsidiary company were found to be boilerplate and lacked entity-specific detail, limiting their usefulness to users.</p>	<p>Although accounting policies and disclosure guidance originated from the holding company, tailoring for entity-specific aspects was still essential for clarity and relevance.</p>
<p><b>Material balances not analysed:</b> For one entity, the two largest income statement items comprised revenue and cost of sales.</p>	<p>Revenue and cost of sales were presented with no note disclosure providing their breakdown and related information on them.</p>
<p><b>No accounting policy for material financial statement balance:</b> Include as part of the larger inventory balances for a hospitality industry operator in its financial statements were service inventories.</p>	<p>The accounting policy for inventory did not include the accounting policy applied to these service inventory, despite their significance at year-end.</p>
<p><b>Accounting policy deficiencies:</b> Some entities' financial statements reflected inadequate accounting policies and detailed notes, or missed some of them completely.</p>	<ul style="list-style-type: none"> <li>a) The revenue recognition accounting policy was omitted outright for a certain medical aid fund. Subscriptions, the primary source of revenue for the fund, did not have a supporting accounting policy note detailing how and when the revenue was recognised.</li> <li>b) Some entities that had related party transactions and balances disclosed these related party positions. However, they omitted other critical information required by IFRS for full transparency.</li> <li>c) Certain entities whose financial statements presented inflation-adjusted financial numbers in terms of IAS 29 omitted the hyperinflation accounting policy and requisite note disclosures.</li> <li>d) The statement of financial position of an academic institution disclosed a right-of-use asset and a lease liability and an accompanying detailed breakdown in the notes. However, the corresponding accounting policy in respect of the recognition and measurement principles applicable to these assets and liabilities, as well as the depreciation policy for applied to the right-of-use assets, were omitted from the financial statements.</li> </ul>





<p><b>Financial statement movements not correctly described:</b> Financial statement (SOPL, SOFP, SOCE, SCF) movements were sometimes described contrary to the actual direction of financial movements.</p>	<p>Preparers of financial statements should ensure that descriptions in regard to losses or gains, amounts due to or from, increases or decreases in balances follow the actual direction of movement in the balances to enhance the quality of FS.</p>
<p><b>Inconsistencies in financial statements:</b> Accounting policy notes were not always consistent with information disclosed in other aspects of the financial statements.</p>	<p>a) One accounting policy note stated that property, plant and equipment was measured at cost. On the contrary, the statement of financial position reflected a significant revaluation reserve, and the accompanying PPE notes included details of revaluation movements.</p> <p>b) A receivables impairment accounting policy was inconsistent with the actual application and described an incurred loss model, which is from the old IAS 39 standard, while the detailed note correctly described and applied the IFRS 9 expected credit loss (ECL) model.</p>
<p><b>Material financial statement items not annotated:</b> The statement of changes in equity for one company included the transfer of a material balance from a non-distributable reserve (NDR) to retained earnings, a distributable reserve. The company then made a dividend commitment to the shareholders on the back of this transfer.</p>	<p>There was no documentation on the engagement file or in the financial statement disclosures explaining the origin of the NDR and the change in its circumstances that justified the transfer to distributable retained earnings.</p>
<p><b>Accounting policy not appropriately explained:</b> Returnable containers for one beverages entity were accounted for as property plant and equipment (PPE), and had special accounting policies applicable to them.</p> <p>The engagement team once challenged management on the treatment of returnable containers as PPE as opposed to inventory, and management justified their treatment.</p>	<p>The accounting policy for returnable containers was not fully or clearly explained in the notes to the company's financial statements, and additionally the terms depreciation and amortisation were used interchangeably. The engagement team did not also consider further improvements the accounting policies of this component of PPE given its complexity, including estimations and revenue recognition decisions involved.</p>
<p><b>Missing asset impairment disclosures:</b> IAS 36 Impairment of Assets requires an entity to disclose the events and circumstances that led to the impairment of assets, and the basis for determining the asset's recoverable amount, i.e. whether based on fair value less costs to sell, or on value in use.</p>	<p>An entity incurred a material impairment, which was recognised in administrative expenses. However, no supporting disclosures were provided, which left the material expense unexplained and is not in line with IAS 36 disclosure requirements – including the events and circumstances giving rise to the impairment, the basis of measurement, and the assumptions used in determining recoverable amount.</p>





<p><b>Missing prior year error disclosures:</b> A group holding company's statement of financial position carried three financial years' statements of financial position, suggestive of a prior year adjustment.</p>	<p>On enquiry, the principal auditor of a group engagement confirmed that a prior year adjustment had indeed been processed, as a result of the late adoption of IFRS17 by the holding company's insurance subsidiary, which was audited by a component auditor.</p> <p>What also became apparent at this point was that the financial statements were missing the necessary financial statement notes and disclosures in respect of the prior year adjustment. In addition, the statement of financial position did not indicate that the prior year balances were restated.</p>
<p><b>Inadequate related party disclosures:</b> An entity had material related party balances and transactions, which placed an onus on it to account for and disclose those balances and transactions in compliance with IAS 24.</p>	<p>The related party disclosures in the entity's financial statements were inadequate, as they did not explain the nature of the related party relationships or how those relationships arose, such as through common ownership, common control, or key management influence.</p> <p>Such level of disclosures is necessary to enable users to appreciate the completeness and accuracy of related party disclosures, and the possible effects of related party relationships on the financial statements.</p>
<p><b>Deficient accounting policy and note disclosures:</b> A company that owned material leasehold property balances contained a two-sentence accounting policy note in respect of its right-of-use assets and lease liabilities.</p>	<p>This accounting policy note was very light on detail and did not include relevant details on how these assets and liabilities were initially established and subsequently measured, as mandated by financial reporting standards.</p> <p>In addition, the right-of-use assets and lease liability balances did not have accompanying financial statement note disclosures addressing the movements from prior year.</p>
<p><b>Material cash flow statement errors:</b> Financial reporting standards require a statement of cash flows (SCF) to present information about changes in a reporting entity's cash and cash equivalents, classified as operating, investing and financing activities.</p>	<p>For one group holding company inspected, the statement of cash flows contained such blatant and material that the auditor resolved to withdraw the signed financial statements and reissue them. Examples of these errors included the following:</p> <ul style="list-style-type: none"> <li>• Profit before tax did not agree with the statement of profit or loss.</li> <li>• Exchange gains written back differed from the statement of profit or loss.</li> <li>• Working capital balance movements did not match those per the statement of financial position.</li> <li>• Tax paid balances were incorrect.</li> <li>• Non-cash adjustments in respect of changes in insurance and reinsurance contract assets and liabilities of the insurance subsidiary were omitted from the consolidated SCF altogether.</li> <li>• Other cash movements could not be tied to the financial statements or the accompanying notes.</li> </ul>





<p><b>Inadequacies in borrowing cost disclosures:</b> For entities that have a policy of capitalising borrowing costs, IAS 23 Borrowing Costs in paragraph 26 explicitly requires an entity to disclose two key pieces of information:</p> <ul style="list-style-type: none"> <li>• The amount of borrowing costs capitalised during the period.</li> <li>• The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.</li> </ul>	<p>One entity that had a policy of capitalising borrowing costs and outlined its accounting policy in this regard, failed to provide these specific quantitative disclosures required by IAS 23.</p> <p>The financial statement notes, including the interest income and expense note and the property, plant and equipment note did not include these metrics. The interest expense note showed the total interest incurred, but did not indicate any portion being capitalised.</p>
<p><b>Financial statement disclosure deficiencies:</b> Financial statement disclosures should constantly be reviewed for accuracy, currency, and continued relevance.</p>	<ol style="list-style-type: none"> <li>1) For one seed producing entity, the nature of business was disclosed in the financial statements as that of “producing, through contract growers, seed cotton that is processed into cotton planting seed which is sold to farmers directly or through ginners.” However, this was the original business model for the entity at its inception. The model had then mutated into that of currently processing externally sourced seed cotton into cotton planting seed, which is sold primarily to the Government, which then oversees the distribution of the seed to individual farmers. This change in focus potentially impacts revenue recognition and other accounting policies, which would also need to be modified.</li> <li>2) The financial statements of a medical aid fund contained an outdated accounting policy in respect of financial instruments, which described classification categories such as “held to maturity assets” and “available-for-sale assets”. In addition, the policy note did not include ECL considerations, and the detailed notes did not include quantitative ECL disclosures.</li> <li>3) The revenue policy for an academic institution used outdated criteria from the old IAS 18, stating that revenue was recognised when “it is probable that the economic benefits will flow to the entity”. This was inconsistent with the detailed accompanying notes, which correctly referenced the new IFRS 15.</li> <li>4) The accounting policy for financial instruments for a financial institution was outdated and referred to categories like “equity instruments measured at cost less impairments,” which have since been superseded by the classification requirements of IFRS 9.</li> <li>5) The accounting policy of a financial institution incorrectly stated that “ordinary shares are classified as reserves”, when ordinary shares are in fact one component of equity (share capital), while reserves are a separate component within equity.</li> <li>6) The accounting policy note to the financial statements of an entity that was in the business is providing an electronic payment platform generating commissions revenue of over 99% of its current year revenue indicated that “revenue is recognised when the goods have been delivered to the customer”, which was incorrect and in non-compliance with IFRS 15.</li> </ol>





## 5.2.6 Sustainability and related disclosures

Background	Issue
<p><b>Deficiencies in sustainability disclosures:</b> Greenhouse Gas (GHG) emissions – The other information accompanying the financial statements of one banking entity focused on the impact from the bank’s own operations only without also considering the impact from the operations of those projects funded by the bank. The information was provided to comply with the minimum reporting requirements of the Reserve Bank of Zimbabwe (RBZ) in this regard.</p>	<p>Double materiality under sustainability reporting requires lending practices to divest from fossil fuel lending. Although the standard is not yet effective, any information disclosed in respect of its provisions must still comply with the requirements of the standard, considering the fact that RBZ is not the only user of these general-purpose financial statements.</p>
<p><b>Deficiencies in sustainability disclosures:</b> An entity that operates in the agriculture sector is prone to climate change related risks. In this regard, IFRS S2 Climate-Related Disclosures became effective on 1 January 2024. This standard requires such an entity to disclose information about its climate-related risks and opportunities that is useful to users of the general-purpose financial reports in making decisions related to providing resources to the company.</p>	<p>One entity subjected to inspection was in the business of processing externally sourced seed cotton into cotton planting seed, which was then sold to the Government.</p> <p>Considering that this entity was a purchaser of agricultural produce, which is prone to climate change risks from the supplier’s side that could affect its supply chain, it follows that its own operations are subject to climate related risks. However, the entity did not make the necessary financial statement disclosures of information about its climate-related risks and opportunities in line with the sustainability standard.</p>

## 5.2.7 Other disclosure related matters

Background	Issue
<p><b>Deficiencies in other disclosures:</b> The audit opinion generally indicates that the audit opinion does not cover the “other information” accompanying the financial statements. Such other information can include the following:</p> <ul style="list-style-type: none"> <li>• Entity profiles</li> <li>• Chairman’s/ CEO’s/ CFO’s statements</li> <li>• Sustainability reports</li> <li>• Corporate governance reports</li> <li>• Reports of the directors</li> <li>• Shareholder analyses</li> </ul>	<p>Notwithstanding this qualification, there is still a requirement that the auditors review or perform procedures to satisfy themselves that the other information is not inconsistent with or contradicts the financial statements or the financial reporting framework adopted.</p> <p>A number of financial statements reviewed revealed that this was not always the case. Financial and non-financial disclosures in some of this other information was at variance with the information and disclosures contained in the financial statements. In certain instances, the other information incorrectly identified the role of the auditor as that of reviewing the financial statements, instead of auditing them.</p>





**Improvements to disclosures:** While the financial statements were not necessarily in non-compliance with IFRS in respect of certain disclosures, there were other disclosure improvements that could enhance the user's appreciation of the financial performance and position in certain entities.

The following financial disclosure enhancements are suggested:

- Certain low value non-disclosable items of income or expense were sometimes amalgamated into one combined other income or other expenses balance that became material. Preparers of financial statements should be encouraged to undertake a more granular disaggregation of these or, where feasible, group them into meaningful categories to improve transparency and support better cost analysis.
- Where revenue comprises local and export sales, users may benefit from a breakdown into these two components for decision-making purposes, given that export markets can be difficult and expensive to service.
- Whilst related party transactions were appropriately indicated as being "in the normal course of business", an explicit statement indicating that these are also "at arm's length" should have been added.





## 5.2.8 General disclosure matters:

A number of other financial statement disclosure deficiencies and errors were identified in the financial statements inspected. The following provides a list of notable such matters:

- Cost of sales for one medical services entity did not include the component of the labour attributable to technicians and other individuals that are directly involved with the laboratory tests, which was the principal business of the entity.
- A note discussing prior year errors was incorrectly disclosed as part of the accounting policies instead of notes to the financial statements.
- The financial statement notes for one entity offered a brief, qualitative overview of the entity's exposure to currency risk, interest rate risk, market risk, credit risk, and liquidity risk, but lacked the quantitative disclosures mandated by IFRS 7.
- The revenue accounting policy note ignored IFRS 15's five-step model for revenue recognition whilst while the accompanying detailed note's fee listing lacked details regarding its performance obligations in contracts with customers that are required by IFRS 15.
- On one entity's financial statements, the "exchange gain/loss" was shown below profit before tax in the statement of comprehensive income, a situation that the auditor ascribed to "client preference", without giving regard to its technical correctness in terms of IFRS.
- A note to the trade and other payables included a payable to shareholders for dividends, which is a related party balance. Whilst the note indicated that the payment terms ranged from 7 to 30 days, a conflicting note in the same financial statements on related parties stated that amounts with related parties had no fixed repayment terms.
- A company revalued motor vehicles (level 2 fair value) and other assets (level 3 fair value), but omitted to provide the disclosures required in terms of by IFRS 13.
- Notes in respect of revalued property and equipment and investment property in one set of financial statements classified these as level 1 fair value measurements when they should have been level 3 in terms of the valuation methodology employed.
- Some financial statements were missing key management personnel and directors' compensation disclosures as required under IAS 24.
- In addition to being involved in the medical line of business, one company also had material operations in farming. However, the description of the nature of the business in the financial statements did not include these farming operations.
- For one entity, the income tax reconciliation included a material amount that was four times the value of materiality, which was annotated simply as "other" with no analysis or explanation as to its nature.
- Some lessees' financial statements carried the old lease type terminology finance lease liability instead of lease liability.
- The nature of business section of the financial statements inadvertently referred to the financial statements of a subsidiary entity as "consolidated".
- The financial statements of some insurance sector entities omitted to include the mandatory IFRS 17 sensitivity analyses for insurance risk.
- The financial risk management section of the notes to some of the financial statements omitted to provide minimal quantitative sensitivity analyses, e.g. stress testing for  $\pm 10\%$  currency fluctuations or interest rate changes.
- Some incomplete lease disclosures were noted, including missing qualitative information and incorrectly combining the lease accounting policy with property, plant, and equipment.
- Notes to the financial statements sometimes did not correctly cross-reference each other.





- The table of contents in the financial statements of one review engagement incorrectly referred to independent auditor's report instead of independent practitioner's report.
- Other information accompanying the financial statements was not always dated.
- Financial statements sign-off date stated simply as "April 2025" with no specific date.
- Where required, the directors' signatures and dates of signature were sometimes missing in the financial statements.
- There was sometimes contradictory disclosure of functional currency in the same set of financial statements as US\$ and as ZWL.
- The audit reports of some financial statements prepared in accordance with IAS 29 omitted to indicate that these financial statements were inflation-adjusted.
- Statements of cash flows were not always accompanied by supporting notes.
- Directors' fees were in certain instances incorrectly included under employee costs.
- Numerous instances were noted where the tax rate reconciliation was incorrect, incomplete, or did not balance.
- The revaluation reserve was in one instance reflected gross in the statement of financial position, instead of net of deferred tax.
- The notes to the financial statements of some entities that reported inflation-adjusted financial statements for a December 2024 financial year omitted to include CPI indices for April 2024 when currency changed from ZWL to ZWG, while others quoted incorrect indices at the date of change.
- One income tax note reflected the previous corporate tax rate of 24.72% instead of the revised 25.75%.
- Numerous incorrect page or note references were identified in some financial statements.
- Some entities were incorrectly identified, e.g. company instead of pension fund.
- The currency of reporting not consistently indicated in the financial statement notes.
- IFRS were sometimes indicated as IAS, and vice versa.
- Some financial statements contained a number of typographical, spelling and casting errors.





## 6. Message To The Profession - The Path Forward

### 6.1 The Standard of Professionalism

The Phase 1 inspections have revealed a concerning gap between global standards and local execution.

While the Zimbabwean economic environment is undoubtedly complex, complexity is not an excuse for a lack of rigour.

On the contrary, it demands a higher level of professional scepticism and a more robust application of International Standards than in stable markets.

### 6.2 Beyond Basic Presentation

Basic errors in published financial statements and audit reports—such as inconsistent currency notation, missing indices for hyperinflation, or simple spelling mistakes—are the “visible symptoms” of a deeper systemic problem.

They suggest a breakdown in the **Engagement Quality Review (EQR)** process and a lack of final oversight.

Effective immediately, the PAAB will no longer treat widespread presentation errors as “Medium” or “Low” risk findings.

From the 2026–2027 cycle onwards, these will be treated as evidence of a failing System of Quality Management (SOQM) and will result in a **High or Very High-risk rating**.

### 6.3 A Call for “Deep Quality”

However, professional pride goes beyond the surface. This report has detailed material failures in:

- ❑ **The Valuation of Assets:** Auditors must stop acting as “recorders” of management’s numbers and start acting as “challengers” of their assumptions, particularly regarding multi-currency valuations.
- ❑ **The Verification of Revenue:** As the primary driver of financial performance, revenue cannot be audited through a “single screenshot.” It requires deep, data-driven verification.
- ❑ **The Linkage of SOQM:** Quality is not a manual on a shelf; it is the daily discipline of ensuring that every partner, on every file, follows the same standard of evidence.

### 6.4 PAAB’s Commitment to Remediation

To support the profession, PAAB will:

- ❑ Issue targeted guidance/templates (e.g., IAS 29 checklists).
- ❑ Conduct thematic webinars on weak areas (e.g., monitoring/remediation).
- ❑ Prioritize follow-up inspections in 2026 for high-risk firms.
- ❑ Collaborate with ICAZ for CPD on Zimbabwe-specific risks.

These actions will be tracked and reported in future cycles.

### 6.5 Conclusion

By embracing these changes, the profession safeguards Zimbabwe’s economic integrity.

PAAB expects visible progress by the 2026-2027 cycle, with Phase 2 inspections starting in March 2026.

**Harare, December 2025**

**Public Accountants and Auditors Board**



# 7. Appendices

## 7.1 Appendix A – Detailed Anonymised Findings and Good Practice

Component	Prevalence (out of 20 firms)	Detailed Finding (aggregated & anonymised)	Why it matters & recommended action / Good practice observed
7.1.1 Governance and Leadership (ISQM 1 Component A)	17 firms	No evidence that SOQM matters are a standing agenda item at partner/management meetings. <b>Tone at the top</b> is mentioned in policy documents but is not observable in minutes, training sessions, or leadership communications. In several firms the Managing Partner had never presented the annual SOQM evaluation to staff.	Leadership behaviour drives culture. Firms must minute SOQM discussions at least quarterly and require the Managing Partner to present the annual SOQM evaluation (ISQM 1 para. 53–54) to all professional staff by (a defined date).
7.1.2 Documentation of the SOQM itself (ISQM 1 paras 31 & A56–A62)	18 firms	Firms continue to <b>rely exclusively on global network tools</b> (Canvas, Mercury, CaseWare SOQM, etc.) without producing a single, readable, consolidated Zimbabwe-specific SOQM manual that integrates quality objectives, risks, responses, and local considerations (hyperinflation, multi-currency, PAAB/ICAZ requirements). Several firms stated “our SOQM is fully documented within CaseWare” but the tool is not comprehensive or locally tailored.	Produce a concise (30–60 page) local SOQM manual, signed off by the Managing Partner and circulated to all staff, by (a defined date).
7.1.3 The Firm’s Risk Assessment Process (ISQM 1 Component B)	16 firms	Global template copied with little or <b>no local adaptation</b> . Presumed fraud risks (revenue recognition and management override) not automatically elevated; hyperinflation (IAS 29), functional currency, going concern in liquidity-constrained environment, and related-party risks rarely identified as quality risks affecting the SOQM.	See full deep-dive in Appendix 3. Good practice: One firm maintains a mandatory “Zimbabwe Quality Risk Register” updated annually and automatically pushed into every audit file.
7.1.4 Relevant Ethical Requirements – Independence (ISQM 1 Component C)	15 firms	<b>Annual independence declarations</b> either not obtained, obtained late, or signed after the audit report date, largely due to system migrations. In four firms the declarations were only partially completed at the date of inspection. Several firms had no process for ongoing (mid-year) monitoring of new threats.	Leading practice: 3 firms now use fully automated cloud systems (hard-stop workflow) – no engagement can proceed or be signed until 100 % independence confirmation and conflict checks are recorded.





Component	Prevalence (out of 20 firms)	Detailed Finding (aggregated & anonymised)	Why it matters & recommended action / Good practice observed
7.1.5 Acceptance and Continuance of client relationships and specific engagements (ISQM 1 Component D)	13 firms	<p><b>Acceptance/continuance</b> forms either not completed, completed after work had commenced, or signed by only one partner due to new software teething problems. In several cases high-risk indicators (long-overdue fees, going-concern doubts) were not escalated.</p>	Implement mandatory hard-stop in workflow tools and require dual sign-off for high-risk clients by (a defined date).
7.1.6 Engagement Performance (ISQM 1 Component E) – including Engagement Quality Reviews (ISQM 2)	18 firms	<p><b>Inadequate final review</b> processes leading to widespread basic presentation errors in published financial statements and audit reports (spelling, inconsistent currency notation, duplicate text, incorrect standard references, wrong page numbers).</p> <p><b>EQR documentation</b> perfunctory or absent – often only a tick-box or one-line conclusion with no evidence of significant judgements challenged.</p> <p>Audit files not assembled and <b>locked within 60 days;</b> post-signing changes common and undocumented.</p>	<p>See full deep-dive in Appendix 4. Good practice:</p> <p>One firm uses a structured EQR memorandum requiring documentation of appointment rationale, areas reviewed, significant matters discussed, and conclusions on each significant risk – now regarded as national benchmark.</p>
7.1.7 Resources – Human Resources (ISQM 1 Component F)	12 firms	<p>Staff appraisal and promotion files contain little or no evidence of quality-related <b>performance evaluation</b>.</p> <p>CPD records for EQRs and technical staff are <b>generic</b> and not tailored to Zimbabwe-specific high-risk areas (IAS 29, forex, related parties, liquidity assessments).</p>	Introduce quality-weighting in all appraisals (minimum 30 % of score) and mandatory annual Zimbabwe-specific CPD for all engagement leaders and EQRs from (a defined date).
7.1.8 Information and Communication (ISQM 1 Component H)	11 firms	<p><b>Internal communication</b> of technical updates and policy changes is ad-hoc (WhatsApp, verbal).</p> <p>No central repository or acknowledgement process for <b>critical updates</b> (e.g., new Statutory Instruments affecting accounting).</p>	Establish a single, searchable technical library and require read-and-acknowledge for all significant updates by (a defined date).





Component	Prevalence (out of 20 firms)	Detailed Finding (aggregated & anonymised)	Why it matters & recommended action / Good practice observed
7.1.9 Monitoring and Remediation (ISQM 1 Component G) – the single weakest area profession-wide	18 firms	<p>No <b>cyclical internal inspections</b> performed since ISQM 1 effective date; nonconformity logs and preventive action processes either non-existent or planned for “2026”.</p> <p><b>Annual SOQM evaluation</b> is either not performed or a one-page declaration with no evidence.</p> <p>No flow through of issues identified during the audit engagement that require <b>ISQM 1 updates</b>.</p>	<p>See full deep-dive in Appendix 2. Good practice:</p> <p>One firm performs internal inspections on 20 % of listed/PIE files annually on a three-year rotating basis and maintains a live “Quality Action Tracker” visible to all partners.</p> <p>Another firm requires root-cause analysis within 30 days of every negative finding, with remedial actions tracked to closure.</p>

## 7.2 Appendix B: Deep Dive into Monitoring and Remediation (ISQM 1 Component G)

The most pervasive and serious weakness in the 2025–2026 cycle.

**Prevalence:** 18 out of 20 firms inspected (90%) were rated High or Very High risk solely or primarily because of deficiencies in this component.

Prevalence	Detailed Finding (anonymised examples)	Why it matters in the Zimbabwean context	Recommended remedial action (with timelines)
18 firms	<b>No cyclical internal (in-firm) inspections</b> have yet been performed since the mandatory effective date of ISQM 1 (15 December 2022). Several firms stated, “internal inspections are planned for Q4 2025 / 2026”.	This creates a 3–4 year vacuum in which systemic deficiencies can go undetected. In a high-inflation, high-fraud-risk environment, unmonitored audit teams rapidly drift from acceptable practice.	Complete the first full cycle of internal inspections covering at least 15–20% of risk-weighted engagements by (a defined date). Publish results to all partners.
16 firms	No central <b>nonconformity / deficiency log</b> exists. Individual findings from PAAB inspections, client complaints, or hot reviews are not captured, tracked, or evaluated for root cause.	Without aggregation, firms cannot identify recurring themes (e.g., repeated IAS 29 errors, related-party omissions, bank confirmation failures) and therefore cannot design preventive responses.	Implement a cloud-based Quality Action Tracker by (a defined date). Every negative finding (internal or external) must be logged within 5 working days with mandatory root-cause analysis within 30 days.





Prevalence	Detailed Finding (anonymised examples)	Why it matters in the Zimbabwean context	Recommended remedial action (with timelines)
15 firms	<b>Remedial actions</b> , when identified, are not assigned owners, deadlines, or monitored to closure. In several cases the same finding (e.g., bank confirmations not sought) recurred on multiple files over more than one period with no evidence of remediation.	ISQM 1 para. 48 requires remediation to be timely and effective. Recurring findings are the clearest evidence that the SOQM is not operating effectively.	Assign every remedial action to a named partner with a due date. The Quality Leader must report status monthly to the Managing Partner until 100% closed.
14 firms	The <b>annual evaluation</b> of the SOQM (required by ISQM 1 para. 53–54) has either not been performed or is limited to a one-page declaration stating “the system is operating effectively” with no supporting evidence or consideration of inspection findings.	In the absence of a proper evaluation, leadership cannot conclude that the SOQM remains appropriate and cannot demonstrate accountability to the PAAB.	Perform and document the first full annual SOQM evaluation (using the ISQM 1 Appendix template) by (a defined date) – viz. 31 December 2025 and repeat every 12 months thereafter.
13 firms	Cold-file reviews or post-issuance monitoring ( <b>inspection of completed files</b> by an independent partner) are either not performed or performed only on listed entities.	Hot reviews alone are insufficient in small teams where everyone knows each other. Cold reviews are proven to identify 30–50% more significant issues.	Mandate cold-file reviews on all public-interest entities and at least 10% of other audits annually.
12 firms	Monitoring of engagement-level <b>findings is entirely reactive</b> (only when the PAAB points them out). There is no proactive, thematic review (e.g., “Are we consistently applying IAS 29 correctly across the firm?”).	Zimbabwe’s economic volatility creates new risks every year (currency changes, price controls, statutory instruments). Reactive monitoring cannot keep pace.	Introduce annual thematic reviews (e.g., IAS 29, going concern, related parties, fraud procedures) starting January 2026.  Results to feed directly into training and methodology updates.

**Good Practice Examples – Monitoring and Remediation (observed in the remaining firms and worthy of immediate adoption nationwide)**

Firm type	Description	Benefit observed
Leading mid-tier firm	Maintains a live, cloud-based “Quality Action Tracker” visible to every partner. Every PAAB finding, internal finding, or client complaint is logged the same day, root-cause analysed within 14 days, remedial action assigned with deadline, and status traffic-lighted. Zero open items older than 90 days.	Recurring findings reduced from 45% to <5% in two years.
Large firm affiliate	Performs internal inspections twice a year on a risk-weighted sample (all listed + high-risk sectors). Uses external retired partners as inspectors to guarantee independence. Findings presented at a compulsory annual Quality Day attended by all professional staff.	Consistently achieves Low risk rating and uses the data to update methodology before the PAAB arrives.





Firm type	Description	Benefit observed
Smaller firm	Introduced mandatory “cold-file reviews” performed by a partner from a different office or unconnected to the engagement. Reviewer is paid a fixed fee (not contingent on the clearance of the file) and reports directly to the Managing Partner. Identified 42% more significant findings than traditional hot reviews.	Now regarded as national benchmark for smaller practices.
Another mid-tier firm	Requires root-cause analysis using the “5 Whys” template for every Grade 3 or Grade 4 engagement-level finding. Results are aggregated quarterly and drive the firm’s CPD plan and methodology changes.	Training became targeted and effective; staff report feeling supported rather than punished.
Innovative small firm	Uses simple Power Business Intelligence dashboards showing (a) % of files inspected, (b) % with findings, (c) recurring themes, (d) days open for remedial actions. Dashboard is the first slide at every partner meeting.	Partners describe it as “impossible to ignore quality any more”.

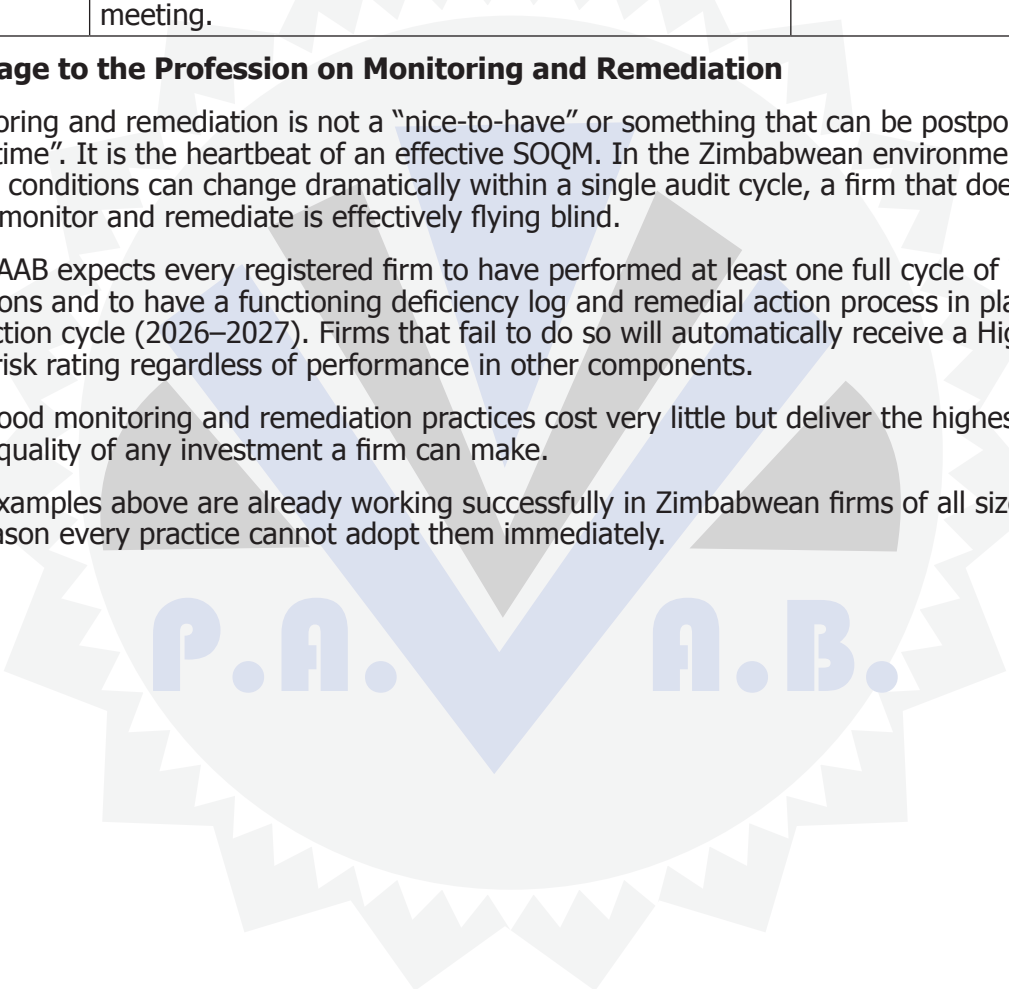
### Message to the Profession on Monitoring and Remediation

Monitoring and remediation is not a “nice-to-have” or something that can be postponed until “we have time”. It is the heartbeat of an effective SOQM. In the Zimbabwean environment, where economic conditions can change dramatically within a single audit cycle, a firm that does not continuously monitor and remediate is effectively flying blind.

The PAAB expects every registered firm to have performed at least one full cycle of internal inspections and to have a functioning deficiency log and remedial action process in place by the next inspection cycle (2026–2027). Firms that fail to do so will automatically receive a High or Very High-risk rating regardless of performance in other components.

The good monitoring and remediation practices cost very little but deliver the highest return on audit quality of any investment a firm can make.

The examples above are already working successfully in Zimbabwean firms of all sizes — there is no reason every practice cannot adopt them immediately.





### 7.3 Appendix C: Deep Dive - “The Firm’s Risk Assessment Process” (ISQM 1 Component B)

The second most pervasive and serious weakness in the 2025–2026 cycle.

**Prevalence:** 16 out of 20 firms inspected (80%) had material deficiencies in this component, with several firms rated High or Very High risk primarily because the firm’s risk assessment process failed to identify obvious quality risks that are unique or acute in the Zimbabwean environment.

Prevalence	Detailed Finding (anonymised examples from inspections)	Why it matters in the Zimbabwean context	Recommended remedial action (with timelines)
16 firms	The firm’s documented risk assessment process consists only of copying the <b>global network template</b> with no local additions.  No Zimbabwe-specific quality risks are identified.	Zimbabwe is not a “normal” economy. Hyperinflation (IAS 29), multi-currency reporting, rapid statutory instrument changes, acute liquidity constraints, related-party abuse, and high fraud risk create quality risks that simply do not exist in stable jurisdictions. Failing to identify them means the firm has no responses and no monitoring.	By (a defined date) every firm must produce and approve a one-page “Zimbabwe Quality Risk Addendum” listing at least 8–12 local quality risks with explicit responses. This document must be signed off annually by the Assurance Technical Partner.
15 firms	Presumed significant risks under ISA 240 ( <b>fraud</b> in revenue recognition) and ISA 240.29 ( <b>management override</b> of controls) are not automatically treated as <b>quality risks</b> affecting the SOQM, nor are they mandated as significant risks on every audit.	These are presumed risks in every jurisdiction, but in Zimbabwe they are realised far more frequently. Not elevating them at firm level leads to inconsistent scoping and repeated findings on revenue cut-off, fictitious sales, and journal entries.	Embed in methodology (hard coded in audit software where possible) that <b>both</b> presumed fraud risks are <b>automatically</b> significant risks on every engagement unless a documented justification for rebuttal exists (rebuttal expected in <2% of cases). Complete by (a defined date).





14 firms	<b>Hyperinflation / IAS 29</b> application errors are not identified as a <b>quality risk</b> despite recurring PAAB findings over the last five years.	Zimbabwe has been in continuous hyperinflation since 2019. Restatement errors are the single largest source of mis-stated financial statements. Firms that do not treat IAS 29 as a standing quality risk have no mandatory training, checklists, or consultation triggers.	Add "Incorrect application of IAS 29" as a standing quality risk with mandatory responses: (a) annual IAS 29 CPD for all audit staff, (b) mandatory use of the PAAB/ICAZ IAS 29 checklist, (c) compulsory consultation with Technical Partner on every hyperinflationary engagement. Implement by (a defined date).
13 firms	Multi-currency / functional <b>currency determination</b> and foreign exchange differences are not listed as quality risks.	Most Zimbabwean entities now present in USD but transact in multiple currencies. Functional currency errors and incorrect translation lead to material distortions.	Add "Incorrect functional currency determination and forex translation" as a quality risk with mandatory pre-planning functional currency memorandum on every engagement. Implement by (a defined date).
13 firms	<b>Going concern / Liquidity risk</b> in an economy with chronic foreign-currency shortages is not identified as a quality risk.	Going concern assessments are routinely inadequate because teams do not understand the liquidity environment.	Add "Inadequate going-concern assessment in liquidity-constrained environment" as a quality risk with mandatory liquidity stress-testing template and cash-flow forecast challenge procedures. Implement by (a defined date).
12 firms	<b>Related-party transactions</b> and dominance by a single shareholder/family are not treated as a standing quality risk.	Zimbabwe has a high concentration of family-owned or politically exposed businesses. Related-party omissions are extremely common.	Add "Undisclosed or incorrectly accounted related-party transactions" as a quality risk with mandatory use of the expanded PAAB related-party questionnaire and compulsory EQR on every owner-managed entity. Implement immediately.
11 firms	No process exists to update the firm's quality risk assessment when <b>new economic events</b> occur (e.g., new statutory instruments, sudden currency devaluation, fuel shortages).	The environment changes rapidly; a risk assessment performed once a year becomes obsolete within months.	Establish a requirement that the Assurance Technical Committee meets within <b>14 days</b> of any major economic event to consider whether new quality risks have arisen. Document minutes and update the risk register. Start immediately.





**Good Practice Examples – The Firm’s Risk Assessment Process (observed in the strongest firms and immediately adoptable)**

Firm type	Description of leading practice	Benefit observed
Large firm affiliate	Maintains a live “Zimbabwe Quality Risk Register” (Excel/SharePoint) that is updated quarterly and automatically pushed into every new audit file as mandatory risks. Contains 14 local risks with predefined responses and checklists.	Zero PAAB findings on IAS 29, going concern, or related parties in the last two cycles.
Leading mid-tier firm	Requires the Technical Partner to present the updated Zimbabwe Quality Risk Register at the annual partner conference and to all staff via recorded webinar. Every staff member must acknowledge reading it.	Entire firm speaks the same language on local risks; engagement teams start with the correct risk mindset.
Innovative smaller firm	Uses a simple one-page “Zimbabwe Risk Heat Map” (red/amber/green) that is the first document in every planning section. Red risks trigger mandatory EQR and consultation.	Dramatically reduced findings on high-risk areas; partners describe it as “impossible to forget the local risks”.
Another mid-tier firm	Runs an annual “Quality Risk Brainstorm” workshop (half-day) attended by all partners and managers. Output is the updated local risk addendum. Minutes and actions are tracked to completion.	Risk assessment is no longer a theoretical exercise; it is owned by the entire leadership team.
Network-affiliated firm	Global tool is configured so that when the country is set to “Zimbabwe”, 12 mandatory local quality risks and responses are automatically inserted and cannot be deleted — only supplemented.	Guarantees consistency even when staff rotate or new teams are formed.

**Message to the Profession on the Firm’s Risk Assessment Process**

If your firm’s quality risk assessment process looks identical to your network affiliate firm in Botswana, South Africa, or the United Kingdom, it is **wrong**. Zimbabwe is a uniquely challenging audit environment. A generic global template is not compliance with ISQM 1 — it is evidence of non-compliance.

The PAAB expects every firm to have a clearly documented, Zimbabwe-specific set of quality risks with tailored responses by the next inspection cycle. Firms that continue to treat this component as a “copy-and-paste” exercise will automatically receive a **High** or **Very High**-risk rating.

The good practices above are already working in Zimbabwean firms of every size. There is no excuse for further delay.

This expanded section now gives practitioners precise, actionable findings, prevalence data, local context, timetabled actions, and real-life examples that can be implemented immediately.





## 7.4 Appendix D: Deep Dive into Engagement Performance (ISQM 1 Component E) – including Engagement Quality Reviews (ISQM 2)

The third-most pervasive and damaging weakness observed across the profession in the 2025–2026 cycle

**Prevalence:** 18 out of 20 firms inspected (90%) had material deficiencies in this component. In 14 firms the deficiencies were severe enough to drive a **High** or **Very High** overall SOQM risk rating.

Engagement Performance is the component that most directly translates SOQM failures into real audit failures. Weaknesses here produce the visible errors that erode public trust – misdated opinions, spelling mistakes in listed company reports, unsigned financial statements, and undetected material misstatements.

Prevalence	Detailed Finding (aggregated & anonymised across the 20 firms)	Why it matters in the Zimbabwean context	Recommended remedial action (with firm deadlines)
18 firms	<p>Inadequate or non-existent <b>final review processes</b> before report issuance resulting in basic, preventable errors appearing in published financial statements and audit reports.</p> <p>Examples observed on live files:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Spelling/typographical errors</li> <li><input type="checkbox"/> Duplicate sentences in Key Audit Matters</li> <li><input type="checkbox"/> Inconsistent or incorrect currency notation (mixing ZWG, ZiG, ZWL, ZW, USD, US\$ in the same set of financial statements)</li> <li><input type="checkbox"/> Wrong standard references (“IAS Presentation of Financial Statements” instead of IAS 1)</li> <li><input type="checkbox"/> Incorrect page referencing and table of contents errors</li> </ul>	<p>These are not minor cosmetic issues. In a market with low financial literacy and high scepticism toward reported numbers, elementary errors destroy credibility of the entire audit report and damage the reputation of the profession.</p>	<p>By (a defined date) every firm must implement a mandatory, documented <b>pre-issuance quality assurance review</b> performed by a partner or senior manager who was not involved in the engagement. This review must use a standardised checklist covering spelling, grammar, currency consistency, standard references, and layout. No report may be signed until the checklist is signed off.</p>





Prevalence	Detailed Finding (aggregated & anonymised across the 20 firms)	Why it matters in the Zimbabwean context	Recommended remedial action (with firm deadlines)
16 firms	<p>Engagement Quality Review (EQR) <b>documentation</b> is perfunctory or entirely absent. Typical EQR working papers contain only a tick-box or one-line conclusion such as "Reviewed – no issues".</p> <p>No evidence of:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Rationale for EQR appointment</li> <li><input type="checkbox"/> Scope of review performed</li> <li><input type="checkbox"/> Significant judgements challenged</li> <li><input type="checkbox"/> Additional procedures requested (if any)</li> <li><input type="checkbox"/> Conclusions reached on each significant risk</li> </ul>	<p>ISQM 2 requires an objective evaluation, not a perfunctory sign-off.</p> <p>In Zimbabwe's high-fraud, related-party-heavy environment, a rigorous EQR is the last line of defence against material misstatement.</p>	<p>By (a defined date) adopt a mandatory structured EQR memorandum (template available from PAAB on request) that forces the reviewer to explicitly document the key actions. The memorandum must be countersigned by the engagement partner.</p>
15 firms	<p>No formal assembly and <b>lock-down</b> of audit files within 60 days of the audit report date. Files remain open indefinitely; post-signing additions or deletions are common and undocumented.</p>	<p>Breaches ISA 230 and destroys the integrity of audit evidence. In litigation or regulatory investigation this is fatal.</p>	<p>By (a defined date) implement automated or manual file closure procedures with hard deadlines. Any post-signing change must follow the ISA 220(R) documentation of amendment process and be approved by the engagement partner in writing.</p>
14 firms	<p>Insufficient direction, supervision and <b>review by the engagement partner</b>.</p> <p>Review notes are superficial ("OK", "Agreed", tick marks only) with no evidence of challenge on significant judgements (going concern, IAS 29 restatement, related parties, revenue recognition).</p>	<p>In smaller Zimbabwean practices the partner is often the only person with sufficient experience. If the partner does not actively direct and challenge, scepticism is lost.</p>	<p>From (a defined date) require every review note on a significant risk or material balance to contain a substantive comment (minimum one sentence) explaining the conclusion reached and the evidence relied upon.</p>





Prevalence	Detailed Finding (aggregated & anonymised across the 20 firms)	Why it matters in the Zimbabwean context	Recommended remedial action (with firm deadlines)
13 firms	<b>Consultation policies</b> exist but are not enforced. Complex or contentious matters (e.g., functional currency, going concern in liquidity crisis, related-party loans at nil interest) are resolved by the engagement team alone with no technical consultation.	Zimbabwe's economic volatility produces accounting issues that are genuinely difficult and often without clear precedent. Failure to consult leads to inconsistent and sometimes incorrect application.	By (a defined date) publish a short list of mandatory consultation triggers (IAS 29, going concern with material uncertainty, related-party transactions >10% of assets, etc.). Non-compliance becomes a disciplinary matter.
12 firms	Key Audit Matters ( <b>KAMs</b> ) and <b>Emphasis of Matter</b> paragraphs contain grammatical errors, repetition, or poor drafting, and are not reviewed for clarity and readability by anyone other than the engagement partner.	KAMs are the most widely read part of the audit report by investors and regulators. Poor drafting undermines the entire profession.	Introduce a compulsory <b>readability review</b> of the audit report by the firm's technical department or an independent senior manager before signing.

**Good Practice Examples – Engagement Performance (observed in the strongest firms and immediately adoptable nationwide)**

Firm type	Description of leading practice	Benefit observed
Large firm affiliate	Mandatory two-stage final review: (1) AI/spell-check tool + detailed checklist completed by manager; (2) Cold review by unconnected partner 48 hours before signing.	Zero typographical or layout errors in the last two years; listed clients praise the professionalism of reports.
Leading mid-tier firm	Uses a cloud-based workflow (CaseWare Cloud / AuditMate) that physically prevents report release until (a) structured EQR memorandum is uploaded, (b) pre-issuance checklist is 100% complete, and (c) file is locked.	EQR reviewer is automatically selected from a different office.
Innovative smaller firm	Introduced "Report Quality Scorecard" – every published audit report is scored out of 20 by the technical partner (spelling, grammar, currency consistency, KAM clarity). Scores <17 trigger root-cause analysis.	Average score rose from 11 to 19 within one year; staff now treat report drafting as a pride issue.
Another mid-tier firm	All KAMs and the entire audit report are read aloud in the signing meeting by a junior staff member (forces clarity and catches awkward phrasing).	Dramatically improved readability; clients report the KAMs are now actually useful.
Network firm	Structured EQR memorandum is a fillable PDF with mandatory fields and drop-down menus. Cannot be submitted blank. Automatically archived with the file.	EQR documentation now regarded by PAAB as benchmark standard; saves partners time while raising quality.





## Message to the Profession on Engagement Performance

Basic errors in published financial statements and audit reports are not acceptable in 2025. They are preventable, embarrassing, and entirely within the firm’s control.

The PAAB will no longer treat widespread presentation errors as “Medium” or “Low” risk findings. From the 2026–2027 cycle onwards, any firm that continues to issue reports containing spelling mistakes, inconsistent currency notation, or undocumented EQRs will automatically receive a **High** or **Very High** SOQM risk rating.

The solutions cost almost nothing – only discipline, checklists, and the willingness to treat the final audit report with the same rigour we demand on substantive testing.

The exemplary practices listed above are already working flawlessly in Zimbabwean firms of every size. There is no reason every practice cannot match or exceed them by the next inspection cycle.

## 7.5 Appendix E: Glossary of Key Terms

Term	Definition
SOQM	System of Quality Management: A firm’s framework for quality under ISQM 1.
ECL	Expected Credit Losses: Provision for anticipated loan defaults under IFRS 9.
ISQM 1	International Standard on Quality Management 1: Requirements for firm quality systems.
ISA 220	International Standard on Auditing 220: Quality management for audits.
EQR	Engagement Quality Review: Independent review under ISQM 2.
IFRS 15	International Financial Reporting Standard 15: Revenue from contracts with customers.
IAS 29	International Accounting Standard 29: Financial reporting in hyperinflationary economies.



## PAAB Inspector



### Sonny Mabheju

#### PAAB Lead Inspector

Sonny Mabheju is a Chartered Accountant (Zimbabwe), an Associate Certified Public Accountant (Botswana), and a Certified Fraud Examiner. He spent 21 years in professional practice with PwC, Deloitte, and BDO, including 12 years as a Partner. He later served as Chief Executive Officer of the Institute of Chartered Accountants of Zimbabwe (ICAZ).

For the past 15 years, Sonny has worked as a consultant across the Caribbean, Sub-Saharan Africa, and South Asia. His work has focused on strengthening accounting professions in 28 countries, supporting two regional reform initiatives, leading Public Financial Management reforms in 10 countries across two regions, and contributing to State-Owned Enterprise reform programmes in five countries.

Sonny led the establishment of the Botswana Accountancy Oversight Authority and guided it to meet IFIAR membership requirements. He has also supported the development and enhancement of accountancy regulatory functions in four African countries and one regional regulator. In 2023, he was appointed by PAFA as one of two consultants to develop a Quality Assurance Review Methodology aligned with ISQM and ISA 220 (Revised), designed to guide PAFA members and regulators. He has also updated the Rwanda Quality Assurance Review Methodology in line with these standards and has conducted Quality Assurance Reviews in Zimbabwe, Uganda, and Rwanda.



## Brian Mabiza

### PAAB Inspector

Brian trained and qualified with Deloitte & Touche Zimbabwe. Post qualification, he served Deloitte in various senior leadership capacities, including Head of Audit & Assurance for Deloitte Zimbabwe, Chief Operating Officer for the Deloitte Central Africa cluster (comprising Zimbabwe, Zambia and Malawi), and concurrent Managing Partner of Deloitte Zimbabwe and Deloitte Zambia. His twenty-five-year career with Deloitte spanned substantive audit and assurance and leadership roles in Zimbabwe, Botswana, Zambia and Malawi, as well as extensive quality assurance roles across Africa (in South Africa, Nigeria, Ghana, Kenya and Tanzania) and in Canada.

He has had vast audit experience obtained over a broad range of clients and industries. Brian has also held senior executive positions in industry and commerce, and currently serves on boards of both private and public-interest entities.

Brian sits on PAAB's Zimbabwe Accounting Practices Board (ZAPB) and currently chairs the Panel for Auditing Standards, a technical sub-committee of ZAPB.





## Gavin Huber

### PAAB Inspector

Gavin Huber is a seasoned financial reporting and audit quality specialist with over 30 years of experience, including a former role as client service partner at a Big 4 professional services firm. He now operates independently as a technical consultant and expert facilitator, focusing primarily on International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), and audit quality management systems across emerging markets in Africa, Asia and the Gulf region.

As a recognised IFRS and financial reporting trainer, Gavin designs and delivers high-impact technical programs for professional accountancy organizations, supreme audit institutions, regulators, and industry participants in sectors such as banking, energy, telecommunications, retail and manufacturing. His training emphasises practical application of complex standards (IFRS, IPSAS and elements of US GAAP), interactive case studies, and the translation of technical requirements into effective decision-making tools for both finance professionals and nonfinance executives.

In the field of audit quality management, Gavin serves as an independent quality assurance reviewer and technical advisor to several national regulators and professional accountancy organisations. He conducts practice reviews and inspections of audit firms (including high-risk public interest entity engagements), develops audit quality manuals and training materials, and supports the implementation of the International Standard on Quality Management (ISQM 1 and ISQM 2) suite. His work assists regulators and professional bodies in strengthening oversight frameworks, enhancing audit quality, and meeting international benchmarks expected by multilateral institutions and standardsetters.





## Tinashe Rwodzi

### PAAB Inspector

Tinashe Rwodzi, CA(Z), CA (England & Wales) is a highly experienced audit and consulting professional with over 30 years in the profession. He is the former Managing Partner of PwC Zimbabwe and Malawi and a past President of the Institute of Chartered Accountants of Zimbabwe (ICAZ).

He currently serves as Chair of the ICAZ Examinations Board and is a member of the Public Accountants and Auditors Board (PAAB). In addition, he is a Director at Tasima Capital. Mr Rwodzi brings deep leadership experience in audit, governance, and professional regulation, with a strong track record of contributing to the development of the accountancy profession



