



irba

INDEPENDENT REGULATORY BOARD FOR AUDITORS

NEWS

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South Africa maintains its number one ranking for the strength of its auditing and reporting standards for the fifth consecutive year. This, according to the World Economic Forum's Global Competitiveness Index

IN THIS ISSUE:

2 From the CEO's desk

3 Education, Training and Professional Development

5 Standards

8 Ethics

9 Reportable Irregularities

10 Legal

13 Inspections

15 Registry

17 Communications

17 General News

FROM THE CEO'S DESK

As the year draws to a close, it is once again time to take stock of where we find ourselves – in a world, to my mind, which seems to be dominated by chaos. From the perspective of a foreign country – I caught a news broadcast on international affairs while I was at the United Nations Conference on Trade and Development (UNCTAD) conference on International Standards and Accounting Reporting in Geneva – it is not only obvious that South Africa plays an integral role in the world, but also does not fare too badly when compared with other countries. This, insofar as unrest in labour markets, political mayhem and war are concerned.

However, my presentation in Geneva focused on the high-level segments on compliance and enforcement mechanisms for corporate reporting mechanisms. While we might ponder the significance of compliance and reporting in the bigger scheme of things, we cannot help but consider that if those very mechanisms were in place, the world might indeed be in a better space.

The United Nations truly unites nations. What was particularly pleasing during my time in Geneva was the number of times South Africa was recognised and revered – whether in the context of its number one ranking for the strength of its auditing and reporting standards, its leadership role in Integrated Reporting and corporate governance or simply for the manner in which it reaches out to other jurisdictions to encourage and support the implementation of good practices.

Back home, it is particularly pleasing that the value that the profession and the IRBA add to the country and its economy is now being recognised by parliament and its committees. Since our last presentation to parliament, there has been an improvement in communication with the committees and as a copy of the official letter on page 18 indicates, parliament is also proud of our achievements. We must continue to demonstrate the importance and relevance of auditors and auditing to our financial markets – especially in difficult financial times. In his mid-term budget policy statement delivered on 22 October, Minister of Finance, Nhlanhla Nene, painted a bleak outlook with growth forecasted at just over 1% and increasing only to 3% in 2017. While this means even more tightening of belts, it also signals the need for closer

cooperation among all stakeholders, including Africa.

The Minister acknowledged that there is insufficient progress in increasing incomes and reducing poverty, which in turn impact on social progress and human development. But equally important are service delivery and continued fights against waste, fraud and corruption. Here is where auditors can make a major contribution and continue to play a significant role.

So, it is not only important to achieve recognition for our achievements in auditing, reporting and governance. It is even more important that progress in these disciplines be applied to achieve the objectives of the state, not only when the economy is booming, but when – and especially when – it is not.



Bernard Agulhas' Geneva presentation at the UN Conference on Trade and Development honed in on compliance and enforcement for corporate reporting mechanisms

EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT

The IRBA is excited about the changes to the qualification route to becoming a Registered Auditor (RA). The introduction of the Audit Development Programme (ADP), which will be effective from 1 January 2015, will raise the profile of RAs to that of specialists in the field of accounting. The qualification route will also concentrate on the development of professional skills required to function at a more senior level within public practice.

Due to 2014 being the last year that the PPE will be written and the introduction of the ADP in 2015, the route to qualifying as an RA will now be as follows:

1. A recognised academic programme
 - Successful completion of a B. Com. Accounting degree or equivalent. Currently, the only IRBA recognised undergraduate programmes are those accredited by SAICA.
 - Successful completion of the Certificate in the Theory of Accounting (CTA) or equivalent. Currently, the only IRBA-recognised post graduate programmes are those accredited by SAICA.
2. A recognised core assessment programme
 - Successful completion of an assessment of core competence. Currently, the only IRBA-recognised assessment of core competence is the Initial Test of Competence (ITC) of SAICA.
3. A Professional development programme
 - The professional development programme comprises three aspects:
 - i. Successful completion of a recognised training contract. Currently, the only IRBA-recognised training contracts are those accredited and administered by SAICA.
 - ii. Successful completion of a programme of professional competence. Currently, the only IRBA-recognised profession programmes are those of service-providers accredited by SAICA.
 - iii. Successful completion of a final assessment of professional competence. Currently, the only IRBA-recognised assessment of professional competence is the Assessment of Professional Competence (APC) presented annually by SAICA.
4. On successful completion of all of the above programmes, a candidate is eligible to enter the ADP.
5. The Audit Development Programme (ADP).
 - The ADP is the joint responsibility of the IRBA and the RA firms. It builds on the competence of a professional accountant and focuses on the competence required for a specialist role within the field of professional accounting; that of an RA.
 - The requirements are in-put and out-put based. Registered Candidate Auditors (RCAs) are required to complete the following:
 - i. A minimum of 18 months in an audit and assurance environment.
 - ii. A minimum of 1 500 productive hours in audit and assurance.
 - iii. Successful demonstration of the competences outlined in the competence framework prescribed by the IRBA.
 - RCAs are required to register with the IRBA and to identify a senior RA who is prepared to serve as an Oversight Registered Auditor (ORA) for the duration of the programme.
 - RCAs are required to report to the IRBA on a six-monthly basis on their progress throughout the ADP.
 - Final assessment is through the submission of a portfolio of evidence. There is no written assessment. The portfolio of evidence must be submitted to the IRBA together with evidence of the completion of the minimum period of 18 months and 1 500 productive hours in audit and assurance.
 - RCAs whose training contract was completed in an elective other than Audit and Assurance are required to undertake additional hours in completion of the ADP.
6. On successful completion of the ADP, the candidate is eligible for registration as an RA.

This article is a summarised version of the ADP. Please visit the IRBA's website www.irba.co.za for a full version of the programme.

For queries on the ADP, please contact Robert Zwane at rzwane@irba.co.za.

EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT cont.

Auditing and IRBA awareness raised at universities

The Education, Training and Professional development department (ETP) continues to engage with university students and to share information about the ADP model and choosing a career as a Registered Auditor (RA).

In the last quarter, the department visited several universities to create awareness about auditing and the IRBA.



The IRBA represented itself at a number of university career days to build the IRBA brand and raise awareness about auditing

Laine Katzin appointed as a member of the IAESB

Laine Katzin, Director: ETP, has been appointed to the International Accounting Education Standards Board (IAESB) of the International Federation of Accountants (IFAC) with effect from 1 January 2015. Laine has served as the technical advisor to the South African member until now, and also as a member on the task force to rewrite International Education Standard (IES) 8, which deals with auditor competencies.

The IAESB is an independent standard-setting body that serves the public interest by strengthening the worldwide accountancy profession through the development and enhancement of education. Through its activities, the IAESB adds value in the educational arena by developing and implementing IESs, which in turn increases the competence of the global accountancy profession, thereby contributing to strengthened public trust.

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STANDARDS

Committee for Auditing Standards (CFAS)

Revised Guide for Registered Auditors: Reporting on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements

The Guide for Registered Auditors: Reporting on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements (Revised September 2014) (the revised JSE Reporting Guide) was approved for issue at the August 2014 CFAS meeting.

This revised JSE Reporting Guide contains minor conforming amendments arising from the recent changes made to the JSE Listings Requirements. These changes were announced by the JSE through Board Notice 108 of 2014 as published in Government Gazette No. 37954. The effective date of the amendments to the JSE Listings Requirements and therefore the revised JSE Reporting Guide was 30 September 2014.

The revised JSE Reporting Guide is available in both PDF and Word format and may be downloaded from the IRBA website at www.irba.co.za.

CFAS Regulated Industries and Reports Standing Committee (RIRSC)

The IAASB Auditor Reporting Project update

At its September 2014 meeting, the International Auditing and Assurance Standards Board (IAASB) approved a suite of new and revised auditor reporting standards. The IAASB plans to release these auditor reporting standards in January 2015, subject to confirmation of due process:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*;
- ISA 260 (Revised), *Communication with Those Charged with Governance*;
- ISA 570 (Revised), *Going Concern*;
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; and
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

It is expected that the new and revised ISAs will be effective for audits of financial statements for periods beginning on or after 15 December 2015.

In response to the proposed new and revised standards on auditor reporting, the CFAS approved the following projects:

- The updating of South African Auditing Practice Statement (SAAPS) 3, *Illustrative Reports*, to align with the new and revised ISAs; and
- The formation of a task group to consider whether a new South African Auditing Practice Statement (SAAPS) should be developed to provide guidance to registered auditors on "Key Audit Matters" (KAMs) based on the new ISA 701.

The Standards Department will also launch an **Auditor Reporting Awareness Programme**, addressing stakeholders through targeted initiatives. Stakeholders identified are registered auditors (JSE-accredited auditors for KAMs), users of auditor reports (investors, directors and regulators), preparers and students (CTA level).

Retirement fund auditor reports

The Financial Services Board (FSB) gazetted the new *Prescribed Financial Statements Applicable to the Different Categories of Funds*, including all the auditor reports for the different types of funds, on 18 July 2014, in Board Notice 77 of 2014, Government Gazette 37844.

The following auditor reports are included in the *Prescribed Financial Statements Applicable to the Different Categories of Funds* and are available on the [IRBA website](http://www.irba.co.za) in Word format:

- Schedule D auditor report.
- Section 15 auditor reports.
 - Large funds
 - Small funds
 - Umbrella funds
 - Retirement annuity and preservation funds
- Regulation 28 auditor report.

Refer to the [Retirement Funds section of the FSB's website](http://www.fsb.org.za) for the complete set of prescribed financial statements, legislation and other information related to retirement funds.

The new format of the Prescribed Financial Statements Applicable to the Different Categories of Funds is in respect of funds with financial year-ends ending on or after 1 June 2014.

STANDARDS cont.

Illustrative Report of Factual Findings for the Department of Trade and Industry's (DTI) Section 12I Tax Allowance Programme

The illustrative report of factual findings was approved for issue by the CFAS at its meeting held in August 2014. The report is to accompany the annual progress report submitted to the DTI for the Section 12I Tax Allowance Incentive Programme. The objective of the Tax Allowance Incentive Programme is to support Greenfield investments (new industrial projects that utilise only new and unused manufacturing assets – minimum investment of R200 million) and Brownfield investments (manufacturing expansions or upgrades – minimum investment of R30 million). The incentive programme supports both capital investment and training. The report is available in both PDF and Word format and may be downloaded from both the IRBA and the DTI websites.

CFAS Public Sector Standing Committee (PSSC)

The PSSC finalised the two joint Auditor-General South Africa (AGSA) and IRBA Guides for Registered Auditors: *Guidance for Registered Auditors: Performing Audits where the AGSA has Opted not to Perform the Audit and Guidance on Performing Audits on Behalf of the AGSA* in the second quarter of 2014. These Guides have since been approved by the Board and are awaiting a joint launch by the AGSA and the IRBA.

CFAS B-BBEE Advisory Committee (BAC)

Some developments in the field of assurance on Broad-Based Black Economic Empowerment (B-BBEE) include:

Complaints received on B-BBEE verification certificates issued by BARs

The IRBA continues to receive complaints regarding verification certificates that have been issued by B-BBEE Approved Registered Auditors (BARs). In summary, the complaints include:

- *Certificates issued under the incorrect Sector Code*
A statement of clarification was issued by the DTI on 9 July 2012 detailing the process to be followed when determining whether to apply the Code of Good Practice (CoGP 2007) or a Sector Code gazetted under Section 9(1) of the B-BBEE

Act, 2003.

Where a Sector Code has been gazetted under Section 9(1) and has become effective, then it will be applied to all measured entities that are identified within that particular industry from the date of becoming effective. The statement of clarification may be viewed at the following link:

https://www.thedti.gov.za/economic_empowerment/docs/StatementofClarification.pdf

- *Issuing Exempt Micro Enterprise (EME) certificates under the amended 2013 Codes of Good Practice (amended CoGP 2013)*

BARs commonly misapply the DTI directive regarding the issuing of certificates under the amended CoGP 2013. In terms of Government Gazette No. 36928, issued 11 October 2013, Code Series 000, Statement 000, paragraph 10, expressly states that measured entities may apply the amended CoGP 2013 during the transitional period.

Measured entities, as defined (qualifying small enterprises and generics), are entities above the R10-million-turnover threshold. Entities below this threshold only require an affidavit and therefore do not require measurement under the amended codes. Thus, BARs should not be issuing verification certificates to EMEs in terms of the amended CoGP 2013.

- *Issuing zero point certificates*
Issuing a zero point certificate is factually incorrect because the BAR has not assessed whether this is an accurate reflection of the measured entity's status.

Registered auditors are encouraged to study the guidance issued by the IRBA, available on the IRBA [website](#), and contact the Standards Department via email at b-bbeequeries@irba.co.za for assistance regarding B-BBEE assurance matters.

Accounting Standards Board (ASB)

The ASB issued its *Discussion Paper 9: Materiality – Reducing Complexity and Improving Reporting* in July 2014. The CFAS formed a task group in order to submit comments on the discussion paper by 15 January 2015.

RAs are encouraged to submit comments to the IRBA at standards@irba.co.za by 7 January 2014 or directly to the ASB by 15 January 2015.

STANDARDS cont.

The discussion paper is available on the ASB's [website](http://www.asb.co.za/About-Us/Latest-News-Archive) at <http://www.asb.co.za/About-Us/Latest-News-Archive>.

International Integrated Reporting Council (IIRC)

The IIRC issued the following papers on assurance on integrated reporting (<IR>) in July 2014, with comments due by 1 December 2014:

- *Assurance on <IR> - An Introduction to the Discussion*; and
- *Assurance on <IR> - An Exploration of Issues*.

The CFAS expressed support for the IRBA to obtain comments on the papers through round-table discussions, held in Johannesburg and Cape Town. RAs are encouraged to submit comments to the IIRC by 1 December 2014.

The discussion papers are available on the IIRC's [website](http://www.theiirc.org/resources-2/assurance/) at <http://www.theiirc.org/resources-2/assurance/>.

The International Audit and Assurance Standards Board (IAASB)

The IAASB proposes enhancements to the International Standards on Auditing focused on financial statement disclosures

The IAASB released for public comment proposed changes to the International Standards on Auditing (ISAs) to clarify expectations of RAs when auditing financial statement disclosures, in May 2014.

The IAASB believes that the proposed changes, mainly to application material in the ISAs in order to further support the proper application of the standards' requirements, as set out in the exposure draft, are an appropriate response to the concerns raised about the need to clarify the expectations of auditors when auditing financial statement disclosures, as well as to the need for additional guidance to assist auditors in addressing the practical challenges arising from the evolving nature of disclosures.

The IRBA submitted comments to the IAASB on 11 September 2014. The comment letter is available at <http://www.ifac.org/publications-resources/proposed-changes-international-standards-auditing-isas-addressing-disclosures>.

The IAASB re-exposes the proposed ISA 720 (Revised)

The IAASB released for re-exposure an enhanced proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information and Proposed Consequential and Conforming Amendments to Other ISAs*, on 18 April 2014.

The IRBA submitted comments to the IAASB on 22 July 2014.

The comment letter is available at

<http://www.ifac.org/publications-resources/international-standard-auditing-720-revised-auditor-s-responsibilities-relati>.

ETHICS

Committee for Auditor Ethics (CFAE)

Membership changes

It is with regret that we bid farewell to Edward Kieswetter, who has provided leadership as Chairman of the CFAE since the promulgation of the Auditing Profession Act in 2005, and subsequent establishment of the CFAE. We thank him for his sound leadership and clear guidance for almost ten years, that saw the issue of the IRBA *Code of Professional Conduct for Registered Auditors* and *Rules Regarding Improper Conduct* for use by registered auditors in South Africa.

We welcome Vishnu Naicker, Group Risk Officer: Alexander Forbes, as successor to Edward and new Chairman of CFAE. We wish him well in leading the CFAE and assure him of the support of the CFAE members, the IRBA and specifically the Standards Department.

We also bid farewell to Michael Tshishonga who has resigned from the CFAE since his appointment in Parliament. We thank him for the support for the last two years and wish him well in his new endeavours.

IESBA issues exposure draft addressing Long Association of Personnel with an Audit or Assurance Client

On 14 August 2014, the IESBA released the *Proposed Changes to Certain Provisions of the IESBA Code of Ethics for Professional Accountants Addressing the Long Association of Personnel with an Audit or Assurance Client* for public comment. The proposals respond to stakeholder concerns about the appearance of independence and the need to ensure that the threats created by the long association of audit firm personnel with an audit client are appropriately addressed on all audit engagements.

As the IRBA's Code of Professional Conduct for Registered Auditors adopted Parts A and B of the IESBA Code, a CFAE task group will consider the proposed amendments to Parts A and B of the IESBA Code and will submit comments to the IESBA. The exposure draft and links to the IESBA website are included on the IRBA Ethics website at <http://www.ifac.org/publications-resources/proposed-changes-certain-provisions-code-addressing-long-association-personne>

IRBA Ethics Workshops 2014

As part of its support to RAs, the IRBA held several Ethics Workshops in October and November 2014.

These practical and interactive workshops exposed participants to the application of the fundamental ethical principles in practical situations when evaluating threats and identifying and applying safeguards in terms of the conceptual framework.

More specifically, the workshops covered the following:

- Independence issues for audit, review and other assurance engagements and examples of actual case studies, including:
 - The IRBA Code and current legislation
 - Ethics and technology
 - Audit fees
- The application of the “reasonable informed third party” principle used in the IRBA Code.
- International developments and amendments.

The workshops were aimed at informing the ethical decision-making skills of auditors and their staff and enhancing their understanding of the practical implementation of the IRBA Code in their practices.



Uli Schackermann and Bernard Agulhus presenting at the IRBA Ethics workshops held recently

REPORTABLE IRREGULARITIES

Below are statistics related to reportable irregularities processed by the IRBA.

REPORTABLE IRREGULARITIES RECEIVED				
	Quarter ended 30 June 2014		Year ended 31 March 2014	
Number of reports received and files closed within 40 days	291	92%	570	97%
Number of second reports received late (after due date)	24	8%	19	3%
Total number of RIs received	315	100%	589	100%

CONTINUING/NOT CONTINUING RIS: OF THE TOTAL NUMBER OF RIS RECEIVED:				
	Quarter ended 30 June 2014		Year ended 31 March 2014	
Continuing	174	55%	345	59%
Not continuing	138	44%	235	40%
Did not exist	3	1%	9	1%
Total number of RIs received	315	100%	589	100%



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LEGAL

REPORT FROM THE DIRECTOR: LEGAL FOR THE PERIOD 1 APRIL 2014 TO 30 SEPTEMBER 2014

Investigating Committee

The Investigating Committee met three times during this period (13 May 2014, 27 June 2014 and 8 August 2014) and referred 40 individual matters to the Disciplinary Advisory Committee with recommendations.

Disciplinary Advisory Committee

The Disciplinary Advisory Committee met four times during this period (11 April, 10 June, 14 July and 1 September 2014) and disposed of 38 matters, as follows.

Decisions not to charge

- **Two** matters in terms of Disciplinary Rule 3.5.1.1 (the respondent is not guilty of unprofessional conduct; this includes the situation where the conduct in question might be proved but even if proved, does not constitute unprofessional conduct).
- **Three** matters in terms of Disciplinary Rule 3.5.1.2 (the respondent having given a reasonable explanation for the conduct).
- **Six** matters in terms of Disciplinary Rule 3.5.1.4 (being that there are no reasonable prospects of succeeding with a charge of improper conduct against the respondent).
- **One** matter in terms of Disciplinary Rule 3.5.1.5 (being that in all the circumstances, it is not appropriate to charge the respondent with unprofessional conduct).

Decision to charge and matter finalised by consent order

Eleven matters were finalised with fines. One matter concerned two Practitioners.

- **One matter** related to an entity dependent on the National Lotteries for annual grants. The audit report contained various deficiencies relating to accounting policies as well as various contraventions in respect of the provisions of the Companies Act. The practitioner failed to disclose a material going concern uncertainty despite the entity being insolvent. The audit report therefore did not comply with ISA 570 and

accordingly his unmodified report was inappropriate. The Practitioner was fined R40 000, of which R20 000 was suspended for three years on conditions; and publication was ordered in general terms only.

- **Two matters** related to the same bridging finance company. One Practitioner (the auditor of the company) failed to perform adequate audit procedures to understand the entity and its environment and as a result, the financial position and performance of the company were not presented fairly. He further failed to comply with provisions of the Companies Act as well as IFRS. In particular, he failed to disclose a Reportable Irregularity. The other Practitioner failed in his fiduciary duties as non-executive Director of the company. Furthermore, he allowed staff subordinate to him to be employed by the auditor of the entity to perform the audit, raising issues of independence. One Practitioner was fined R50 000 of which R25 000 was suspended for three years on conditions, R5 000 costs and publication in general terms. The other Practitioner was fined R80 000 of which R40 000 was suspended for three years on conditions, with R5 000 costs and publication in general terms only.
- **One matter** related to an “assisted holding out” where the Practitioner facilitated a person who was not a registered auditor to hold himself out as a registered auditor. Audit and non-audit services were offered utilising the facilities of the registered auditor. The Practitioner was fined R100 000, of which R25 000 was suspended for three years on conditions, with an order of R5 000 toward costs and publication in general terms.
- **One matter** related to an inspection where the IRBA conducted two inspections in terms of section 47 of the Auditing Act, in the fourth cycle. It was found that the auditor's documentation did not provide a sufficient and appropriate record for the basis for the auditor's report; neither was there evidence that the audit was conducted in accordance ISA 230 (audit documentation). As a consequence, given the substantive transgressions, there was inadequate evidence that audit procedures were performed to enable the auditor to draw rational conclusions on which he based his opinion as was required by ISA 500. The practitioner was fined R100 000, of which R50 000 was suspended for three years on conditions, and publication in

LEGAL cont.

general terms was ordered.

- **One matter** related to a re-inspection in terms of section 47 of the Auditing Act, in the third cycle. It was found that the auditor's documentation did not provide a sufficient and appropriate record for the basis for the auditor's report; neither was there evidence that the audit was conducted in accordance ISA 230 (audit documentation). As a consequence, there was inadequate evidence that audit procedures were performed to enable the auditor to draw reasonable conclusions on which he based his opinion as was required by ISA 500. The practitioner was fined R20 000, of which R10 000 was suspended for three years on conditions, and publication in general terms was ordered.
- **One matter** was a JSE referral, although the company in question was not listed, but had been acquired by a listed company. The Practitioner had issued an unmodified opinion on the fair presentation of the financial position of the company. The major deficiency in the AFS related to the disclosure of a non-current loan as current. This distorted the financial position of the company. Further deficiencies, of which there were many, related to IFRS for SMEs. The practitioner was fined R100 000, of which R50 000 was suspended for three years on conditions, and publication in general terms.
- **One matter** was a JSE referral of a property company – although the company in question was not listed but had been acquired by a listed company. There were issues relating to going concern and non-compliance with IFRS for SMEs. The Practitioner issued an amended report, which excluded an emphasis of matter or other matter paragraph explaining the reason for the amended report. The disclosure in the going concern paragraph was prepared on the basis of accounting policies applicable to a going concern and presumed that the company would have been able to meet its obligations, but did not indicate how this would have been accomplished, given that its liabilities substantively exceeded its assets. There was no evidence of the methods applied in determining fair value of the investment property by a suitably qualified independent valuer. Accordingly there was non-compliance with IFRS for SMEs. The practitioner was fined R50 000, of which R25 000 was suspended for three years on conditions, with a contribution of R5,000 towards costs, and publication in

general terms.

- **One** practitioner had two cases against him that were handled simultaneously. They related to two section 21 companies, where the Practitioner signed and issued a report containing a qualified opinion, based on errors contained in the financial statements. He failed to state that the prior period AFS had not been audited and accordingly failed to carry out sufficient procedures regarding the opening balances of the current period. In one of the companies, he failed to keep adequate work papers and failed to obtain appropriate audit evidence about elements of the financial statements. The grounds for qualification were material and the Practitioner ought to have disclaimed his opinion. The Practitioner was fined R100 000, with costs of R5 000, and publication in general terms only. Owing to the fact that the Practitioner was no longer registered with the Board, the imposition of the entire sentence was postponed until such time as he might re-register.
- **One** matter related to incorrect and/or misleading financial statements. The Practitioner issued an unmodified audit opinion where he inserted an emphasis of matter paragraph stating that the going concern assumption depended on shareholder support. But there were no subordination agreements in place. He further issued a divisional special purpose financial statement for the purposes of the company's regulating body, on which the complainant relied for the purchase of the company. The factual position was that the company was insolvent and making losses. Accordingly, the financial statements of the divisional company did not present fairly and were misleading. He was negligent and his conduct resulted in financial loss. He was fined R75 000, with an order of R5 000 towards cost and publication in general terms.
- **One** matter related to issues of independence, a conflict of interest and an inappropriate audit report. The Practitioner was a trustee of two entities, one of which owned a third entity where he was appointed the auditor. This constituted an impairment of independence. In addition, he offered a loan to one of the trust entities – as well as to his client – to cover personal financial needs. He was fined R50 000, of which R45 000 was suspended for three years on conditions, with no order as to costs and publication in

LEGAL cont.

general terms only. In deciding to suspend the bulk of the fine, regard was had to the fact that the Practitioner displayed a humanitarian response toward his client's life-threatening predicament.

Two matters were referred back to the Investigating committee for reconsideration.

Decision to charge and matter referred to the Disciplinary Committee

Thirteen matters were referred to the Disciplinary Committee for disciplinary hearings.

Disciplinary Committee

The Disciplinary Committee did not sit during this period.

Use of IRBA logo

It has come to our attention that RAs are still putting the IRBA logo on B-BEEE verification certificates. We ask that RAs desist from this practice forthwith. For convenience, we produce below the contents of our circular issued on 20 August 2014 in this regard.

"The IRBA does not allow any Registered Auditors (RAs) to use its logo, including on B-BBEE verification certificates or any related documentation. The IRBA also does not permit the use of its logo on any stationery or websites of RAs.

The reasons for this are:

- The use of the IRBA logo may be interpreted by the public as being that the certificate, report or other documentation on which it is used is correct in substance, and we cannot provide any such guarantees or be perceived to provide any such guarantees. The IRBA therefore does not want the use of its logo to denote any suggestion that the IRBA vouches for the substance of the certificate, report or other documentation emanating from an RA or a firm registered with the IRBA.
- With reference to B-BBEE verification certificates, previously the use of the SANAS logo on such a certificate meant that the verification agency who issued the certificate

had performed at least one site visit to the client. The IRBA does not want a similar connotation, or the perception thereof, to be made by the use of our logo.

- An electronic logo may easily be copied and used by persons who are not RAs, and we wish to avoid the possibility of any such fraudulent use of our logo.

An interested party may confirm the registration of an RA on the RA search facility on the IRBA's website. The RA search facility provides interested parties with the ability to search for an RA by surname, search for a firm registered with the IRBA and confirm whether an RA is approved by the IRBA to provide B-BBEE verification assurance services.

An interested party may also contact the IRBA to confirm such registration on 087-940-8800 or email registry@irba.co.za.

It is important to note that the IRBA cannot verify the substance of any report or certificate or other documentation emanating from an RA or a firm registered with the IRBA.

A standard letter which can be provided to clients if required was attached to the communiqué.



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INSPECTIONS

Inspectors highlight points of audit deficiencies

Local and overseas shareholders and investors need to be confident that the financial statements of the South African-based organisations in which they are investing are a true reflection of the state of their financial health. Moreover, other stakeholders, such as employees, financiers and tax authorities, also rely on organisations' financial statements.

Investors react to economic indicators and financial analysis of companies and will not hesitate to shift their investments to other companies or even countries based on negative rumours. It is therefore crucial that investor confidence be maintained through strong regulations to keep investments in South Africa. Disclosure of audited historical financial information and the future outlook of a business enable investors to better predict the risk exposure and growth of their investments.

The Independent Regulatory Board for Auditors (IRBA) plays a vital role in this regard by conducting inspections of auditors' files in which they have documented sufficient appropriate evidence to support their opinion on the financial statements of their clients, and implementing remedial action at the audit firm should deficiencies be identified. In some 3% of cases, this includes taking disciplinary action against the auditor.

Highest priority is given to the inspection of auditors' files on systemic public interest entities. This is where public interest would be at greatest risk as a result of an audit failure. For example, if a bank is in financial trouble, it can result in rating agencies downgrading other banks, which in turn deters investment, thereby affecting the entire economy. Similarly, if a bad practice of one public interest entity becomes common practice across an entire sector, it could have a significant impact on the economy in its entirety.

The inspection process includes monitoring the compliance of auditors and auditing firms against international standards and codes of conduct relating to ethics, independence, objectivity and other professional principles, as mandated in the Auditing Profession Act of 2005.

Auditors cannot practise in South Africa unless they have attained the required competence that meets international

requirements and qualifies them to be licensed by the IRBA to practise as a Registered Auditor (RA).

IRBA inspectors take a risk-based approach when inspecting the audit evidence that supports the auditors' documented conclusions regarding the financial statements they have audited relating to areas that could have a significant impact on their opinion.

Inspections focus on complex areas in which the auditor has exercised his or her professional judgment, such as how a company has determined the fair value of its assets. The objective is to challenge the auditor's professional skepticism and determine whether he or she has challenged management's assumptions and conclusions in the financial statements.

Points of unsatisfactory inspections include material misstatements in the financial statements not being reported. Reasons for this could include: the auditor not being skeptical enough; the auditor not having the necessary competence to challenge the client; the opinion lacking in independence due to the auditor's bias towards the client or that management has hidden the truth.

Misstatements could be due to fraud. If the company does not have the checks and balances in place to detect this, the auditor should expand the extent of the audit. If auditors do detect fraud, they are required to report it to the IRBA as a Reportable Irregularity, which the IRBA passes on to the relevant authorities.

Other points of failure include the auditor not documenting sufficient and appropriate audit evidence to support his or her audit opinion. For example, a company's revenue is a significant risk area due to a presumed fraud risk, but there is no evidence or insufficient evidence in support of the auditor's opinion that the revenue is correctly recognised in the financial statements.

Breaches of the codes of professional conduct is another point of failure that may be identified during an inspection, an example being an auditor having a direct or indirect financial interest in the company he or she is auditing.

INSPECTIONS cont.

The IRBA may also take disciplinary action against individual auditors and auditing firms for persistent noncompliance with standards, breaching the code of ethics and noncompliance with Section 90(2) of the Companies Act, which prohibits them from providing audit and certain non-audit services to the same client.

In 2014, 6% of the audit files of entities that were inspected by the IRBA were subjected to disciplinary procedures or forensic investigation. However, it is encouraging to note that 90% of auditors and auditing firms generally rectify the deficiencies identified during inspections by taking remedial action.

Any member of the public has a right to lodge a complaint with the IRBA about an auditor or auditing firm and if the IRBA finds merit in the complaint, it will investigate. This may lead to a disciplinary process or forensic investigation, depending on the findings.

The IRBA does not approach the management and/or audit committees of companies whose audited financial statements have been the subject of an inspection. However, the IRBA is exploring ways to enable greater transparency in this regard.

Currently, companies' audit committees may ask to see an auditor's inspection results when evaluating them for appointment or reappointment, and the JSE requires that auditors have satisfactory inspection results in order for them to be accredited to audit a listed company.

There is often a misperception that the IRBA is there to protect auditors and their clients, while in fact, its primary role as regulator is to protect the interests of the public. At the same time, it protects the reputation of the profession by monitoring auditors' compliance and enabling them to measure their competence against global standards.

The IRBA liaises regularly with regulators in other parts of the world and participates in international committees, task forces and forums, including the International Forum of Independent Audit Regulators (IFIAR), which was set up in 2006 to share best practice and knowledge of the audit market environment.



Imre Nagy

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REGISTRY

Individuals admitted to the register of the Board from 1 July to 30 September 2014

Bam Lydia Vuyasani	Makupo Thomas	Phili Protas Thamsanqa
Barnard Johannes Jacobus	Malunga Mbongeni Petros	Ralfe Carmen-Jo
Berchowitz Gary	Manzi Simbongile	Ramawtar Taruna
Bester Arno Van Wyk	Marais Servaas Daniel	Ramdhany Roshan
Bird Gareth Charles	Mare Annalene	Ramphal Runganagee
Booyens Désirée	Mathe Busisiwe Sharon	Rapote Rachel Zanele
Botes Andre	McLean Delia	Rawoot Rieyaaz
Buya Marais	Meyer Dina	Reddy Rajendran
Claasen Karen	Meyer Juan-Mari	Roets Nicolaas Johannes
De Beer Ilze	Mkiva Mavis Nomzamo	Roetz Werner
De Jager Dawid	Mojapelo Mathabatha Julius	Saggers Graeme Donald
De Kock Gabriel Mauritz	Mpofu Diligent	Sarabjit Leena
Dollie Ebrahim	Msongelwa Mandisi	Schiffman Michael Lawrence
Du Toit Charl	Mtetwa Ncedisizwe Baba Thabang	Schulze Mark
Erasmus Tertius	Muller Julyan Joseph	Seanego Matseba Johanna
Factor Tanya	Muller Yolande	Sibisi Mthokozisi Mziwenhlanhla
Gomes Rafael Vicente	Murray Kerry Lynn Donnal	Singh Rushay
Gregory Melvin Clive	Murugen Shane	Stagman Kelly Anne
Haarhoff Willem	Mwangi Samuel Munyua	Standl Philip Robin
Hanekom Maritza	Naidoo Chantal	Stoltz Andriette Adriana
Hodson Vaughan Leonard	Naidoo Kruben	Van Heerden Micaela Bianca
Hove Munyaradzi James	Naidu Yagashen Poobantheren	Van Rooyen Adriaan
Jacobs Mark	Nel Cornelius	Venter Elizabeth
Jacobs Pierre	Nel Nicolaas Jacobus	Vilakati Siculo Banele
Jannasch Ian Oswald	Ngwenya Luthuba Sylvester	Viljoen Liezl Maryke
Khumalo Thato	Nomanyana Ndzame	Viljoen Lorraine
Koekemoer Mariska	Ntshebe Zikhona	Visser Anya
Kruger Gustaaf Christo	Oosthuizen Nico Francois	Wadiwala Moosa Ahmed
Kubayi Hlayisani Liffness	Oosthuizen Tjaart	Weideman Zander
Langner Carin	Oudhof Robert Alexander	Zietsman Solomon Pienaar
Laubscher Christiaan Rust	Padi Itumeleng Stephen	
Madondo Sibusiso	Phakathi Lungile Princess	

Individuals re-admitted to the register of the Board from 1 July to 30 September 2014

Baloyi Vulani Pride	MacDonald James Donaldson	Read Carol Margaret
Brochers Vanessa	Maredi Lamet Treasure Mahlatsi	Van Schaik Rozelle
Jonker Louis Adriaan	Mohan Ashika	Yssel Hester Magdalena
Kara Imtiaz Ahmed Ismail	Padayachee Bhaveshen	
Kotze Dirk Albertus	Pretorius Herman Phillipus	

REGISTRY cont.

Individuals removed from the register of the Board from 1 July to 30 September 2014

FULL NAMES	REASON	FULL NAMES	REASON
Bezuidenhout Francois	Resigned	Hill Peter Richard	Resigned
Bird Steven George	Resigned	Kemp Andrie Dawid	Deceased
Bruwer Jacobus Daniel	Deceased	Sender Benjamin	Resigned
Duncan Peter James	Resigned	Smith Willem Henry	Resigned
Griffith Nigel Adrian	Resigned	Van Eck Ursula Yvette	Resigned

Caroline Garbutt

Manager: Registrations

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COMMUNICATIONS

In the interest of improved communication with Registered Auditors and other stakeholders, a list of communiqués sent by bulk e-mail during the reporting period for this issue is set

out below. These communiqués may be downloaded from the IRBA website at www.irba.co.za under the News section.

11 November	Section 12I Tax Allowance Incentive Programme Factual Findings Report
21 October	IRBA news Issue 26
03 October	IRBA Annual Report 2013/14 tabled in Parliament
30 September	Ethics workshop for Registered Auditors
12 September	Retirement fund auditor reports
11 September	Revised Guide for Registered Auditors: Reporting on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements
4 September	South Africa maintains first position for the strength of auditing and reporting standards for five years in a row
27 August	Use of the IRBA logo
27 August	Advisory: Override functionality on eFiling
20 August	Inspections for purposes of JSE accreditation
18 August	IESBA Strengthens Auditor Independence by Issuing Proposed Amendments Addressing Long Association in Ethics Code
11 August	SAAPS 3 (Revised November 2013) Illustrative Reports – Afrikaans reports

GENERAL NEWS

IRBA remembers Nelson Mandela

The IRBA joins the world in remembering former president Nelson Mandela on the anniversary of his passing. As an organisation built on strong values, the IRBA honours the values espoused by Madiba. We believe that it is up to each one of us to remember those values and to carry on his legacy.

Nelson Mandela once said: "Death is something inevitable. When a man has done what he considers to be his duty to his people and his country, he can rest in peace. I believe I have made that effort and that is, therefore, why I will sleep for eternity." May we do our duty to our people and our country.

GENERAL NEWS cont.

Parliament congratulates the IRBA on maintaining the number one position for the strength of its auditing and reporting standards

The Chairman of Parliament's Standing Committee on Finance, Mr Yunus Carrim, has congratulated the IRBA for maintaining the number one position for the strength of

Auditing and Reporting Standards on the World Economic Forum's Global Competitiveness Index for the fifth consecutive year.

Please find below the congratulatory letter from Mr Carrim addressed to the CEO and staff.



Clean Audit Report Awards 2014

The IRBA has received another clean audit report award from the Auditor-General of South Africa for maintaining a clean audit report for the 2013/14 financial year.



Willemina de Jager, Director: Operations and Marius Fourie, Finance Manager accepting the Clean Audit award on behalf of the IRBA

Feedback on new IRBA news format

Thank you for your feedback on the new IRBA News format. We have received several messages of congratulations and some of you have requested the newsletter to be sent in hard copy. We have taken your comments into account and we will strive to deliver as per your requests.

Season's greetings

The CEO and staff of the IRBA wish all readers a blessed, safe and happy holiday season.

The IRBA offices will close on Wednesday 24 December 2014 and re-open on Monday 5 January 2015.