



MANEO

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NEWSLETTER FROM THE PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
NUUSBRIEF VAN DIE OPENBARE REKENMEESTERS- EN OUDITEURSRAAD

REPORT FROM THE CHIEF EXECUTIVE OFFICER

As of the date of going to print with this issue, the new draft of the Auditing Professions' Bill has not yet been released for comment, but we understand that it is at an advanced stage and is likely to be released shortly.

In June 2004, the Department of Trade and Industry published a policy paper in the Government Gazette (No.26493) that sets out the basic approach that it intends taking for the reform of the company law. The document outlines a consultative process and timetable that is intended to achieve the proclamation of new company law by June 2006 and the launch of a new institutional framework to be responsible for its regulation when the new law comes into effect.

This is indeed welcome news and Government is to be commended for launching an ambitious and challenging initiative to address this critical need. Auditors are only one of the players in the governance chain and overall reform of the company law and corporate reporting requirements is essential to ensure that the regulatory framework within which enterprises operate promotes the stability, confidence and good governance practices so essential to our economic well-being.

The document runs to some 50 pages and contains a number of thought provoking concepts. For instance, it proposes that the company law should cater for all companies, large and small,

under one Act. This implies that the close corporation concept and separate legislation will be removed. It also proposes a concept of distinguishing companies as listed and unlisted, and then for unlisted companies to further categorise them on the basis of size using turnover as the measure. Smaller companies would then be subject to less onerous reporting and other requirements, including not requiring the mandatory audit. It is also proposed that the concepts contained in the Financial Reporting Bill be included in the new company law under the single Act concept.

There are many complex legal concepts discussed in the paper that will undoubtedly result in considerable debate. SAICA is launching a series of initiatives to involve the broader profession in the debate on the way forward.

The PAAB fully supports this initiative and urges all practitioners to participate. You are likely to be profoundly affected by the outcome of this! ■

– **CLAUDE O'FLAHERTY**
Chief Executive Officer

WEBSITE – www.paab.co.za

The PAAB website has undergone various enhancements and is being constantly updated. The new look of the site has received very positive feedback and we welcome more comment to assist us in continuously improving our service to our members and the general public. Our latest addition to the site is the PPE Register where prospective candidates can verify whether their applications to write the PPE in November 2004 has been received. The Auditing Standards section of the site has also grown considerably to include the International Standards on Auditing.

February is always a popular month due to the release of the PPE results for the previous year. Once again our statistics did not disappoint this year. 10 044 visitors made viewing requests to our site in February and 113 837 actual pages were viewed, which resulted in 321 561 hits to the server. In March our visit rate dropped slightly to 8 087 and after this it averaged out at about 4,500 visits per month. The most popular time for visits to our site seems to be around 9:00 a.m. when we experience peak traffic.

The PAAB website provides a wealth of information and our domain size is currently about 135 Mg. We always welcome your inputs and will attempt to accommodate any reasonable requests on the website.



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AUDITING AND ASSURANCE STANDARDS BOARD (AASB)

The following were approved for issue by the AASB at their meeting in June 2004:

Circular B.1/2004, Adoption of the IAASB Standards by the Auditing and Assurance Standards Board

The circular explains the adoption of international auditing standards for use by auditors in South Africa from 1 January 2005. It briefly discusses the background to South African Auditing Standards (SAAS) and convergence with international standards, describes the adoption process followed by the AASB, and provides details of the effective date of the standards. A list comparing the statements of SAAS and respective international standards to be adopted is attached as Appendix 2 to the circular.

The circular also contains the exposure draft of the proposed *Preface to Standards on Quality Control, Auditing, Assurance and Related Services as Adopted for Issue by the Auditing and Assurance Standards Board*.

The circular can be accessed on the PAAB website at www.paab.co.za / auditing standards.

Proposed Preface to Standards on Quality Control, Auditing, Assurance and Related Services as Adopted for Issue by the Auditing and Assurance Standards Board

The Preface is issued to facilitate understanding of the objectives and operating procedures of the AASB and the scope and authority of the pronouncements issued by the AASB. It is to be read together with the International Federation of Accountants' Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services which is attached as an addendum to the Preface.

The due date for comment on the proposed preface and contents of the circular was 31 August 2004.

THE CONSULTATIVE ADVISORY GROUP (CAG)

The first meeting of the CAG was held on 20 July 2004. The CAG, established earlier this year as a consultative and advisory group to the AASB, currently consists of nine members. Members represent preparers of financial state-

ments, regulators of various industries and stakeholders who are otherwise interested in audit issues.

Agenda items discussed at the first meeting included the terms of reference of the CAG, the AASB work programme, adoption of international auditing standards, new standards issued and other developments in the auditing profession, locally and internationally. Prior to each meeting CAG members are invited to put forward items for discussion at the meeting. The next meeting is scheduled to take place in November 2004.

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

The IAASB released a revised International Standard on Auditing (ISA) requiring auditors to be more rigorous in the planning of their audits.

The revised ISA 300, *Planning an Audit of Financial Statements*, builds on the new audit risk standards issued last year. The standard emphasises that planning is a continual and iterative process throughout the engagement and that unexpected events, changes in conditions or other circumstances may lead the auditor to re-evaluate the planned audit procedures.

The revised standard can be accessed on the PAAB website at www.paab.co.za / auditing standards / auditing pronouncements.

SAICA ISSUES GUIDANCE: FAIS REGISTRATION

The South African Institute of Chartered Accountants issued Circular 6/2004, *Guidance for Chartered Accountants in Respect of the Financial Advisory and Intermediary Services Act*.

The circular provides guidance to Chartered Accountants and Registered Accountants and Auditors that will be of assistance to them in determining whether they should register with the Financial Services Board as financial providers in terms of the Financial Advisory and Intermediary Services Act. ■

– CINDY JONKER

Professional Assistant: Auditing Standards



AUDITING STANDARDS

WILL THE NEW QUALITY CONTROL STANDARDS IMPROVE AUDIT QUALITY?

BY ASSOCIATE PROFESSOR SANDRA VAN ESCH
AND BERNARD AGULHAS

The public is saturated with news of business and audit failures and is anxiously awaiting solutions that will restore confidence in the capital markets as well as in a profession attracting considerable negative publicity at present. National and international bodies responsible for regulating professional accountants and auditors have gone to great lengths to introduce the necessary reforms to restore confidence in the profession. While some may consider certain changes to be intrusive, the ultimate objective is the protection of the investing public.

The draft circular from the South African Institute of Chartered Accountants (SAICA) on Rebuilding Public Confidence addresses quality control requirements in Paragraph 6, which states:

'Audit effectiveness needs to be raised primarily through greater attention to audit quality control processes.'

It is recommended that attention be given to the "tone at the top" in the audit firms, to the quality of entrants into the auditing profession, and to the adequacy of post qualification training. It is also recommended that firms give additional attention to their client acceptance and retention processes, review their post-audit review processes to identify improvements, and disclose details of their quality control processes and financial information.'

THE NEED FOR IMPLEMENTATION GUIDANCE

As national auditing standards are aligned with international standards, the development of implemen-

tation guidance presents an opportunity for national standard setters to develop guidance on best practice in quality control, which could be adapted by other legal jurisdictions to suit their national requirements.

The International Federation of Accountants' (IFAC) Transnational Auditors Committee (TAC) also identified aspects of international standards where implementation guidance could assist with the consistent application of standards by international firms involved in audits of global entities. The TAC believes that it has become essential for practitioners to be given sufficient guidance on the implementation of the new quality control standards since compliance with these standards will promote audit quality and reduce audit failures.

In January 2004, the Audit and Assurance Standards Board (AASB) of the Public Accountants' and Auditors' Board (PAAB) presented a proposal for South Africa to develop implementation guidance on the proposed quality control standards at the National Standard Setters' meeting held by IFAC in New York. The standards, International Standard on Quality Control (ISQC) 1, *Quality Control for Audit, Assurance and Related Services Practices*, and the revised International Standard on Auditing (ISA) 220, *Quality Control for Audit Engagements*, were subsequently approved and issued in March 2004 with an effective date of 15 June 2005.

QUALITY CONTROL RESEARCH PROJECT

The AASB appointed the School of Accountancy at the University of the Witwatersrand (Wits) to provide

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academic research to support the development of appropriate implementation guidance for the new and revised international quality control standards. The scope of the quality control research project includes:

1. An analysis of the requirements of the new standards, identifying issues and key new developments.
2. A literature review into research regarding Quality Control aspects affecting auditors in the conduct of audits and reviews of historical information and the provision of other assurance services that will inform the content of the guidance to be developed.
3. Development of, and administering a questionnaire to elicit data for the new Quality Control guidance being prepared by the PAAB. The questionnaire will be available to accountants and auditors registered with the PAAB at 31 March 2004 and will address the quality control policies and procedures applied by their firms and on engagements undertaken by the firm, and aims to identify “best practice” as well as the changes and problems practitioners anticipate as a result of the implementation of the new requirements of ISQC 1 and the revised ISA 220.
4. Interviews with informed respondents (experts); for the purposes of the interviews the population of the auditing firms in SA has been stratified into categories of firms based on size and a sample of firms will be selected for interviewing of informed respondents.
5. Confidential access, where permitted, by the firms selected, or outsourced service providers, to their audit and quality control manuals to allow for a content analysis to determine quality control policies and procedures commonly used that could be incorporated into the guidance policies and procedures representing “best practice” to be developed by the AASB.

and guidance contained in the existing SAAS 220 was undertaken and an *Issues Paper* was prepared to identify how the new ISQC 1 and revised ISA 220 differ from the existing quality control guidance that was contained in ISA 220 (SAAS 220) to meaningfully establish the link between the past and the future quality control policies and procedures. The *Issues Paper* focused on requirements in the new standards where the explanatory text did not provide sufficient detail to assist auditors from a practical perspective. Examples where it is believed that guidance would be useful included the following:

- Establishing a *culture* of quality at the top which will promote compliance with quality control policies and procedures;
- Communication of possible threats to independence;
- Rotation requirements for staff other than engagement partners on audits of financial statements of listed entities;
- The nature and extent of the audit procedures to obtain relevant information in order to conclude on the integrity of an existing or prospective client and to comply with ethical requirements;
- The communication requirements between the outgoing and incoming auditors and the incoming auditor’s access to the working papers of the superceded auditor, and related ethical requirements;
- The types of issues which must be documented before withdrawing from an engagement;
- The exact responsibilities of the engagement partner;
- Engagement performance matters such as determining the types of engagements which should be subjected to quality control review and the types of circumstances that will require an engagement quality control review to be performed where the firm’s criteria did not require an engagement quality control review at the start of the engagement;

COMPARATIVE GAP ANALYSIS OF THE QUALITY CONTROL STANDARDS: ISSUES IDENTIFIED

A comparative content analysis of the two new statements



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- The circumstances which will give rise to reliance on monitoring processes at network firms;
- Documentation requirements for the operation of the quality control system; and
- Considerations for the implementation of quality control policies and procedures at small firms.

The issue of the new ISQC 1 and ISA 220 has resulted in some aspects of existing guidance contained in Appendices to the previous ISA 220 (SAAS 220) being withdrawn, others relocated to ISQC 1, or no longer being relevant. In addition, the new ISQC 1 and ISA 220 standards introduce several far reaching, more stringent quality control requirements without necessarily providing more detailed guidance regarding the appropriate policies and procedures necessary to meet such requirements. The AASB believes that in developing guidance, it is important to understand what practitioners are planning to put in place to implement these new quality control requirements that may be regarded as “best practice”. In addition, the AASB wishes to understand what problems are envisaged in their implementation by 15 June 2005 and therefore the benefits that could be derived from guidance issued by the AASB.

Some of the requirements have significant legal implications for which legal counsel will need to be sought in the development of appropriate guidance, such as the liability exposure of external quality control reviewers in circumstances where engagement quality control reviews are outsourced by medium to small practices and sole practitioners.

A number of the medium firms have national or international links to other professional firms and thus derive their audit methodologies and approaches from a variety of sources. In order to address the key issues indicated above, an understanding has been obtained of the target audience (RAA's) as well as the identification of the source and content (broadly) of Quality Control Policies and Procedures applied nationally and internationally.

Differences identified between the size of practices and the nature of their client base and type of engagements performed may affect the formality of different practices for quality control policies and procedures and hence considered in determining the “best practice” guidance most appropriate for the AASB to develop.

KEY DELIVERABLES

It is anticipated that the structure and format of the guidance will be in line with the structure of ISQC 1 and the revised ISA 220 quality control standards and will therefore include further guidance on those sections, which have been identified as possible ‘grey’ areas. Although it will not follow a checklist approach, the guidance may include appendices containing *inter alia*, possible matters for consideration in specific situations.

WILL THE PROFESSION'S ATTEMPTS AT RESTORING INVESTOR CONFIDENCE BE SUCCESSFUL?

In July 2002 the United States introduced the Sarbanes-Oxley Act (SOA), following the major business and audit failures in the United States, (e.g. ENRON and WORLDCOM) to restore investor confidence in the accounting profession and capital markets. The act calls for the establishment of the Public Company Accounting Oversight Board (PCAOB), the activities of which include standard setting, monitoring, inspection and enforcement. The SOA has far reaching implications for the global accounting profession as its extensive compliance requirements affect auditors anywhere in the world who may be involved in auditing companies owned by, or associates of, US public corporations with shares listed on US Stock Exchanges and that are accordingly Securities Exchange Commission (SEC) registrants. “*Companies around the world are counting the high cost of compliance with the new corporate governance rules imposed mainly by Sarbanes-Oxley, e.g., General Electric estimates that the cost of compliance with Section 404 – the audit and testing of internal controls, will cost about \$30 million*”. It should come

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as no surprise that, while compliance with rules and standards present major challenges and opportunities for auditing practices, the costs of such compliance are likely to be high.

In South Africa, the Minister of Finance established the Accounting Review Panel with nine terms of reference to investigate the accounting and auditing profession in order to produce recommendations on improving the regulation of professional accountants and auditors. The ultimate goal of the Minister is to enhance the quality of audit services and restore public and investor confidence in the profession in South Africa. The recommendations of the Accounting Review Panel issued in October 2003 are currently being drafted into legislation and it is expected that a new draft will be released shortly.

In March 2004, the European Commission proposed a new Directive on statutory audits in the European Union, which will be considered for adoption by the European Union's Council of Ministers and the European Union. In its attempt to increase investor confidence in audited financial statements as well as protect the public against business and audit failures (e.g. Parmalat), the directive addresses the duties and ethical requirements for statutory audits, external quality assurance, robust public oversight and co-operation between regulators.

The Auditing Practices Board in the United Kingdom recently released five draft ethical standards with an expected effective date of September 2004.

Increased statutory regulation, however, is not necessarily the only way to address the challenges facing the profession. One of the major projects of the International Auditing and Assurance Board (IAASB) of IFAC has been the revision of the Quality Control Standards, *inter alia*, in an attempt to ensure that auditors worldwide deliver high quality services and thereby reduce the risk of audit failures.

CONCLUSION

Independence is but one of the issues addressed in the

quality control standards. Penalties for breaches of independence and other professional requirements are swift and harsh. In April 2004 one of the longest suspensions of an accounting firm in the history of the profession was reported, with one of the major auditing firms barred by the Securities Exchange Commission (SEC) from accepting any new audit clients among publicly traded companies as a result of its participation in a lucrative business venture with one of its audit clients. To demonstrate how serious it is about enforcing compliance with its requirements, the SEC also appointed a consultant to monitor future compliance by the firm with independence and other professional requirements.

Such drastic measures should not have to be the solution to the challenges facing the profession. If auditors can demonstrate compliance with auditing standards and quality control requirements for both the firm and on the individual audit engagement, the profession will go a long way to producing service excellence and regaining the confidence and respect of the public. ■

References

- ♦ *Ethics Institute of South Africa (2004)* Business Ethics Direct, Issue 211, Friday 14 May 2004, p1
- ♦ *South African Institute of Chartered Accountants (2004)*, Rebuilding Public Confidence In Auditing, Draft Circular
- ♦ *IFAC International Audit and Assurance Standards Board (2004)* International Standard on Quality Control ISQC1, Quality Control for Audit, Assurance and Related Services Practices,
- ♦ *IFAC International Audit and Assurance Standards Board (2004)* Revised International Standard on Auditing ISA 220, Quality Control for Audit Engagements
- ♦ *The Star - Business Report International, Johannesburg, 19 April 2004.*
- ♦ *Commission of the European Communities (2004)*, Proposal for a Directive of the European Parliament and of the council on statutory audit of annual accounts and consolidated accounts and amending Council Directives 78.660/EEC and 83/349/EEC, Brussels, March 2004.

Sandra D van Esch is Associate Professor at the University of the Witwatersrand, School of Accountancy, and **Bernard Agulhas** is Director: Auditing Standards at the Public Accountants' and Auditors' Board



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CONSULTATION WITH INDUSTRY COMMENCES

Reflecting their commitment to introducing changes to better protect the public interest, the newly constituted Consultative Advisory Group (CAG) to the Auditing and Assurance Standards Board (AASB) of the Public Accountants' and Auditors' Board (PAAB) held its inaugural meeting on 20 July 2004 to discuss domestic and international issues impacting the auditing profession.

While qualified auditors will continue to set standards for the profession, the CAG was established in order to have as many non-auditors as possible providing the AASB with input and feedback on auditing standards and their impact on business.

The CAG represents the different groups of constituents affected by auditing standards who will help the AASB to

proactively identify matters to which attention should be given as well as provide valuable feedback on standard-setting activities, thereby enhancing the transparency and accountability of our auditing standard-setting function.

Stakeholders and advisors represented on CAG currently include the Reserve Bank, the Financial Services Board, the JSE, STRATE, the Institute for Public Finance and Auditing, National Treasury, the Actuarial Society, The Office of the Auditor-General, the Institute of Internal Auditors and a number of company directors.

The decision to invite these organisations to participate on CAG reflects international best practice; the International Auditing and Assurance Standards Board also has an advisory body comprising representatives from outside the profession.

CAG is part of a series of steps to restructure the auditing profession's oversight institutions in anticipation of the draft Auditing Professions Bill which is due out soon.



LEFT TO RIGHT: Bernard Agulhas (PAAB); Clarence Benjamin (Office of the Auditor-General); Monica Singer (STRATE); Claude O' Flaherty (PAAB); Suresh Kana, acting chairman (PricewaterhouseCoopers); Jeff van Rooyen (Financial Services Board); Veronica du Preez (Institute of Internal Auditors); Cindy Jonker (PAAB); Phil Sinnet (Institute for Public Finance and Auditing); Janina Slowski (Actuarial Society of SA); Andre Bezuidenhout (Reserve Bank).

PRACTICE REVIEW – 3 HOUR INTERACTIVE DISCUSSION GROUPS

SUBJECT MATTER

- Risk based auditing with particular emphasis on the owner-managed business.
- Quality control procedures to reduce risk in your practice.
- Understanding the practice review process and criteria.

PARTICIPANTS

- 12 – 20 persons.
- Individual firms/groups of firms/small practitioner forums.

TARGET AUDIENCE

Partners and audit staff.

COST

R370 plus VAT per participant.

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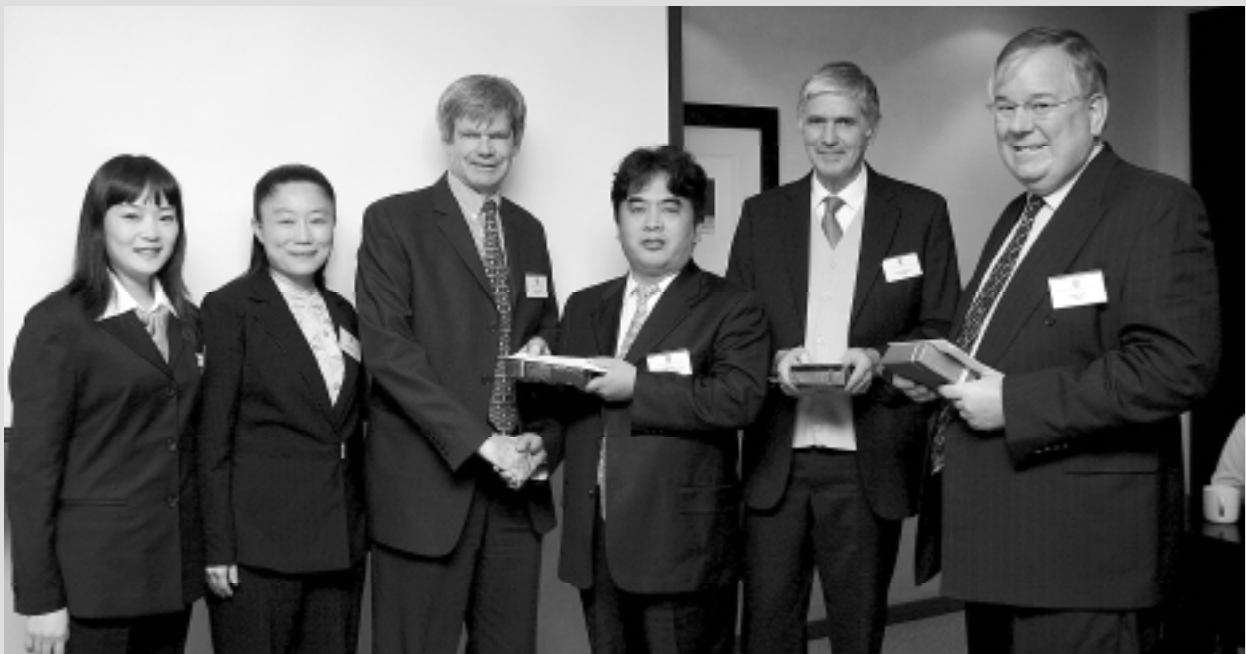


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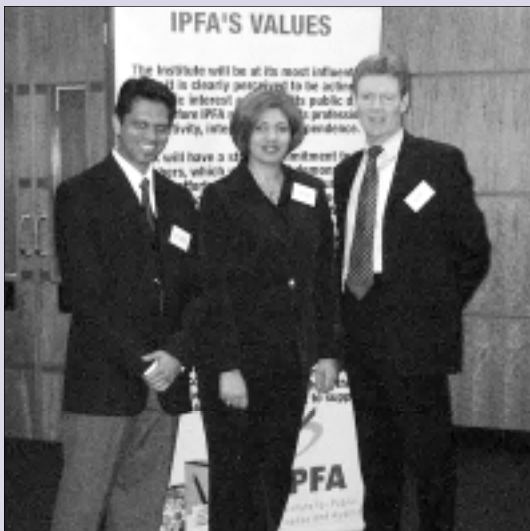
GENERAL

CHINESE DELEGATION IN SA

The PAAB CEO (second from right) met with a delegation from China on 27 July 2004 where he gave an overview of the auditing profession and regulatory structure in SA.



IPFA ANNUAL GENERAL MEETING



The Institute for Public Finance and Auditing held its sixth annual general meeting on 30 July 2004. IPFA's mission is to professionalise staff in all finance disciplines in the public sector and to be the recognised Institute in the Southern African region on all disciplines in public finance and auditing. The IPFA Council includes representatives from the World Bank, the Office of the Auditor-General, Auditing firms, National Treasury, the Office of the Accountant – General, SARS and PAAB.

LEFT TO RIGHT: Bernard Agulhas (PAAB representative); Zahra Cassim (Deputy CEO – IPFA); Phil Sinnet (CEO – IPFA).



QUARTERLY REPORT FROM THE DIRECTOR: LEGAL

for the period 1 April 2004 to 30 June 2004

INVESTIGATION COMMITTEE

The Investigation Committee met once during this period and disposed of 17 cases as follows:

9 matters were not proceeded with:

- 8 were withdrawn by the complainant;
- In 1 matter the committee was unable to proceed because of an absence of evidence.

2 cases in terms of Disciplinary Rule 3.9.1 (the accused having given a reasonable explanation for the conduct).

1 case in terms of Disciplinary Rule 3.9.2 (the conduct complained of not constituting unprofessional conduct).

5 practitioners were found guilty and fined, by consent, as follows:

- two related to negligence
 - ▼ one referral from the GAAP monitoring panel (R50 000 of which R40 000 was suspended on conditions)
 - ▼ one tax related (R5 000)
- three related to conflict of interest (R50 000, R30 000 and R20 000 respectively)

DISCIPLINARY COMMITTEE

The Disciplinary Committee met four times during this period, and heard eight matters.

FIRST MATTER

On 1 April 2004 the committee heard the case against Mr D. He was present but not represented. The matter arose out of a referral from a commissioner of a section 417 and 418 enquiry and related to negligence. There were three charges of unprofessional conduct against him, of which he was found guilty of two.

FIRST CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.1 read with section 20(8) of the Act, as well as disciplinary rule 2.1.5, in that without reasonable cause or excuse he failed to perform his duties as auditor of the company and its subsidiaries with such degree of care and skill, as in the opinion of the Board, may reasonably be expected of him, and was negligent in his performance of such duties.

The committee found that there were a number of instances

of a failure by the practitioner to adhere to the requirements of SAAS 230, and further found that he should have required the client to comply with AC112 in respect of the treatment of forex losses and gains.

SECOND CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.1 read with section 20(8) of the Act, as well as disciplinary rule 2.1.5, in that without reasonable cause or excuse he failed to perform his duties as auditor of the company and its subsidiaries with such degree of care and skill, as in the opinion of the Board, may reasonably be expected of him, and was negligent in his performance of such duties.

The committee found that there were a number of instances of failure by the practitioner to adhere to the requirements of SAAS 230.

SENTENCE

The chairman, Judge Plewman, delivered the sentence of the committee -

“The practitioner is ordered to pay a fine of R20 000 [the maximum competent sentence with regard to the time of the offence was R50 000].

The findings of this committee are to be published in Maneo, but the name of the practitioner and the name of his firm are not to be included in that publication.

In view of the practitioner’s co-operative attitude from the outset, and given the findings of this committee in relation to the allegations brought against him, the practitioner is ordered to make a contribution to the costs of this process in the amount of R40 000.”

SECOND MATTER

On 30 April 2004 the committee heard the case against Mr C. He was present but not represented. He was found guilty of two charges of unprofessional conduct arising out of his 4th review in the 1st cycle.

The chairman, Adv Dodson, delivered the finding of the committee. For the sake of good order, it is reproduced in full.

SUMMING UP

“The committee has considered carefully the evidence and the argument presented by [the pro forma complainant] and by [Mr C]. The charges faced by [Mr C] relate to the fourth audit review in respect of two of his files which was

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conducted by [reviewer] during the first five year review cycle. The evidence led by [pro forma complainant] was only that of [reviewer] who conducted the review.

In response to his evidence [Mr C] testified on his own behalf, he did not call any witnesses in addition in support of his case. Both parties were then given the opportunity to argue their cases.

A number of the complaints which are made against [Mr C] and which form the basis of the two charges against him are not disputed by him, and I can perhaps describe that as the first category of complaints. In respect of a second category of complaints, [Mr C] insists that the necessary verification work was done as part of the audit which he conducted, but he concedes that the necessary documentation of his audit work and of the verification steps that he took was not kept, and on that basis concedes the correctness of the charges against him.

In respect of a third category of charges, or complaints and factual averments making up the charges against him, and perhaps those which are the most serious, he in fact does insist that the necessary documentation has been kept of the verification and audit steps which were taken by him. The evidence which was led by [Mr C] in support of this allegation took the form of certain handwritten notes which have been added to the working papers and related documents, photocopies of which had been presented to this committee.

The notes purport to record the verification steps which were taken. The documents purporting to record this evidence were put to [reviewer] during the course of his testimony, and it was suggested to him that these documents were available to [him] at the time that he conducted this fourth review. [Reviewer] insists this was not so and that the notes purporting to record these steps were not present on the documents at the time that he conducted his review.

We have given careful consideration to the conflicting evidence of [Mr C] and [reviewer] in this regard, and at the end of the day we are convinced that the evidence of [reviewer] is to be preferred over the evidence of [Mr C] in this regard.

I do not intend traversing our reasoning in this regard in detail, but I would refer by way of the minimum to a document Exhibit 1 which was put to [Mr C] during the course of cross examination. This is a document which is headed Findings of the Review and represents the notes that were taken and shown to [Mr C] by [reviewer] at the time that he conducted the review. The document records that the review took three hours and was followed by a period of one hour's discussion of these particular notes which were presented, and it is common cause were

presented to [Mr C] for him to consider and if he had any comment, to comment on.

The document records amongst other things the following, it says:

"The following is a summary of the points that will be included in the formal review report. Points will be expanded upon in the report, and extracts from this will be included for your guidance. If the formal review report differs regarding the points please notify the Director: Practice Review. A general comment eg 'this will be documented in future' or 'these matters will be [attended to]' will be included as the practitioner's comment unless you require specific comment which you should note below."

And then at the bottom of the form it says:

"I confirm that the above findings have been discussed with me and am aware that it will be formally reported to me."

And then there is provision for signature.

Included in these notes is a direct reference to the various components of what ultimately became the factual basis for the charges against [Mr C]. Also included are references to the respects in which according to the pro forma complainant the audit process was deficient, including for example a reference to 'no change since last review' and 'the following not documented'. Then under item no. 3 'audit tests of fixed assets, intangibles, inventories, accounts receivable, cash in bank, shareholder's loan, trade payables, transactions' and so on.

In the view of the committee, bearing in mind that it is specifically in relation to some of these items that [Mr C] now claims to have documented evidence of the verification procedures conducted, had it been so that the documentation existed then he would immediately have reacted and said to [reviewer] 'but what you put down in your notes is incorrect', and would immediately have produced the necessary documentary evidence to show that it was incorrect. Bearing in mind that this was the fourth review that had been conducted, and bearing in mind the knowledge that [Mr C] must have had of the potential consequences of a fourth negative review, that committee has no doubt that if the documentary evidence had existed to prove his contention, he would have done so there and then. But there is no evidence that he did do so, and in fact his evidence in this regard in response to this having been put to him as having been the appropriate and reasonable response in the circumstances, his evidence in response was far from satisfactory.

Generally in relation to the matter of these notes or



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purported notes of the verification tests done, his evidence was also found to be evasive and contradictory.

There is a limited fourth category of factual averments supporting the charges in respect of which we are not satisfied that a case has been proved. However these are not sufficient to upset any potential finding of guilty in respect of both of the charges. The factual averments concern a small portion of the total averments making up the charges against him. The reasons which we have given now do not purport to be a complete statement of the reasons for our findings. Having regard to the pressure under which we are working today there isn't time to give complete statement of the reasons, and they will be adumbrated should the need arise.

Based on our conclusions in relation to the evidence which was led we accordingly find as follows:

FINDING

FIRST CHARGE

[Mr C] we find you guilty in respect of the first main charge – that you are guilty of improper conduct within the meaning of rule 2.1.5 of the disciplinary rules in that, without reasonable cause or excuse, and in the respects which are set out below you failed to perform your duties as auditor to what is described in these proceedings as ‘the shipping agent’, although we accept that it is not entirely an accurate description, being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected. The factual basis for that finding is that in respect of your audit of the shipping agency’s financial statements:

- you failed to keep audit working papers and you failed to obtain audit evidence, in respect of your audit verification of fixed assets and income and expenditure [and accordingly failed to comply with SAAS 230 and 500].
- we also find that there was no documented evidence or support for the audit qualifications expressed by you and that you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 700 and SAAS 230.
- there was no documentation on file relating to the understanding of the accounting systems and internal controls, and you accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 400 and SAAS 230.
- there was no documented materiality assessment, and you accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 320 and SAAS 230.
- there was no documentation on file relating to the identification of related parties, and you accordingly failed to

comply with generally accepted auditing standards and in particular SAAS 550 and SAAS 230.

- there was no documented consideration of laws and regulations, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 250 and SAAS 230.
- there was no documented consideration of fraud and error issues, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 240 and SAAS 230.
- there was no documented evidence to show that you had obtained a knowledge of the business of your client, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 310 and SAAS 230.
- there was no documented evidence that you had made any assessment of the audit risk, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 400 and SAAS 230.

SECOND CHARGE

In relation to the second charge, which relates to the rental company financial statements, we find you guilty of improper conduct within the meaning of rule 2.1.5 of the disciplinary rules in that, without reasonable cause or excuse, and in the respects set out below, you failed to perform [your] duties as auditor to the rental company, being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, and the factual basis for that finding is as follows:

- in respect of your audit of the rental company financial statements you failed to keep adequate audit working papers and you failed to obtain adequate audit evidence, in respect of [your] audit verification of the following items, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 230 and SAAS 500:
 - ▼ there was no or inadequate documentation on file in respect of the valuation of investments;
 - ▼ there was no or inadequate documentation on file in respect of the testing for completeness of income;
 - ▼ there was no documentation on file in respect of the testing of the validity of expenditure.
- further, you did not obtain a management representation letter from your client; and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 580 and 230. In making that finding the committee did take into account the unsigned document which was presented in evidence which the

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committee did not accept as being sufficient compliance with the necessary standard.

- there was no documented evidence that you had made any assessment of the audit risk and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 400 and SAAS 230.
- there was no documentation on file relating to the understanding of the accounting systems and internal controls, and you accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 400 and SAAS 230.
- there was no documented consideration of laws and regulations, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 250 and SAAS 230.
- there was no documented consideration of fraud and error issues, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 240 and SAAS 230.
- there was inadequate documentation on file relating to the identification of related parties, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 550 and SAAS 230.
- there was insufficient documentation on file of the knowledge of the business of the client, and you accordingly failed to comply with generally accepted auditing standards and in particular SAAS 310 and SAAS 230.

SUMMING UP

The committee has given careful consideration to the submissions made by [pro forma complainant] and by [Mr C]. We have had regard to the points which you have made in support of your contention that the sentence should be a minimal one.

The committee is sympathetic towards the situation in which small firms find themselves, the impact of the lack of resources that they have and under which they must operate, and the demands which are placed on them in order to fulfil the requirements that the law requires in this day and age of an auditor.

The committee has had regard to your evidence in relation to your financial position, in relation to your age, they have had particular regard to your evidence in relation to the number of staff in your employ and who are dependant on your continued practice for a living. The committee has also taken into account your evidence in relation to the changes which you say you have implemented in the firm and the way in which you now conduct your audits.

However the committee is, whilst mindful of these matters, not in agreement with you in relation to your submission as to the appropriate sentence and in this regard the committee has taken into account the submissions of [pro forma complainant] too. The review which formed the subject matter of these proceedings was the fourth review; there had been ample opportunity given to you to improve the quality of the audits done by you and those opportunities had not been seized and had not been taken. The committee agrees with [pro forma complainant] that the complaint against you in these particular circumstances is one which is of a very serious nature.

In those circumstances the grant of a caution or a reprimand would not in our view be an appropriate sanction to deal with the conduct which is complained of and in those circumstances the committee has come to the view that a more serious punishment is appropriate. The committee is also, like [pro forma complainant], concerned about the attitude which has been manifested by you in these proceedings. There is an element of the cavalier about the way in which you have gone about business in this case, and the concern is not just with that *per se* but as to the potential implications of that in relation to the work that you do as a member of the profession and as an auditor.

Taking into account all of these factors and the need for this committee to protect the standards in the profession, to protect the public, which is the primary goal of the profession, the committee has come to [a] view as to an appropriate sentence. Again, before I say what the sentence is, I should emphasise that in the particular circumstances these reasons are not full reasons and if the need should arise, they will be adumbrated.

SENTENCE

The sentence on which the committee has decided is as follows:

We order the removal of the practitioner's name from the register of accountants and auditors. The sentence is suspended on condition that the practitioner firstly successfully completes his final first cycle practice review, which is to be conducted during the period 1 November 2004 to 31 March 2005; secondly that he successfully completes his first second cycle review, which shall be conducted no later than 31 March 2006.

The practitioner will be considered to have passed the reviews if he is not found guilty of a similar offence arising from such reviews.

Publication of the findings and sentence in these proceedings but not the name of the practitioner or the firm is to be effected in the publication *Maneo*.



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The suspended sentence imposed by the Investigation Committee [R15 000] will come into force.

The practitioner is ordered to contribute R5 000 towards the Board's costs of these proceedings."

THIRD MATTER

On 30 April 2004 the committee also heard the case against Mr P. He was present and represented. He pleaded guilty to eight charges of unprofessional conduct, as follows:

FIRST CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or excuse he failed to perform work or duties commonly performed by a practitioner with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform such work or duties at all, in that:

1. At all material times hereto the practitioner acted as tax adviser of [W]. In that capacity he was engaged, amongst other duties, to attend to the tax affairs of [W] and in particular to render tax returns to the Commissioner for SARS on behalf of [W].
2. The practitioner failed in the following respects to perform his duties in terms of his engagement:
 - 2.1 he failed and/or neglected to submit income tax returns timeously for [W] for the financial year ended on 28 February 2002;
 - 2.2 he failed and/or neglected timeously to deal with queries from [W] in relation to the tax affairs of [W]

SECOND CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.21 in that he conducted himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tended to bring the profession of accounting into disrepute, in that:

1. At all material times hereto the practitioner acted as tax adviser of [W]. In that capacity he was engaged, amongst other duties, to attend to the tax affairs of [W] and in particular to render tax returns to the Commissioner for SARS on behalf of [W].
2. On or about 31 July 2002 and 23 October 2002 the practitioner informed [W] that the latter's income tax return for the year ended on 28 February 2002 had been rendered to SARS when he knew or must have known that that statement was untrue.

THIRD CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.21 in that he conducted himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tended to bring the profession of accounting into disrepute, in that:

1. Prior to November 2002 [W] had delivered or caused to be delivered to the practitioner his records and vouchers in respect of his tax affairs. These documents were delivered to the practitioner to enable him to carry out his engagement to attend to the tax affairs of [W] and in particular to render tax returns to the Commissioner for SARS on behalf of [W].
2. On or about 30 October 2002, and at various times thereafter, [W] and/or persons on behalf of [W] requested the practitioner to return the tax documentation referred to above, representing documentation in respect of approximately 15 years in respect of which tax returns were required to be rendered by [W].
3. The practitioner has failed and/or refused to return the documentation to [W] and/or to persons nominated by [W].
4. The practitioner had and has no right to retain the documentation belonging to [W].

FOURTH CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.14 in that, on three occasions, he failed to answer or to deal with appropriately within a reasonable time correspondence or other communications from [W] or on behalf of [W] which required a reply or other response.

FIFTH CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.21 in that he conducted himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tended to bring the profession of accounting into disrepute, in that:

1. On or about 18 March 2003 the practitioner removed from the premises of [the firm] a number of files belonging to [the firm] relating to the tax and/or accounting affairs of clients of [the firm].
2. At that date the practitioner was also in possession of certain files belonging to [the firm] relating to the tax and/or accounting affairs of clients of [the firm], as well as other documentation the property of [the firm]

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including, but not limited to, files, notes, details of work in progress, work sheets and related documentation.

3. The practitioner has failed and/or refused to return these files and other documentation to [the firm] despite the fact that he had no right to remove the documentation and files and/or he had and has no right to retain the files or other documentation.

SIXTH CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.14 in that, on five occasions, he failed to answer or to deal with appropriately within a reasonable time correspondence or other communications from [the firm] or on behalf of [the firm] which required a reply or other response.

SEVENTH CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.14 in that, on three occasions, he failed to answer or to deal with appropriately within a reasonable time correspondence from the Board which required a reply or other response.

EIGHTH CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.21 in that he conducted himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tends to bring the profession of accounting into disrepute, in that:

1. During or about the period from 1997 to 1 September 1998 [the firm] acted as auditor of [T]. The practitioner acted as the partner in charge of the audit of the financial statements of [T].
2. [The firm] resigned as the auditor of [T] on or about 1 September 1998.
3. During about 2000 or 2001 the practitioner obtained from SARS a copy of the tax return of [T] for the year ended on 28 February 1998. The practitioner was not entitled to obtain the copy of the tax return from SARS and he knew or ought to have known that he was not so entitled.

FINDING

The chairman, Adv Dodson, delivered the sentence of the committee. For the sake of good order it is reproduced in full:

SUMMING UP

“The committee has given careful attention to the evidence which has been given by [practitioner] and to the helpful submissions made by both [pro forma complainant] and [practitioner’s advocate].

As [practitioner’s advocate] correctly pointed out, the question of an appropriate sanction is viewed from the perspective of the offences of which [practitioner] has been charged, the perspective of the practitioner himself and the perspective of the community. The community involves both the components of the broader community, whom the accounting profession serves, and the professional community of the accounting and auditing profession itself.

In relation to the offences, there are eight charges to which [practitioner] has pleaded guilty. Sight should not be lost of the fact that they are eight serious charges and ones which are significant in terms of maintaining the respect in the community for the auditing profession.

At the same time evidence in some detail has been led of the particular circumstances which gave rise to the commission of the offences of which [practitioner] has pleaded guilty. He has explained that he has been diagnosed as suffering from depression and he has testified in a very open and honest way about the fact that he suffers from this condition and the consequences that this has given rise to.

If one has regard to the sequence of events which represent the fact underlying the complaints against him, then there is a clear correlation between those facts and the symptoms of the condition to which he testified.

What is important is that [practitioner] has not simply testified to the existence of the condition but that he has taken steps to deal with that. He has taken medical steps, he has taken lifestyle steps, and what is also important is that he took steps which were appropriate in relation to these very proceedings. He pleaded guilty without any demur, he did not take any tactical advantage of the fact that one of the witnesses was ill and not able to testify, and the committee has had particular regard to his attitude as far as that was concerned.

He has certainly, in these proceedings, shown remorse. There has been no attempt to put up some sort of inappropriate defence, and the fact that he has pleaded guilty reflects one of the first stages towards recovery, which is an acknowledgement of the existence of the problem.

The committee also takes into account, apart from his co-operation, the fact that [he] has no previous convictions against him, and also takes into account the complimentary remarks that were made about him by his former partner, before the period during which the problems arose.

If we consider the position of the broader public as representing the community, the difficulty from the public’s point of view is that they have no insight to the fact that he is suffering from depression. Their immediate



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experience is that they think their tax affairs are being dealt with appropriately and that they can get on with their lives because they've contracted somebody, paid somebody to do the job, and they suddenly find by way of a phone call from the Receiver or a return or something like that that those things haven't been done, and there is a problem. And it becomes a problem quite apart from the impact on the particular clients, it also then becomes a problem for the colleagues who are his partners within the firm. And whilst they may come to understand that he is suffering from depression, they then have to deal with the consequences of those problems, and that is something that the committee has also had to take into account.

The committee has had some difficulty in coming to a conclusion as to an appropriate sanction given those competing considerations, but after careful deliberation we have come to the view that the following sanction would be appropriate.

SENTENCE

The practitioner is sentenced to a R20 000 fine. The fine is wholly suspended for a period of three years on condition that the practitioner continues to seek regular medical treatment to the extent that he is able to afford same.

No order is made as to costs.

The findings and the sentence of the committee should be published in *Maneo*, but not the name of the practitioner nor the name of the firm for which he previously practiced."

FOURTH MATTER

On 21 May 2004 the committee heard the case against Mr L. He was present but not represented. He pleaded guilty to four charges of unprofessional conduct arising out of his 2nd review in the 2nd cycle.

FIRST CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or excuse, and in the respects set out below, he failed to perform his duties as auditor to [RC], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, in that:

1. In respect of his audit of [RC] financial statements, the practitioner failed to keep audit working papers and/or he failed to obtain audit evidence, alternatively he failed to keep adequate audit working papers and/or he failed to obtain adequate audit evidence, in the respects set out below; he accordingly failed to comply with

generally accepted auditing standards and in particular SAAS 230 and/or SAAS 500, as follows:

- 1.1 there was no or inadequate documentation on file in respect of the testing for completeness of income;
- 1.2 there was no or inadequate documentation on file concerning verification procedures in respect of salaries, save for a graph with a representation from management;
- 1.3 there was no or inadequate documentation on file relating to completeness tests of inventory. In any event the inventory lists which were on file reflected amounts less than were shown in the [RC] financial statements. Moreover, there was no indication on file whether old inventory brought in from the previous year had been counted nor was there any documentation concerning the nature and extent of the price tests performed on the inventory;
- 1.4 there were no confirmations on file concerning the existence or amounts of debit loans, nor was there any documentation on file to indicate that recoverability tests had been carried out;
- 1.5 the working papers indicated that a standard provision was made every month for PAYE but there was no documentation on file relating to the completeness, validity and accuracy of the provision;
- 1.6 there was no or inadequate documentation on file relating to cut-off tests on debtors;
- 1.7 there was no or inadequate documentation on file relating to the confirmation of two of the three shareholders' loans, nor was there any documentation to reflect that the movement in the balances of the three loans had been verified;
- 1.8 there was insufficient documentation on file concerning transaction tests of purchases;
- 1.9 there was no or inadequate documentation on file that analytical review procedures had been carried out;
2. There was no or inadequate documentation on file to indicate that a schedule of unadjusted audit differences had been maintained. The practitioner accordingly failed to comply with SAAS 320 and/or SAAS 230;
3. There was no documented consideration of fraud and error. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 240 and/or SAAS 230;
4. There was no documented consideration of laws and regulations. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 250 and/or SAAS 230.

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SECOND CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.21 in that, without reasonable cause or excuse, he contravened or failed to observe certain of the provisions of the code of professional conduct, in that his working papers reflected that [RC] was indebted to the practitioner in respect of a loan made by the practitioner. The practitioner was accordingly in breach of the code in respect of its provisions relating to independence, and in particular the provisions of the Code contained in paragraphs 4.3 and 7 and more in particular paragraph 7.7.

THIRD CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or excuse, and in the respects set out below, he failed to perform his duties as auditor to [MC], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, in that:

1. In respect of his audit of the [MC] company financial statements the practitioner failed to keep audit working papers and/or he failed to obtain audit evidence, alternatively he failed to keep adequate audit working papers and/or he failed to obtain adequate audit evidence, in the respects set out below; he accordingly failed to comply with generally accepted auditing standards and in particular SAAS 230 and/or SAAS 500:
 - 1.1 in relation to inventory the working papers indicate that a stock count had not been attended. However:
 - 1.1.1 there was no or inadequate documentation on file to indicate that alternative tests had been carried out to verify the existence and completeness of inventory;
 - 1.1.2 there was no or inadequate documentation on file to indicate that the provision for obsolescence had been verified;
 - 1.1.3 there was no documentation on file relating to cut-off tests;
 - 1.2 there was no or inadequate documentation on file to indicate that a reconciliation of tax balances had been carried out;
 - 1.3 there was no or inadequate documentation on file to indicate that transaction tests on cost of sales had been conducted;
 - 1.4 there was no or inadequate documentation on file to indicate that completeness tests of income had

been conducted; in addition transaction tests were limited to the debtor statements;

- 1.5 there was no or inadequate documentation on file to indicate that amounts paid in respect of salaries had been verified; the only documents on file were schedules of salaries;
- 1.6 there was no or inadequate documentation on file to indicate what procedures had been applied to verify the petty cash balance at the year end;
- 1.7 there was no or inadequate documentation on file to indicate that shareholders' loans had been confirmed;
2. There was no documented consideration of laws and regulations. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 250 and/or SAAS 230;
3. There was no documented consideration of fraud and error. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 240 and/or SAAS 230;
4. In relation to creditors the provision for obsolescence appears as a credit balance on the lead schedule, but as the exact amount had also been credited to inventory the provision was duplicated. Furthermore, both amounts were wrongfully debited against costs of sales.

FOURTH CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or excuse, he failed to perform his duties as auditor to the Body Corporate, being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, in that:

1. In respect of his audit of the Body Corporate financial statements, the practitioner failed to keep audit working papers and/or he failed to obtain audit evidence, alternatively he failed to keep adequate audit working papers and/or he failed to obtain adequate audit evidence, in that there was no documentation on file concerning the practitioner's consideration of the recoverability of debtors, most of which were over 120 days; he accordingly failed to comply with generally accepted auditing standards and in particular SAAS 230 and/or SAAS 500;
2. There was no documented consideration of fraud and error. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 240 and/or SAAS 230;
3. There was no engagement letter on file. The practitioner



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accordingly failed to comply with generally accepted auditing standards and in particular SAAS 210 and/or SAAS 230.

SENTENCE

The chairman, Mr Gihwala, delivered the sentence of the committee. For the sake of good order it is reproduced in full: "I am going to formulate the decision of the committee. I will give it, when I have read it out, confirmed by the rest of the committee. What it is necessary to point out is that you have been found guilty on four counts in the charge-sheet and that the committee has some reservations as to your ability to improve matters in the respects in which you have indicated. This will be taken into account when we specify the sentence.

It is also to be noted that these offences, the four charges, have occurred within a period of a previous suspended order, and the first question then is whether that sentence must now automatically be brought into effect. The committee has carefully considered this and decided that the previous sentence would not be brought into effect immediately, but that it will be further suspended for a period to which I am going to refer presently.

It has also been decided that in terms of Rule 2.3.5 and subject to the further terms which I am to mention, your name will be removed from the register but this removal will be suspended for 3 years from today's date.

The earlier award and the present removal, are then suspended for three years. The condition of that suspension is that you not be convicted again of a contravention of any of the Board's rules and that a practice review must be undertaken before the 31 December of this year, and that such review will be successful. That deals with suspension and the earlier order.

In addition it is the decision of the committee that you be ordered to pay a fine of R30 000 and this you must make arrangements with the legal director about when and how that will be paid and it must be to her satisfaction.

We have considered the question of publication and we direct that there will be one publication in *Maneo* of the result of this enquiry and the order which has been made, but that that be done without a reference to either the firm name or your individual name.

And finally there is the question of whether there should be an order as to costs and here the decision is that you will contribute and pay (again in arrangement with the legal director), the sum of R20 000 towards the costs of the hearing."

FIFTH MATTER

Die Komitee het op 17 en 18 Junie 2004 die saak teem Mnr C aangehoor. Hy was teenwoordig en verteenwoordig. Die saak was voortspruitend uit sy derde oorsig in die eerste siklus. Hy het oorspronklik onskuldig gepleit en eksepsie teen die klagstaat aangeteken. Die klagstaat was gewysig en hy het later sy pleit na skuldig verander.

EERSTE KLAG

Die praktisyn was skuldig bevind aan 'n oortreding van dissiplinêre reël 2.1.5 deurdat hy, sonder redelike oorsaak of verskoning, en in die opsigte hieronder uiteengesit, versuim het om sy werk of pligte as ouditeur van [S], wat werk of pligte was wat gewoonlik deur 'n geregistreerde rekenmeester en ouditeur uitgevoer word, met sodanige mate van omsigtigheid en bedrewenheid uit te voer as wat volgens die Raad se oordeel redelikerwys verwag kan word, deurdat:

1. Die praktisyn het in die volgende opsigte versuim om auditwerkspapiere of auditbewyse (alternatiewelik, om voldoende of volledige auditwerkspapiere of auditbewyse) op te stel of te bekom of te behou in verband met sy audit van die [S] finansiële state. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde auditstandaarde en meer in besonder SAOS 230 en/of SAOS 500:
 - 1.1 die resultate van die debiteure sirkulasie is nie gedokumenteer nie. Daar is ook geen dokumentasie of auditbewyse met betrekking tot die invorderbaarheidoorwegings nie;
 - 1.2 daar was geen of onvoldoende werkspapiere of auditbewyse met betrekking tot die verifikasie van die geldigheid van die voorsiening vir waarborge;
 - 1.3 daar was geen of onvoldoende werkspapiere of auditbewyse met betrekking tot die verifikasie van die geldigheid van "voortuitgefaktureerde inkomste krediteur";
 - 1.4 twintig voorraad items is geselekteer vir verifikasie van die waardasie van voorraad. Daar was egter geen eenhede op hande op jaareinde nie. Daar was geen of onvoldoende werkspapiere of auditbewyse met betrekking tot verifikasie van waardasie in verband met items wel op hande op jaareinde;
 - 1.5 daar was geen of onvoldoende werkspapiere of auditbewyse met betrekking tot die redelikheid van die drawaarde van ontasbare bates;
 - 1.6 daar was geen of onvoldoende werkspapiere of auditbewyse met betrekking tot die verifikasie van die volledigheid van inkomste;
 - 1.7 daar was geen of onvoldoende werkspapiere of

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ouditbewyse met betrekking tot die geldigheid van die verskil in inkomste volgens die finansiële state en die BTW opgawes;

1.8 daar was geen of onvoldoende werkpapiere of ouditbewyse met betrekking tot aankope-, betalings- en loonstaattransaksietoetse;

2. Daar was geen aanstellingsbrief op lêer nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 210 en/of SAOS 230.
3. Daar was geen dokumentasie op lêer met betrekking tot die praktisyn se kennis van die besigheid nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 310 en/of SAOS 230.
4. Daar was geen dokumentasie op lêer in verband met die praktisyn se wesenlikheidsbeoordeling nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 320 en/of SAOS 230.
5. Daar was geen gedokumenteerde begrip van die rekeningkundige stelsels en interne kontroles nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 400 en/of SAOS 230.
6. Daar was geen gedokumenteerde risiko beoordeling nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 400 en/of SAOS 230.
7. Die praktisyn het versuim om prosedures te dokumenteer en te identifiseer van gebeure na balansstaatdatum. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 560 en/of SAOS 230.
8. Daar was geen rekord dat die praktisyn geskrewe bestuursverklarings verkry het nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 580 en/of SAOS 230.
9. Daar was geen dokumentasie met betrekking tot lopende saakoorwegings nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 570 en/of SAOS 230.

TWEDE KLAG

Die praktisyn was skuldig bevind aan 'n oortreding van dissiplinêre reël 2.1.5 deurdat hy, sonder redelike oorsaak of verskoning, en in die opsigte hieronder uiteengesit,

versuim het om sy werk of pligte as ouditeur van [GCT], wat werk of pligte was wat gewoonlik deur 'n geregistreerde rekenmeester en ouditeur uitgevoer word, met sodanige mate van omsigtigheid en bedrewenheid uit te voer as wat volgens die Raad se oordeel redelikerwys verwag kan word soos volg:

1. Die praktisyn het in die volgende opsigte versuim om ouditwerkpapiere of ouditbewyse (alternatiewelik het die praktisyn versuim om voldoende of volledige ouditwerkpapiere of ouditbewyse) op te stel of te bekom of te behou in verband met sy audit van [GCT] se finansiële state. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 230 en/of SAOS 500:
 - 1.1 daar was geen of onvoldoende werkpapiere of ouditbewyse met betrekking tot die redelikheid van die direkteurwaardasie van die drawaarde van beleggingseiendom nie;
 - 1.2 daar was geen of onvoldoende werkpapiere of ouditbewyse met betrekking tot die redelikheid van die drawaarde van genoteerde beleggings nie;
 - 1.3 daar was geen of onvoldoende werkpapiere of ouditbewyse met betrekking tot die invorderbaarheidoorwegings van debietlenings nie;
 - 1.4 daar was geen of onvoldoende werkpapiere of ouditbewyse met betrekking tot lone en salarisse transaksie toetse nie;
2. Daar was geen aanstellingsbrief op lêer nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 210 en/of SAOS 230.
3. Daar was geen dokumentasie op lêer met betrekking tot die praktisyn se kennis van die besigheid nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 310 en/of SAOS 230.
4. Daar was geen dokumentasie op lêer in verband met die praktisyn se wesenlikheidsbeoordeling nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 320 en/of SAOS 230.
5. Daar was geen gedokumenteerde begrip van die rekeningkundige stelsels en interne kontroles nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 400 en/of SAOS 230.
6. Daar was geen gedokumenteerde risiko beoordeling nie. Die praktisyn het derhalwe versuim om te voldoen



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aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 400 en/of SAOS 230.

7. Daar was geen dokumentasie met betrekking tot lopende saak oorwegings nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 570 en/of SAOS 230.
8. Die praktisyn het versuim om prosedures te dokumenteer en te identifiseer van gebeure na- balansstaatdatum. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 560 en/of SAOS 230.
9. Daar was geen rekord dat die praktisyn geskrewe bestuursverklarings verkry het nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 580 en/of SAOS 230.

Die voorsitter, Mnr Gihwala, het die Komitee se bevindinge gelewer. Ter wille van goeie orde is dit hieronder ten volle herproduseer:

BEVINDINGE

“We are re-assembled after a short adjournment for the purposes of passing sentence on Mr [C], pursuant to his pleas of guilty to the two charges. I do not think there is any reason for me or for this committee to repeat the facts and the charges that the accused has pleaded guilty to, and the purpose now is simply to deal with the question of sentence.

Before we convey the sentence to the accused, I think it may be appropriate for us just to tell Mr [C] one or two things. The first point I would like to make is that for everybody to know that notwithstanding the appeal or the propositions advanced by the pro forma complainant with regard to sentence, it is always in the committee’s discretion as to what is a suitable sentence. There is no basis that we should actually follow the recommendations that are made.

That is the first point I want to make, and pursuant to that, although the question of the suspension of Mr [C] was never raised, by [pro forma complainant] as a suitable sentence, I want to tell Mr [C] that this committee seriously considered the possibility of suspending him from practice. For one reason by and large, and that is the fact that almost 80% on his own testimony of his practice is attest work. Notwithstanding strong views in favour of him being suspended, this committee has decided not to do so in the hope that Mr [C] will avail himself of this lifeline that is being thrown to him.

We also considered in great detail that there was no material improvement in the quality of his work since his

first review in 1996 and we took a dim view of the fact that there was no improvement despite his written undertakings then that there would be an improvement and he would fix certain shortcomings. It appears to us that there is quite clearly a lack of understanding of the basic principles and the essential procedures governing audit work, and in the light thereof this committee, to the extent that it be able to make a recommendation, would like to suggest to Mr [C], and he is not obliged to follow this recommendation or suggestion, is to consider aids to auditing methodology which are available in the marketplace in the hope that it will improve the quality of his work and also at the same time ensure that he remains a practitioner in good standing.

Those are purely opening remarks for consideration and which this committee conveys to you in the light of the seriousness of the transgressions that we have had to deal with here today.

VONNIS

Having said that, this committee has resolved that the following sentence would be appropriate in the circumstances.

There will be a fine of R50 000, of which R25 000 is suspended for a period of five years on condition that firstly you are to attend the workshops and/or courses offered by the Board or SAICA dealing with practice review and/or auditing updates to the satisfaction of PAAB’s practice review director, and, secondly, that you pass the first cycle at your next review in respect of audits performed after this hearing, and your second cycle within 18 months thereafter.

On the question of publication, the facts and findings without reference to your and your firm’s identity are to be published in *Maneo*, and you will make a contribution of R30 000 towards the Board’s costs.”

SIXTH MATTER

On 17 June 2004 the Committee heard the case against Mr N. He was present but not represented. The case arose out of his third review in the second cycle. He pleaded guilty to the three charges against him.

FIRST CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or excuse, and in the respects set out below, he failed to perform his duties as auditor to [MC], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, in that:

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1. In respect of his audit of the [MC] financial statements, the practitioner failed to keep audit working papers and/or he failed to obtain audit evidence, alternatively he failed to keep adequate audit working papers and/or he failed to obtain adequate audit evidence, in the respects set out below; he accordingly failed to comply with generally accepted auditing standards and in particular SAAS 230 and/or SAAS 500:
 - 1.1 there was no documentation on file concerning the verification of the value-added tax creditors;
 - 1.2 there was no documentation on file in respect of the verification of the reasonableness of the provision for inventory obsolescence;
 - 1.3 there were no details documented on file concerning the verification of the valuation of work in progress;
 - 1.4 there was no documentation on file of payroll transaction tests;
 - 1.5 there was inadequate documentation on file in respect of the testing for completeness of income;
 - 1.6 there was no documentation on file in respect of tests concerning the net realisable value of inventory;
 - 1.7 there was no documentation on file in respect of the validity of a short-term loan;
 - 1.8 there were no documentation on file to indicate that any audit work had been done to search for unrecorded liabilities;
 - 1.9 there was no documentation on file relating to cut-off tests.
2. There was no documentation on file relating to the understanding of the accounting systems and internal controls. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 400.
3. There was no documented materiality assessment. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS320.
4. There were no audit programmes on file. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 300.
5. There was no documentation on file concerning an analytical review in respect of the income statement with explanations of significant fluctuations. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 520.
6. There was no documentation on file relating to the identification of related parties. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 550.
7. There was no documented consideration of laws and regulations or of fraud and error. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 250 and SAAS 240 respectively.

SECOND CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or

PAAB RISES TO THE OCCASION



PAAB entered the Take Five Team Relay held in Pretoria on 31 July 2004. The teams performed excellently and the two running teams made the top 100 (we only admit to that because we stand for honesty, truth and integrity...).



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excuse, and in the respects set out below, he failed to perform his duties as auditor to [SC], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, in that:

1. In respect of his audit of the [SC] financial statements the practitioner failed to keep audit working papers and/or he failed to obtain audit evidence, alternatively he failed to keep adequate audit working papers and/or he failed to obtain adequate audit evidence, in the respects set out below; he accordingly failed to comply with generally accepted auditing standards and in particular SAAS 230 and/or SAAS 500:
 - 1.1 there was inadequate documentation on file in respect of the testing for completeness of income;
 - 1.2 there was no documentation on file in respect of tests concerning the net realisable value of inventory;
 - 1.3 there were no documentation on file to indicate that any audit work had been done to search for unrecorded liabilities;
 - 1.4 there was no documentation on file relating to cut-off tests;
 - 1.5 according to the working papers plant and equipment (scaffolding) could not be verified physically; however, there was no documented assessment of the reasonableness of the carrying value of the plant and equipment;
 - 1.6 there was no documentation on file containing details of subsequent receipts of debtors;
 - 1.7 there was no documentation on file in respect of the verification of the ownership of investment property;
 - 1.8 there was no documentation on file relating to attendance by the practitioner at stocktaking, nor in respect of quantity tests of inventory;
 - 1.9 there was no documentation on file concerning the reasonableness of the assessment of the carrying value of investment property;
 - 1.10 there was no documentation on file concerning the practitioner's consideration of a possible provision for bonus pay and leave pay.
2. There was no documentation on file relating to the understanding of the accounting systems and internal controls. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 400.

3. There was no documented materiality assessment. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS320.
4. There were no audit programmes on file. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 300.
5. There was no documentation on file concerning an analytical review in respect of the income statement with explanations of significant fluctuations. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 520.
6. There was no documentation on file relating to the identification of related parties. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 550.
7. There was no documented consideration of laws and regulations or of fraud and error. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 250 and SAAS 240 respectively.

THIRD CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or excuse, and in the respects set out below, he failed to perform his duties as auditor to [PC], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, in that:

1. In respect of his audit of the [PC] financial statements, the practitioner failed to keep audit working papers and/or he failed to obtain audit evidence, alternatively he failed to keep adequate audit working papers and/or he failed to obtain adequate audit evidence, in the respects set out below; he accordingly failed to comply with generally accepted auditing standards and in particular SAAS 230 and/or SAAS 500:
 - 1.1 there was no documentation on file to indicate that any audit work had been done to search for unrecorded liabilities;
 - 1.2 there was an accounting summary on file in respect of rent received from tenants; however, there was no documentation on file in respect of the verification of the validity of fluctuations in respect of rent. Moreover, the information contained in the accounting summary differed from the information contained in the lease agreements which were on

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file and there was no documentation concerning the validity of those differences;

- 1.3 included in the fixed asset register were two cranes; however, there was no documentation on file in respect of the appropriateness of recognising these cranes as fixed assets;
 - 1.4 there was no documentation on file relating to salaries transaction tests;
 - 1.5 there was no documentation on file concerning the reasonableness of the assessment of the carrying value of investment property.
2. There was no documentation on file relating to the understanding of the accounting systems and internal controls. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 400.
 3. There was no documented materiality assessment. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 320.
 4. There were no audit programmes on file. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 300.
 5. There was no documentation on file concerning an analytical review in respect of the income statement with explanations of significant fluctuations. The practitioner accordingly failed to comply with generally accepted auditing standards, and in particular SAAS 520.
 6. There was no documentation on file relating to the identification of related parties. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 550.
 7. There was no documented consideration of laws and regulations or of fraud and error. The practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 250 and SAAS 240 respectively.

FINDING

The finding of the committee was delivered by the chairman, Mr Gihwala. For the sake of good order, it is reproduced in full:

“Mr [N], this committee has now deliberated as you know for quite a lengthy time to determine what is a suitable sentence. Before I tell you what that sentence is I think it may be appropriate for me just to highlight one or two issues.

This committee took into consideration all the personal circumstances which you presented us under oath, and the

following factors which weighed heavily in your favour: The fact that you co-operated completely with the officials from the PAAB, that you have come here, you have pleaded guilty, you have not wasted this disciplinary committee’s time and it is clear to us at the very least that if there was not a misunderstanding this matter may well have been disposed of at an earlier stage.

But having said that, the matters that you have pleaded guilty to are of a very, very serious nature which you yourself have acknowledged and of course, this committee has a responsibility, the details of which I think you fully understand and I do not need to repeat.

SENTENCE

In the circumstances this committee has resolved to pass the following sentence:

You are fined R15 000 of which R7 500 is suspended for a period of 5 years on condition that you attend workshops and/or courses offered by the Board and/or SAICA dealing with practice review and/or auditing updates to the satisfaction of the practice review director of the Board, and you pass the second cycle at the next review and the third cycle within 24 months thereafter.

The facts and findings of this matter shall be published in *Maneo* without reference to your identity or the name of your firm.

There shall be no order as to costs.

And finally the period of suspension shall only commence once you have informed the Board that you have recommenced the attest function.”

SEVENTH MATTER

Op 17 Junie het die komitee die saak teen Mnr B gehoor. Hy was teenwoordig maar nie verteenwoordig nie. Daar was drie klagtes teen hom voorspruitend uit sy derde oorsig in die eerste siklus, waaraan hy skuldig gepleit het, en skuldig bevind was.

EERSTE KLAG

Die praktisyn was skuldig bevind aan ’n oortreding van dissiplinêre reël 2.1.5 deurdat hy, sonder redelike oorsaak of verskoning, en in die opsigte hieronder uiteengesit, versuim het om sy werk of pligte as ouditeur van [HH], wat werk of pligte was wat gewoonlik deur ’n geregistreerde rekenmeester en ouditeur uitgevoer word, met sodanige mate van omsigtigheid en bedrewenheid uit te voer as wat volgens die Raad se oordeel redelikerwys verwag kan word, deurdat:

1. Die praktisyn versuim het om ouditwerkspapiere of



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ouditbewyse op te stel of te bekom of te behou in verband met sy oudit van die [HH] finansiële state, deurdat daar was geen of onvoldoende werkpapiere of ouditbewyse rakende die verhaalbaarheid van lenings aan derde partye. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 230 en/of SAOS 500.

2. Daar was geen aanstellingsbrief of ander dokument wat die aanstellingsvoorwaardes van die praktisyn se aanstelling uiteen sit nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 210.
3. Daar was geen rekord dat die praktisyn geskrewe bestuursverklarings verkry het nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 580.
4. Daar was geen of onvoldoende werkpapiere of ouditbewyse rakende die praktisyn se wesenlikheidsberekening nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 320.

TWEDE KLAG

Die praktisyn was skuldig bevind aan 'n oortreding van dissiplinêre reël 2.1.5 deurdat hy, sonder redelike oorsaak of verskoning, en in die opsigte hieronder uiteengesit, versuim het om sy werk of pligte as ouditeur van [E], wat werk of pligte was wat gewoonlik deur 'n geregistreerde rekenmeester en ouditeur uitgevoer word, met sodanige mate van omsigtigheid en bedrewenheid uit te voer as wat volgens die Raad se oordeel redelikerwys verwag kan word, deurdat:

1. Die praktisyn in die volgende opsigte versuim het om ouditwerkspapiere of ouditbewyse op te stel of te bekom of te behou in verband met sy oudit van die [E] finansiële state. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 230 en/of SAOS 500:
 - 1.1 daar was geen of onvoldoende werkpapiere of ouditbewyse rakende ouditprosedures vir bestaan, volledigheid, afsnyding en waardasie van voorraad nie;
 - 1.2 daar was geen of onvoldoende werkpapiere of ouditbewyse rakende toetse in verband met die volledigheid van inkomste nie;
 - 1.3 daar was geen of onvoldoende werkpapiere of ouditbewyse rakende geldigheidstoetse uitgevoer in verband met uitgawes nie;
 - 1.4 daar was geen of onvoldoende werkpapiere of

ouditbewyse rakende die verhaalbaarheidsoorwegings in verband met lenings aan derde partye nie;

2. Die praktisyn se oorwegings in verband met ouditrisiko was nie met verwysing na die stelling vir alle wesenlike balanse en wenselike klasse transaksies gedokumenteer nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 400.

DERDE KLAG

Die praktisyn was skuldig bevind aan 'n oortreding van dissiplinêre reël 2.1.5 deurdat hy, sonder redelike oorsaak of verskoning, en in die opsigte hieronder uiteengesit, versuim het om sy werk of pligte as ouditeur van die [T], wat werk of pligte was wat gewoonlik deur 'n geregistreerde rekenmeester en ouditeur uitgevoer word, met sodanige mate van omsigtigheid en bedrewenheid uit te voer as wat volgens die Raad se oordeel redelikerwys verwag kan word, soos volg:

1. Die praktisyn het in die volgende opsigte versuim om ouditwerkspapiere of ouditbewyse (alternatiewelik het die praktisyn versuim om voldoende of volledige ouditwerkspapiere of ouditbewyse) op te stel of te bekom of te behou in verband met sy oudit van die [T] finansiële state. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 230 en/of SAOS 500:
 - 1.1 vaste eiendom: daar was geen of onvoldoende werkpapiere of ouditbewyse rakende die oorweging van redelike drawaarde nie;
 - 1.2 daar was geen of onvoldoende werkpapiere of ouditbewyse rakende die verhaalbaarheidsoorwegings in verband met lenings aan derde partye nie;
 - 1.3 daar was geen of onvoldoende werkpapiere of ouditbewyse rakende toetse in verband met die volledigheid van inkomste nie;
 - 1.4 behalwe vir salarisse was daar geen of onvoldoende werkpapiere of ouditbewyse rakende geldigheidstoetse uitgevoer in verband met uitgawes nie;
2. Die praktisyn se oorwegings in verband met ouditrisiko was nie met verwysing na die stelling vir alle balanse en wenselike klasse transaksies gedokumenteer nie. Die praktisyn het derhalwe versuim om te voldoen aan algemeen aanvaarde ouditstandaarde en meer in besonder SAOS 400.

BEVINDINGE EN VONNIS

Die voorsitter, Mnr Gihwala, het die Komitee se bevindinge gelewer. Ter wille van goeie orde is dit hieronder ten volle herproduseer:

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“Mnr [B], hierdie komitee het nou besin oor wat ’n paslike vonnis sal wees. Al u persoonlike omstandighede is in ag geneem en al die feite wat u nou onder ons aandag gebring het, is ook in ag geneem. Dit is wel soos u weet die moeilikste gedeelte van hierdie komitee se funksie om ’n gepaste vonnis uit te bring in die lig van die klagtes en u persoonlike omstandighede en dergelyke ander faktore.

Die opgeskorte vonnis van R15 000 wat op die 14de Junie 2001 klaarblyklik gefel is, vir ’n verdere periode van drie jaar opgeskort word, vanaf vandag. Dit is die een gedeelte.

Die tweede gedeelte, wat die vonnis vir vandag se saak raak, is die vonnis die volgende:

Daar word ’n boete van R15 000 opgelê, waarvan R7 500 opgeskort word vir ’n periode van vyf jaar op die volgende voorwaardes.

Een, u werksinkels en/of kursusse wat deur die Raad of SAICA aangebied word, met betrekking tot praktykoorsig en oudit bywerking seminare, tot die bevrediging van die praktykoorsig direkteur van die Raad bywoon. Dit is die een voorwaarde.

Die tweede voorwaarde is dat u die eerste siklus by die volgende praktykoorsig slaag en dan daarna die tweede siklus binne ’n periode van 24 maande slaag.

Sover dit die publikasie aangaan is die bevel dat die feite en die bevindings van hierdie saak in *Maneo* gepubliseer word, sonder meldingmaking van u identiteit en van die firma se identiteit.

En laaste, u word gelas om ’n bydrae van R5 000 tot die koste van die Raad te maak.”

EIGHTH MATTER

On 17 June 2004 the committee heard the case against Mr William Phillip Nel, a sole practitioner practising under his own name. The practitioner was neither present nor represented. He had previously resigned his registration as at the end of 2003. The matter arose out of practice review. He was found guilty *in absentia*, of the following charges:

FIRST CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.1 in that he contravened or failed to comply with a provision of the Act with which it was his duty to comply, namely, section 22A (2) of the Act, in that:

1. During or about the period from 17 October 2002 to 5 March 2003 the Board, through its Practice Review Department, conducted (alternatively attempted to

conduct) a review of the practice of the practitioner in terms of the provisions of section 22A(1) of the Act.

2. The practitioner was required, in terms of section 22A(2) of the Act to cooperate with the Board, or a person authorised thereto by the Board, in relation to the conduct of the review of his practice. In particular, but without limitation, the practitioner was required, at the request of the Board or a person authorised thereto by the Board, to produce documents for inspection by the Board or such person.
3. The practitioner failed to comply with section 22A(2) in the following respects:
 - 3.1 he failed to prepare the necessary documents for inspection by an official of the Practice Review Department of the Board (being a person duly authorised by the Board) on or about 17 October 2002 despite having been requested to do so by the Practice Review Department;
 - 3.2 he failed to attend a meeting with an authorised official of the Practice Review Department on 5 March 2003 despite arrangements having been made for him to do so, and he also failed to make available for review the documentation relating to his audit of the affairs of [P] and/or [PD], as he had been required to do.

SECOND CHARGE

The practitioner was found guilty of contravening disciplinary rule 2.1.5 in that, without reasonable cause or excuse, and in the respects set out below, he failed to perform his duties as auditor to [P] and [PD], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, in that:

1. In respect of his audit of the annual financial statements of [P] and [PD] the practitioner failed to keep any audit working papers and/or he failed to obtain any audit evidence (alternatively he failed to keep adequate audit working papers and/or he failed to obtain adequate audit evidence); the practitioner accordingly failed to comply with generally accepted auditing standards and in particular SAAS 230 and/or SAAS 500.
2. The copies of the annual financial statements of [P] and [PD] which were on file were in the incorrect format and there were no audit reports attached thereto. The practitioner accordingly failed to comply with AC101 and/or SAAS 700.



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SENTENCE

The sentence of the committee was delivered by the chairman, Mr Gihwala, as follows:

“The accused is permanently disqualified from re-registering or applying for re-registration as an accountant and auditor and secondly, all of the facts and the findings of this matter, as well as the full name and practice details of the accused are to be published in *Maneo*. There will be no order as to costs.”

AND ON A LIGHTER NOTE

You think you have problems... Natal Witness of 12 November 2003 reported that a Pretoria lawyer’s “bewitched” accounts books got lost on their way to South Africa from Zimbabwe where they were taken for cleansing by a prophet, reported the Daily Sun.

CM, an attorney practising in the capital, surprised his

colleagues when he confirmed in court papers that his accounts books were sent to a Zimbabwean prophet, Samuel Juru, for cleansing as he suspected someone was casting a bad spell on them.

He made the statement in response to the Law Society of the Northern provinces’ application to have his name removed from the roll of attorneys. The Law Society contended in court that it was wrong for CM to continue practising while not in possession of his accounts books.

CM said that his prophet, Juru, was robbed as he was preparing to come to South Africa to cleanse his office, which he believed was also bewitched. A Zimbabwean police report alleges that Juru gave a lift to an unknown man who allegedly stole Juru’s bag containing CM’s books. ■

– JANE O’CONNOR

Director: Legal

COMMITTEE NEWS

The last time I reported on the actual composition of the committees was in issue 27, and in issue 33 I reported that as from January 2003, the committees would include nominees from SAICA.

These are the new members of the INVESCO:



Brian Smith served articles beginning January 1968 and qualified in 1973 with Deloitte, where he is a partner in the Johannesburg office. He is married to Jeanette (for 29 years) and they have a 21 year old daughter Elizabeth, as well as 2 little dogs who keep them

highly entertained with their antics. Brian plays golf off a 15 handicap and is an avid follower of both cricket and rugby having collected statistics regarding South African test sides in both sports dating back to 1888. He enjoys reading and classical music.

The SAICA nominees, as from 1 January 2003:



Andre de Valance passed the QE in 1992. He is a director of GC Ford & Co Inc. Andre is married to Cathy and they have a beautiful three year old daughter, Caitlyn. He plays a lousy round of golf.



Roshan Morar qualified in 1992 and has been practising for his own account since 1995. He is married to Jyoti and they have a six year old son, Jasveer, who is the apple of his eye. Roshan enjoys reading and watching movies to

relax, and meeting different people to stay sane and calm. He is an avid armchair sports spectator. Roshan is active in Business Chamber activities and city social programmes and is extensively involved on public sector audit committees. He is an ambassador of good governance.

In addition, **John Rhynes** retired from the Committee at the end of 2003, and now serves on the Disciplinary Committee. He is replaced by Brian Smith.





AUDITING OF SCHOOLS

Due to numerous enquiries, we are reproducing, in full, an article published in Maneo issue, no. 27 of June 2001.

I receive many enquiries from RAAs who are approached by CFAs, by way of the normal "professional courtesy" letter, regarding taking over the audit of a School client.

In general these audits are regulated by the South African Schools Act no 84 of 1996. When this Bill was originally published in April 1996 Section 31(1) read as follows:-

"The records and financial statements referred to in Section 30 shall be audited by a person registered as an accountant and auditor in terms of the Public Accountants' and Auditors' Act, 1991 (Act No. 80 of 1991), or another person approved by the Member of the Executive Council, and appointed by the governing body. Provided that such person shall have no financial interest in the affairs of the school."

The Public Accountants' and Auditors' Board responded to that draft legislation in its letter dated 19 June 1996 as follows:-

"Dear Mr Boesenberg

RE: SOUTH AFRICAN SCHOOLS BILL

I refer to section 31(1) of the above Bill, which is of some concern to this Board.

Although it might not be immediately apparent from a reading from this Bill in isolation, this clause is part of a disturbing trend which is eroding the reserved right to perform the attest function and which allows audits to be conducted by non-auditors.

The attest function (that is, the carrying out of audits) is reserved to registered accountants and auditors. Whilst we believe that the erosion of this function is a disturbing trend in any event, we believe it is even more disturbing in our current socio-political climate where school fees are analogous to trust monies, and should be subject to strict audit procedures.

We also appreciate that work must be done at the correct level of expertise and the argument is frequently raised that small schools are not in a position to afford the services of an auditor. Whilst we do not necessarily agree with this argument, it is one which seems to find increasing sympathy with state officials and has lead, for example, to the Director of Fundraising allowing a similar relaxation

regarding the audit of organisations registered with him. We cannot agree that this is in anybody's interest, least of all the investing public.

If the words "or another person approved by the Member of the Executive Council" have been inserted to accommodate this argument we would prefer that you allow that no audit is performed rather than an "audit" is performed by a non-qualified person. To put it quite simply, auditors are the only people competent and qualified to perform audits and the sooner that everybody understands this, the better.

We would respectfully suggest that the section is replaced with a section along the following lines:

"(ii) The records and financial statements referred to in section 30 shall be audited by a person registered as an accountant and auditor in terms of the Public Accountants and Auditors Act, 1991 (Act No 80 of 1991), unless the Member of the Executive Council is prepared to waive the requirements of this subsection."

We appreciate that this might seem like very technical nit picking, but the implications are actually quite serious. In the circumstances the writer, or any member of our Directorate or Board, would be delighted to meet with you to explain the situation further. Alternatively, should you wish to discuss the matter telephonically, please do not hesitate to telephone.

In any event, we look forward to receiving your response in due course.

Yours sincerely

*JANE O'CONNOR
DIRECTOR: LEGAL"*

After much lobbying, and particularly with the assistance of the Auditor-General's office, the wording was changed to:

"Audit or examination of financial records and statements

43. (1) The governing body of a public school must appoint a person registered as an accountant and auditor in terms of the Public Accountants and Auditors Act, 1991 (Act No. 80 of 1991), to audit the records and financial statements referred to in section 42.

(2) If the audit referred to in subsection (1) is not reasonably practicable, the governing body of a



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- public school* must appoint a person to examine and report on the records and financial statements referred to in section 42, who –
- (a) is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 1984 (Act No. 69 of 1984); or
 - (b) is approved by the *Member of the Executive Council* for this purpose.
- (3) No person who has a financial interest in the affairs of the *public school* may be appointed under this section.
 - (4) If the *Member of the Executive Council* deems it necessary, he or she may request the Auditor-General to undertake an audit of the records and financial statements of a *public school*.
 - (5) A *governing body* must submit to the *Head of Department*, within six months after the end of each financial year, a copy of the annual financial statements, audited or examined in terms of this section.”

From this you will notice that audits must still be performed by registered accountants and auditors. However, in the

event that this is not “reasonably practicable” the school must appoint what is commonly known as an “accounting officer” to examine and report on the records and financial statements.

Accordingly in the event of a school really not finding it reasonably practicable to appoint an auditor, they may appoint an “accounting officer”. Effectively this means a person registered with one of the various institutes recognised in terms of the Close Corporations Act. We are not certain exactly what constitutes “reasonably practicable” but I would venture to suggest that the school must at the very least apply its mind to this question. It is only when Section 43(1) is not deemed reasonably practicable that Section 43(2) would become effective. It is accordingly not open to a school, for example, to engage in a tender process inviting tenders from both RAAs and, for example, CFAs. They would first need to apply their minds to Section 43(1).

RAAs who find themselves in the situation of being replaced by non-RAAs should perhaps raise this issue directly with the school, and the potential incoming incumbent and not simply relinquish the audit as a matter of course. ■

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From 1 May 2004 to 31 July 2004

Abrahams Nisreen
Alexander Donovan
 Andrew
Badenhorst Pieter Jakobus
Bellon Mark
Bets Anne-Mari
Bezuidenhout Willie
Bhikha Harshad
Brey Atika
Burger Willem Francois
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Cilliers Sonja Susanna
De Villiers Gareth Anthony
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Dreyer Danie
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Engles John Henre
Erasmus Michelle Barbara Elinor
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Galliot Marco
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Lightfoot John Alistair
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Marais Lizelle
Matthews Nicholas John
Meyer Hendrik Tjaart
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Ndlovu Thamsanqa Milton
Nelson Paul Anthony
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Perumaul Indhren
Petersen Dawid Charles
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Saayman Morne
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Smit O’Kennedy
Swanepoel Irma
Tweedy George Caine
Van Deventer Sarel
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Van Greunen Lizette
Van Rooy Barend Johannes
Van Staden Jean-Pierre
Vanvinkenroye Kjelt Josephine Denis
Venter Adriaan
Venter Carlie
Weinrich Douglas Rodney
Wiese Verwey
Wilson Andrew John
Zarnack Karin

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From 1 May 2004 to 31 July 2004

Bergh Albert Egbert
Bieldt Walter Oswald
Bouwer Pieter Johan
Brits Josua Johannes
Buthlezi Muzikayifani Humphrey
Cilliers Pierre Eugene

Coetzee Andre Eben
Davel Bernardus Johannes
Dawood Nisar Ahmed
De Jongh Dennis Ronald
De Kock Martin Christo
Du Plessis Henry Visser

Du Preez Hayden
Els Frans Sarel Jacobus
Elsworth Colin Craig
Fechter Ina
Fernandes Victor Manuel Rodrigues
Field Craig Harvey Donovan

Grobbelaar Cornelius Frederik
Homann Malcolm Paul
Jack Vuyo
Janse Van Rensburg Elia Christiaan
Krecklenberg Manfred Albert
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From 1 May 2004 to 31 July 2004

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Meinie-Anderson *Natasha Irene*
Meyer *Stephanus Albertus*
Miller *Alexander Kenneth Neilson*
Mostert *Steven John*
Moyo *Mthandazo Peter*
Nurse *Gregory Edmund*
Oosthuizen *Pieter Gert Wessel*
Pather *Kauslin*
Patrizi *Marco Anselmo*
Peens *Johannes Gideon*
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Purves *Alexander John*
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Watson *Neil Dunn*
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Wiggill *Jeffery Mark*

INDIVIDUALS REMOVED FROM THE REGISTER OF THE BOARD

From 1 May 2004 to 31 July 2004

Ackermann *Johannes Nicolaas (resigned)*
Botha *Roelof Frederik (resigned)*
Dednam *Henry Broadley (resigned)*
Engelbrecht *Wilhelmus Jacobus (resigned)*
Fowle *James Owen (resigned)*
Friedland *Klaus Arthur (emigrated)*
MacDonald *Peter Mark (resigned)*
Milton *Eric Andrew (resigned)*
Peagam *Noel John (resigned)*
Rowland *John Garth (resigned)*
Venter *Johannes Antonie (resigned)*

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 Mandy Kirwin – Secretary
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 Carmen Walters – Membership Administrative Assistant
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 Helena Reid – Reviewer
 Marthie Claassens – Reviewer
 Andre Swart – Reviewer
 Kathy Robison – Reviewer
 Erhardt Bahlmann – Reviewer
 Peter Smith – Reviewer
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 Michelle Myburgh – Accounts Clerk
 Liza Verburg – Manager: Communications
 Gail Williams – Receptionist
 Clive Landsdown – Maintenance Supervisor
 Jerome Mvelase – Printer
 Elizabeth Mahlami – Support Services
 Priscilla Mlaba – Support Services
 Maria Maganedisa – Support Services
 Queen Maboshego – Support Services
 Moses Maruping – Transport/Mailroom Clerk