

CHANGE IN THE METHOD OF RECOVERY OF COST FOR INSPECTIONS PERFORMED BY THE IRBA

FREQUENTLY ASKED QUESTIONS

Since the memorandum and template for the new method of recovery of inspection costs were sent the IRBA received a number of standard questions. To assist all firms, these questions are reproduced below together with the IRBA's responses.

QUESTIONS	IRBA RESPONSE
<p>Should the audit fees for the work done for the Auditor General be included?</p>	<p>There are 3 different categories for the Auditor General:</p> <ol style="list-style-type: none"> 1. <u>Secondment of staff to assist the Auditor General</u> No opinion is expressed and consequently these engagements should be excluded. 2. <u>Performance of an engagement under the supervision of the Auditor General (so called "contracted in" engagements)</u> Although a substantial portion of the work is performed by the contracted firm, the audit opinion is still signed by the Auditor General and consequently these engagements should be excluded. 3. <u>Audit performed and signed by a contracted firm (so called "contracted out" engagements)</u> This is the situation where the Auditor General contracts an audit firm to perform an audit on behalf of the Auditor General and the contracting firm signs and issues the final audit report. These engagements should be included.
<p>A number of audits were done in 2011 under the Old Companies Act but will not require any audit in the next financial year. Where should they be included?</p>	<p>All the audits done in 2011 should be categorised according to the new Companies Act, 2008, in terms of the Public Interest Score (PIS). If the client has a PIS between 100-350, the audit client and fees should be included in the low risk category as an Independent Review (IR) or Voluntary Audit (VoIA), if the score is known. If the PIS is below 100 the audit client and fee should not be listed except if the client requested a VoIA or IR.</p>

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<p>The firm only has 1 or 2 trust accounts in the high risk category.</p> <ol style="list-style-type: none"> Does this mean that the firm will be categorised as high risk and be exposed to a full firm inspection? Should the firm therefore rather resign from these audit clients? 	<p>The fees will be calculated on the high risk audit fees only.</p> <ol style="list-style-type: none"> The inspection approach may include only a file review or limited firm inspection (i.e., not a full firm inspection as in the past). Auditors should therefore not resign from these assignments to avoid a firm inspection.
<p>I am a non-attest RA. Do I need to complete the inspection fee schedules for firms?</p>	<p>The classification of attest and non-attest has been replaced with RAs that do assurance and non-assurance work. The inspection fee schedules are only applicable to firms that do assurance work and therefore not applicable to RAs who do not perform assurance work. The reason for not completing the form should be indicated on the form.</p> <p>However, if you are an RA who does not perform assurance work but you have a firm registered with the IRBA, you still need to complete the Declaration.</p>
<p>The firm's total high risk work is only R20 000. What will the total cost for inspections be and will there be a minimum fee?</p>	<p>The inspection fee will be a percentage of the R20 000. The percentage is not yet known and will only be determined after the total high risk assurance fee for all firms has been calculated. This percentage will be determined to recover the total costs of inspections.</p> <p>There will not be a minimum fee at this stage.</p>
<p>The IRBA indicated that they will no longer recover the cost of inspections. Is the new approach not still a recovery of the costs of inspections?</p>	<p>In the past, the IRBA recovered the cost of an inspection directly from the auditor based on the time spent on the inspection. This compromised the independence of the IRBA.</p> <p>Under the new approach, there is no direct cost recovery of an inspection from the auditor. The costs are recovered on a different basis, as a percentage of the assurance income base of the firm. There is therefore no direct influence on the inspection performed and therefore the IRBA's independence is not compromised.</p> <p>The IRBA is still in the process of engaging with National Treasury towards raising a levy, similar to the charging of taxation on a base to be determined.</p>
<p>If a client must submit the financial statements to the Financial Services Board, and is registered as a financial service</p>	<p>These clients will be categorised as Financial Institutions.</p>

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<p>provider or a credit provider, what will the industry be if the client is not a Financial Institution?</p>	
<p>How should churches or clients which are audited in terms of a constitution (like a club or association) be classified?</p>	<p>Audits of churches, clubs and schools will be classified as low risk and the category will be "Other Assurance Work" (OAW).</p>
<p>Will a client that received Lotto money to conduct a business be regarded as High risk?</p>	<p>This client is not currently identified as a high risk assurance client.</p>
<p>If a company is still dormant and not owner managed, will this be classified as low risk?</p>	<p>Yes.</p>
<p>If company "X" was subject to an audit during 2011, but will only be subject to an independent review during 2012, are we required to estimate the independent review costs to be incurred during 2012 for declaration purposes?</p>	<p>No, the actual cost of the audit in 2011 needs to be declared, and it should be classified under Low Risk as an Independent Review.</p>
<p>If company "Y" was audited during 2011 and its financial year-end is, say, 31 March 2012, and subsequently no audit, review or voluntary audit is required, must this client be disclosed on the declaration?</p>	<p>No, this client does not need to be included on the list as it will not be assurance work.</p>