



irba

INDEPENDENT REGULATORY BOARD FOR AUDITORS

NEWS

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Six-month countdown

To the implementation of the
new standards that are set to
enhance auditor reporting

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FROM THE CEO'S DESK

The second quarter of the year came with lots of activities for the IRBA – from hosting international meetings to concluding consultations on one of our major projects. We have also made significant progress on our four-pillar strategy and continue to implement some of the key projects linked to our strategy.

The IRBA has concluded its consultation programme with a number of stakeholders, including audit firms, global assurance leaders of network firms through the Global Public Policy Committee (GPPC), investors and users of services rendered by registered auditors, to get their views on the Independence Project. The purpose of the consultation was to solicit views on the potential impact that the measures identified by the IRBA to strengthen auditor independence will have on each stakeholder. We have received wide-ranging comments and inputs from all the stakeholders and are currently compiling a report for our Board to discuss and consider these inputs before making a decision on the best possible solution to strengthen auditor independence while protecting the public.

Our Africa strategy continues to bear fruit through various platforms. We participated in the PAFA standard-setters forum meeting held recently in Zambia (see below) and had representatives from Botswana, Malawi, Zimbabwe and Namibia attending our CFAS meeting as observers. We continue to engage with our colleagues from across the continent on various issues, especially standard-setting, education and audit regulation. Other jurisdictions on the continent have been particularly interested in our regulatory model and the Audit Development Programme, which is the new process in qualifying and registering as an auditor.

Transformation remains one of the biggest challenges in the profession; however, we are making some inroads. Our Education and Transformation Department recently hosted an audit educators' workshop where various models of teaching, learning and training of auditors and transformation initiatives were discussed and shared. The department continues to engage with trainees and university students through various career initiatives.

The IRBA and the Johannesburg Stock Exchange (JSE) have been engaging over the past few years in order to respond to some challenges experienced with the accreditation of auditors to perform listed company audits. The current process followed by the JSE is to rely on the IRBA's Inspections Report, which is issued after an inspection. The accreditation is granted upon satisfactory results of the auditor's engagement file inspection. However, due to constraints in capacity and other risks, the IRBA recommended alternatives to the JSE to accredit auditors. The JSE has consulted with the IRBA and the profession to initiate a process of considering a new approach to the accreditation. For the latest communique on JSE accreditation, refer to page 9.

I am pleased to announce that we hosted very successful International Accounting Education Standards Board (IAESB) and IAESB Consultative Advisory Group (CAG) meetings in April. As part of this, we also hosted, for the first time, the IRBA-IAESB Accountancy Education Forum, which was attended by various stakeholders, including academics and professional bodies, and also attended by representatives from other parts of the continent. For feedback on the forum, see page 14.

The IRBA continues to develop professional relationships with audit regulators and standard setters through its involvement in international structures. This keeps the IRBA abreast of developments and strategies that could have an impact on audit regulation and standard setting in South Africa. To this effect, I attended the IFIAR plenary meeting where IFIAR members approved the Charter changes required to implement a new governance structure for the body. As a result, effective April 2017, the IFIAR will be governed by a Board and the IFIAR's current Advisory Council will be dissolved.

Robert Zwane, Ciara Reintjes and I attended the PAFA Technical and Standards Setters Forum meeting in Zambia. The meeting focused on how African countries (PAFA member bodies) can interact and connect with international standard-setters and was also aimed at forming PAFA level committees that would focus on connecting with international standard-setters, with the ultimate objective of speaking with an "African Voice". The IRBA team provided support to the PAFA secretariat in the establishment of the strategy, the creation of committees and in the hosting of the event. We also participated as speakers and panel members to share and influence the adoption of international standards by African countries.

The Director Standards, Imran Vanker, and Nicolette Bester attended their second IAASB Board meeting in New York as Board member and technical adviser respectively. The IAASB has appointed Imran to its working group on quality control (QCWG), and Nicolette to its task force on agreed-upon procedures (AUPTF). I have been appointed to the International Accounting Education Standards Board (IAESB) of the International Federation of Accountants (IFAC) and will be one of the IAESB representatives on the joint working group on Professional Scepticism. This is a joint project between the auditing, education and ethics standard-setting bodies of IFAC.

The King Committee issued the draft version of the latest King Report (King IV) for public comment on 15 March 2016. The committee has been working on this report since late 2014. The scope, requirements and impact of corporate governance codes in South Africa should have a positive impact on the promotion and protection of the public interest, and for this reason, the IRBA has a keen interest in the proposals of the draft King IV Report and draft Code. The IRBA submitted a comprehensive comment letter to the committee. The comments were focused largely on assurance and audit committees, as these areas are considered to be two important drivers of good governance and audit quality.

The IAASB released its Invitation to Comment (the ITC) on 17 December 2015 and the IRBA comment letter was submitted on 17 May 2016. The ITC highlights the IAASB's discussions on the topics of professional scepticism, quality control and group audits, and it also flags potential standard-setting activities the IAASB could undertake to enhance audit quality. The IRBA invested considerable time and effort to comment on the ITC by forming an internal task group whose objectives were to contribute to and formulate an IRBA comment letter.

Key points discussed under quality control included:

- Quality management approach.
- Engagement quality control review.

- Transparency reporting.
- Firm governance and audit quality indicators.

I would like to thank all our staff members who participated in the task group and prepared the comment letter.

We are proud of the recognition that the IRBA and the South African auditing profession gets globally, and despite our other challenges, we need to continue to work together to ensure that our profession remains credible and globally respected.

Let us continue to work to maintain our standards, serve investors and the community and protect the financial interests of the public.



Bernard Peter Agulhas
Chief Executive Officer

COUNTDOWN TO THE NEW AND REVISED AUDITOR REPORTING STANDARDS – SIX MONTHS TO GO

Auditors are reminded that the new and revised Auditor Reporting Standards (ISAs) are effective for audits of financial statements for periods ending on or after 15 December 2016. A comprehensive list of resources to assist auditors with the implementation is available on the IRBA website (<http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards>).

Meanwhile, the Council for Medical Schemes (CMS) has issued a circular for medical schemes and the Financial Services Board (FSB) has issued an information circular for collective investment schemes requiring auditors to report on key audit matters (KAM) in their audit reports on these regulated entities. The CMS's Circular 6 of 2015 is available on its website (<http://www.medicalschemes.com/files/Circulars/Circular65Of2015.pdf>) and the FSB's Information Circular No. 27 can be accessed on the FSB's website (<https://www.fsb.co.za/Departments/cis/Documents/Circular%2027.pdf>).

Several companies and audit firms have also decided to early adopt the requirement of reporting on KAM.

The Following Topics are Discussed in this Issue:

- The IAASB's *Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*;
- *ISA 810 (Revised), Engagements to Report on Summary Financial Statements*;
- Audit Implications of IFRS 9, *Financial Instruments*;
- Illustrative South African Reserve Bank (SARB) Banks Act Regulatory Auditor's Reports on Banks Act Returns;
- Revised Illustrative Engagement Letter, Representation Letter and Auditor's Reports for Engagements on Attorneys Trust Accounts; and
- SASAE 3502, *Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification Certificates (Revised)*.

IAASB's Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits (ITC)

The comment period to respond to the International Auditing and Assurance Standards Board's (IAASB) ITC ended on 16 May 2016.

The ITC highlighted the IAASB's discussions on three priority topics: professional scepticism, quality control and group audits. It facilitated responses on detailed aspects of these three priority topics, including:

- How the IAASB's auditing and quality control standards currently address various matters.
- Concerns the IAASB has noted about these topics.
- Possible actions the IAASB may take in response, including highlighting specific areas in the IAASB's auditing and quality control standards that might improve audit quality.
- More specific questions the IAASB would like to be answered.

The IAASB has received more than 80 comment letters on the ITC from a range of constituencies.

These comment letters, which include one from the IRBA, can be found on the IAASB's website (<http://www.ifac.org/publications-resources/invitation-comment-enhancing-audit-quality-public-interest>).

ISA 810 (Revised), Engagements to Report on Summary Financial Statements

On 30 May 2016, the IRBA Board approved *ISA 810 (Revised), Engagements to Report on Summary Financial Statements*, for use by registered auditors in South Africa. ISA 810 (Revised) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor. This standard was issued by the IAASB in March 2016.

ISA 810 (Revised) will become effective at the same time as the new Auditor Reporting Standards for engagements to report on summary financial statements for periods ending on or after 15 December 2016.

ISA 810 (Revised) and the related communique can be found on the IRBA website (<http://www.irba.co.za/handbooks-of-international-standards/2015-handbook>).

Committee for Auditing Standards (CFAS)

CFAS Releases Proposed Guide for Registered Auditors: Considerations for an Auditor or a Reviewer of a Company which is Factually Insolvent

The CFAS approved the release of the *Proposed Guide for Registered Auditors: Considerations for an Auditor or a Reviewer of a Company which is Factually Insolvent* (this proposed Guide) in June 2016 for exposure for public comment.

This proposed Guide has been developed to provide guidance to registered auditors who are:

- (a) Auditors of a company which is trading while factually insolvent, in that its total liabilities exceed its total assets; and
- (b) Independent reviewers in terms of the Companies Act, 2008 (the Companies Act), of the annual financial statements of a company which is trading under insolvent circumstances.

It also intends to provide guidance regarding relevant provisions of the Auditing Profession Act, 2005; the Companies Act, 2008; common law; and case law.

This proposed Guide may be downloaded from the IRBA website (<http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/exposure-drafts-and-comment-letters>).

The CFAS welcomes comments from registered auditors and other interested parties on all matters addressed in this proposed Guide and seeks responses to five specific questions that are set out in the Explanatory Memorandum section. Comments should be submitted in Word format via e-mail to standards@irba.co.za by 5 October 2016.

Audit Implications of IFRS 9, Financial Instruments

As referred to in the previous edition of *IRBA News*, an IRBA task group has been established to respond to the need for guidance on the audit implications of the Expected Credit Loss (ECL) model incorporated into IFRS 9. The task group is in the process of developing an IRBA Staff Audit Practice Alert that will serve to provide registered auditors with the background to the issues and audit implications of IFRS 9 and the ECL model in the banking environment; an audit checklist that can be used by the audit engagement team and audit firm when considering the audit implications of the ECL model; and related notes. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018. It should be noted that the implications of IFRS 9 will also be relevant to entities outside the banking environment.

In addition, the IAASB has responded and is in the process of a holistic revision of *ISA 540, Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures* (project proposal approved by the IAASB in December 2015). It issued a project update (<http://www.ifac.org/publications-resources/isa-540-revision-project-publication>) in March 2016, providing an overview of the ISA 540 task force's initial thinking of the special audit considerations relating to ECL provisions, including related estimation uncertainty.

It is expected that the exposure draft of ISA 540 (Revised) will be approved by the IAASB at its December 2016 meeting and a final ISA 540 (Revised) approved in December 2017.

Audit firms and auditors are encouraged to prepare for the implementation and to also assess the impact of IFRS 9 on their audit procedures.

Illustrative South African Reserve Bank (SARB) Banks Act Regulatory Auditor's Reports on Banks Act Returns

In terms of Regulations 39, 40 and 46 of the Banks Act (No. 94 of 1990), the external auditor of a bank is required to report to the SARB on various regulatory matters.

Regulation 46(6) of the Banks Act requires that the illustrative reports "shall be rendered in accordance with the wording and practices agreed from time to time between the Registrar, the SAICA and the IRBA".

The CFAS approved the issue of the illustrative SARB Banks Act regulatory auditor's reports on the Banks Act Returns (illustrative regulatory reports) for use by registered auditors for banks with year-ends on or after 31 December 2015 as follows:

- Illustrative regulatory reports A-H; and
- Illustrative regulatory reports I-J.

The illustrative reports have also been approved by the South African Institute of Chartered Accountants (SAICA) and the Registrar of Banks.

Illustrative Regulatory Reports A-H

Using the IAASB standards for the engagement, illustrative reports A-H have been developed to report on the Banks Act Returns as follows:

- Part A: ISA 800;
- Part B: ISRE 2410;

- Part C: ISAE 3000 (Revised);
- Part D: ISAE 3000 (Revised);
- Part E: ISAE 3000 (Revised);
- Part F: ISA 800; ISRE 2410 and ISAE 3000;
- Part G: ISRS 4400; and
- Part H: ISRS 4400.

Illustrative Regulatory Reports I-J

Illustrative reports I-J, which represent a non-assurance engagement, fall outside the IAASB standards. The CFAS has concluded that the provisions of paragraph 20 of the *International Framework for Assurance Engagements* (Framework) have been adhered to when developing illustrative reports I-J in that these reports do not imply compliance with the Framework or with assurance standards. They also do not inappropriately use the words "assurance", "audit" or "review".

The illustrative regulatory reports and the related communique are available on the IRBA website.

Registered auditors are reminded that ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information is effective for assurance reports dated on or after 15 December 2015.

ISAE 3000 (Revised) is available on the IRBA website (<http://www.irba.co.za/handbooks-of-international-standards/2015-handbook>).

Revised Illustrative Engagement Letter, Representation Letter and Auditor's Reports for Engagements on Attorneys' Trust Accounts

Registered auditors' attention is drawn to the revised illustrative engagement letter, representation letter and auditor's reports (revised illustrations) for use by registered auditors when reporting on attorneys' trust accounts, issued by the IRBA on 14 June 2016.

The revised illustrations were updated for amendments arising from ISAE 3000 (Revised).

The revised illustrations are effective for reports issued on or after 15 June 2016 when reporting on attorneys' trust accounts for the 2016 financial period end. Where the registered auditor has proactively updated the existing format of the auditor's report for amendments to ISAE 3000 (Revised) and has already submitted the updated report to the relevant law society for the 2016 financial year, the law societies have agreed that such a report will be accepted, and in such circumstances there is no need for the revised auditor's report to be re-submitted.

Work is continuing on updating the *Guide for Registered Auditors: Engagements on Attorneys Trust Accounts* and related appendices for:

- The Uniform Rules; and
- ISAE 3000 (Revised).

The warning that has been placed on this Guide will be applicable until the process of updating it and related appendices has been finalised.

The revised illustrations are available on the IRBA website (<http://www.irba.co.za/industry-specific-guides-and-regulatory-reports-pages/attorneys-trust-account-engagements>).

New CFAS Projects

The CFAS has commenced with identifying potential new projects. Projects are prioritised to ensure that the IRBA mandate of public interest is addressed.

IAASB Projects

The IAASB's projects in progress are:

- Accounting Estimates (ISA 540);
- Quality Control (ISQC 1 and ISA 220);
- Group Audits (ISA 600);
- Professional scepticism;
- Auditor risk assessments (ISA 315 (Revised));
- Responding to non-compliance with laws and regulations (NOCLAR);
- Assurance on integrated reporting;
- Agreed-upon procedures (ISRS 4400); and
- Data analytics.

More information on these projects is available on the IAASB website (<http://www.iasb.org/projects>).

Broad-Based Black Economic Empowerment (B-BBEE) Verification Assurance

South African Standard on Assurance Engagements (SASAE) 3502 (Revised), Assurance Engagements on Broad-Based Black Economic Empowerment Verification Certificates, Including the Registered Auditor's Limited Assurance Reports

SASAE 3502, *Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification Certificates* has been revised for non-substantive changes resulting from amendments to the related B-BBEE legislation.

In addition, the illustrative limited assurance audit reports for large enterprises and qualifying small enterprises, illustrative engagement letter and illustrative management representation letter in appendices A1, A2, C and D to SASAE 3502 (Revised) have been amended to align with ISAE 3000 (Revised), which is effective for assurance engagements where the assurance report is dated on or after 15 December 2015.

SASAE 3502 (Revised) is effective for B-BBEE Verification Certificates issued on or after 1 June 2016.

A warning has been placed on the Guide, stating that SASAE 3502 has not been updated for ISAE 3000 (Revised), other than the illustrative auditor's report, engagement letter and management representation letter.

SASAE 3502 (Revised) and the related communicate are available on the IRBA website (<http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/other-assurance-including-b-bbee/b-bbee-verification-assurance>).

Auditors are alerted to the communicate that was issued by the IRBA on 4 March 2016 providing an update on the IRBA's continued involvement in the Broad-Based Black Economic Empowerment (B-BBEE) verification industry. The communicate is available on the IRBA website <http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/other-assurance-including-b-bbee/b-bbee-verification-assurance>

ETHICS

Committee for Auditor Ethics (CFAE)

CFAE Releases Exposure Draft to the IRBA Code of Professional Conduct relating to Custody of Client Assets

When the IRBA first adopted the IESBA *Code of Ethics for Professional Accountants* with effect from 1 January 2011, it included local amendments. Section 270, *Custody of Client Assets*, is such a local amendment.

The extant Section 270.4(a)(ii) requires clients' funds to be placed in "appropriately designated accounts". However, the guidance included in this section may suggest that a client's funds may be kept in a general account in the registered auditor's name. This guidance is now considered inappropriate, and in certain circumstances may not be desirable at all. Using a general account to hold a client's funds should be avoided since the registered auditor may effectively be placing their client's funds at risk. These risks could include any of the following:

- (a) Where a registered auditor passes away and the client's funds become part of the deceased estate;
- (b) A similar issue in a liquidation scenario; or
- (c) A risk of mismanagement of commingled resources.

These proposed amendments were discussed in the recently issued IRBA exposure draft, and they relate to all professional services that the registered auditor carries out and are not limited to audit or assurance clients.

How to Comment

Registered auditors and others are invited to submit to the IRBA any comments regarding proposed changes. Comments should be submitted by e-mail to standards@irba.co.za in Word format. Regarding the proposed changes mentioned here, comments were due by 30 June 2016.

The proposed changes to the IRBA Code may be downloaded from the IRBA website (<http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/exposure-drafts-and-comment-letters>).



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Disciplinary Committee

The Disciplinary Committee sat twice during this period.

On 7 June 2016, the committee postponed the matter of Mr BN. The case related to noncompliance with the IRBA's CPD requirements. A month prior to the hearing, the practitioner resigned from the IRBA. Although the IRBA is not precluded from continuing with a disciplinary hearing, albeit the practitioner resigning, the committee decided not to proceed on the merits of the matter but rather

postpone the hearing *sine die*. However, the committee ordered that should the practitioner re-apply for registration with the IRBA at any stage the case must be re-enrolled for a hearing.

On 7 and 8 June 2016 the committee heard the matter of Mr TM to conclusion. Sanction is reserved and the case will be reported on in the next issue.

Reportable Irregularities (RIs)

RIs for the quarter January to March 2016 (Note that RIs are reported on quarterly in arrears):

113 second reports were received, of which:	
- RIs were continuing	61
- RIs were not continuing	52
- RIs did not exist	-

Of the 61 continuing RIs received, the top six types of RIs most frequently reported, categorised by nature, were:
(Note that in many cases a second report received would identify more than one RI)

Unlawful Act or Omission	Reporting Frequency	Regulator(s) Informed
Income tax returns not submitted	41%	South African Revenue Service (SARS)
Financial statements not prepared/not approved	29%	Companies and Intellectual Property Commission (CIPC), SARS, etc.
UIF/SDL not declared and/or paid	12%	Department of Labour (UIF), etc.
Trading while technically insolvent	6%	CIPC
VAT returns not submitted	5%	SARS
Suspicious/corrupt activities	3%	Financial Intelligence Centre, Directorate for Priority Crime Investigation, etc.
Other (including non-establishment of a Social and Ethics Committee, director's conduct, etc.)	4%	CIPC, SARS, Land Bank, etc.

Recent News and Developments Regarding the Financial Intelligence Centre (FIC)

The IRBA was invited by the FIC to attend a key stakeholder engagement session, which was held in Pretoria on 20 May 2016. The keynote address centred on the FIC's role as an intermediary between the various market players in the South African economy and the different arms of local law enforcement. While the FIC's focus had previously been on gathering information at a tactical level, its aim has evolved to a more strategically focused analysis of big data to enable law enforcement to proactively identify potential threats of money laundering and terrorist financing. Given the growing need for the financial sector's integrity in South Africa to be protected from those profiting from the proceeds of crime, we wish to share the following information with our registered auditors (RAs) on some of the more recent developments regarding the current FIC compliance environment.

Background to the FIC Amendment Bill

In 2012, the Financial Action Task Force (FATF) published a list of recommendations on combating money laundering and the financing of terrorism. Some of the key recommendations listed by the FATF in its February 2012 publication are:

- The application of a risk-based approach, recommending that countries require financial institutions and designated non-financial businesses and professions to identify, assess and take effective action to mitigate their money laundering and terrorist financing risks.
- Politically exposed persons (PEPs), requiring financial institutions to take reasonable measures to determine whether a customer or beneficial owner is either a domestic PEP, a close family member or an associate of such a PEP.
- Identifying the beneficial ownership of legal persons and arrangements, recommending that countries ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons.

The process of re-drafting the current legislation in order to address certain gaps identified in addressing these FATF recommendations has now resulted in the Financial Intelligence Centre Amendment Bill being passed by the National Assembly – and this is now awaiting promulgation. It is also expected that most of the exemptions provided in the current legislation will be done away with due to the implementation of a risk-based approach as recommended by the FATF, and that the scope of persons and institutions recognised by Schedule 1 of the Financial Intelligence Centre Act 38 of 2001 (the FIC Act) as Accountable Institutions (AIs) will be expanded upon to include, for example, a wider range of institutions and individuals such as auctioneers, safety deposit box holders, etc.

The goAML Registration and Reporting System

Another recent development is the implementation of the FIC's new online registration and reporting system, which is referred to as goAML. One of the goAML system's main aims is to provide enhanced assurance to the FIC that reports submitted by AIs are captured securely, timeously and accurately. The goAML system went live on 25 April 2016, with the FIC confirming that more than 80,000 reports have already been submitted electronically by a wide range of AIs who have successfully registered online profiles.

Organisational identity numbers, or Org IDs, have been issued by the FIC to all registered AIs, and in this regard it is imperative for RAs who are also AIs to ensure that they have received their Org IDs from the FIC prior to attempting registration on the goAML system.

Ongoing FIC Initiatives

The FIC indicated that it has, among others, prioritised the following outreach initiatives:

- With the FATF Mutual Evaluation Assessment currently entering into its fourth round, the FIC will be embarking upon various interaction sessions, which will be held with all its relevant stakeholders in ensuring that South Africa is fully compliant with all the FATF recommendations.
- Various other sector-specific roadshows will be embarked upon to address sector related issues experienced in complying with the FIC Act.
- The FIC will also be embarking upon a process of critical engagement with the larger business community to ensure a uniform understanding and interpretation of Section 29 of the FIC Act among all concerned.

In this regard, irrespective of their AI statuses, all RAs are encouraged to familiarise themselves with the provisions of Section 29 of the FIC Act in relation to their commercial business dealings with clients to ensure compliance with these requirements in terms of reporting to the FIC any suspicious and/or unusual transactions.

Classification of RAs as AIs

If an RA provides any financial services for which they require a Financial Advisory and Intermediary Services (FAIS) licence from the Financial Services Board (FSB), the RA in question will qualify for an AI designation as per Paragraph 12 of Schedule 1 of the FIC Act. Should this be the case, then it is our understanding from the FIC that the FSB will serve as the relevant Supervisory Body (SB) to which its goAML profile must be linked when submitting online reports to the FIC. In its capacity as a linked SB, the FSB will be able to monitor the levels of compliance of RAs in relation to, for example, the number of Cash Threshold Reports (CTRs) submitted

within a given timeframe and which ones the FIC has rejected due to noncompliance with any of its predetermined business rules.

Reportable Irregularities

The FIC has requested the IRBA to continue providing it with details of any RIs received where it is suspected that a contravention of the FIC Act identified is ongoing. Note in this regard that all RAs should familiarise themselves with the IRBA's May 2015 revised guide for registered auditors on RIs in determining whether a suspected unlawful act identified in relation to a noncompliance with the FIC Act is to be deemed an RI, as defined in the Auditing Profession Act 26 of 2005.

Queries Relating to the FIC

RAs who also qualify as AIs should refer to the FIC's website – www.fic.gov.za – to familiarise themselves with the goAML registration and reporting processes. Note that in this regard there is an interactive link on the site's home page that automatically redirects the user to all relevant notices and guidelines issued by the FIC since the system's inception.

In addition, a telephonic helpline can be accessed by dialling 0860 222 200, and queries may also be sent electronically to the fic_feedback@fic.gov.za email address. We also recommend that you contact the FIC directly at 0860 342 342, or alternatively at (012) 641-6215 should you have any queries in relation to your status as an AI.

Holding Outs

On 20 April 2016 Lesley McGoldrick pleaded guilty to, and was found guilty of, one count of contravening Section 41(2)(a) of the Auditing Profession Act No. 26 of 2005, in the Bellville Specialised Commercial Crime Court. The accused was sentenced to a fine of R10,000 or 12 months imprisonment in terms of Section 276(1)(b) of the Criminal Procedure Act 51 of 1977 as amended. The accused was further sentenced to four years imprisonment, in terms of Section 276(1)(b) of Act 51 of 1977, which was wholly suspended for a period of five years in terms of Section 297(1)(b) of Act 51 of 1977 on condition that the accused be not found guilty of a contravention of Section 41(2) of the Auditing Profession Act 25 of 2005 committed during the period of suspension.



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INSPECTIONS

Communique: The Use of IRBA Inspection Results for JSE Auditor Accreditation

This is an extension of our previous communication titled *"Inspections for purposes of JSE accreditation"*, issued on 20 August 2014. The purpose of that communique was to improve the process to be followed by auditors and the IRBA in response to the JSE's auditor accreditation criteria. The changes sought to address certain concerns regarding the level of reliance placed on an IRBA inspection result as well as logistical challenges experienced with inspections that are requested for accreditation purposes at short notice.

The IRBA became aware that certain auditing firms were experiencing challenges with regards to attaining/maintaining their JSE accreditation, mainly concerning the interpretation of inspection results and the impact this has on their eligibility to audit listed entities and compete fairly in that market. Affected firms often argued that the type of inspection findings that resulted in an unsatisfactory result did not justify the negative commercial impact on the firm as a whole. This caused affected auditors to focus more on attaining/remaining accredited at all cost as opposed to improving audit quality, which was also inconsistent with the purpose and objective of an inspection.

Regulatory inspections are planned and performed for a specific purpose and inspections for any different purpose, e.g. for JSE accreditation, fall outside the IRBA's risk-based scope of independently selecting and inspecting completed engagements. IRBA inspections are not always performed on engagements that would also be deemed appropriate for purposes of JSE accreditation – for example, an attorney's trust where the nature and complexity is dissimilar to that of a fully functional public company with elements such as group consolidation, financial instruments, foreign operations, or where the IFRS framework, Companies Act or Taxation are not applicable. Inspection results do not, on their own, guarantee the future performance of auditors. Rather, auditors have a responsibility to continually update their competence and remain competent throughout their professional lives. Reliance on external monitoring results as the only eligibility criteria for individual auditors to be accredited is therefore not deemed to be sufficient

and appropriate in certain instances. We recommended to the JSE that other audit quality indicators (AQIs) should also be considered.

The JSE accreditation requirements were extended during 2015 to include auditors of listed debt issuers, further straining our capacity.

Auditors should adhere to the auditing standards, which require them to assess their competence and capacity before accepting an audit engagement, and those charged with governance (audit committees) should also apply relevant criteria when appointing auditors for the company.

AQIs can be helpful in assessing existing or new auditors for appointment. As such, we further recommended that an objective assessment of a range of relevant AQIs – such as the level of firm support, the firm's quality control environment, the auditor's/team's experience, training records/CPD and internal monitoring review outcomes – can also provide the necessary comfort to the JSE to accredit an auditor. External inspection results are but one such indicator – in their absence, other indicators should be considered.

Based on the above, the IRBA will unfortunately no longer be able to accommodate any further requests by auditors for specific accreditation inspections as it needs to focus its capacity on its mandate to inspect auditing firms, which includes a risk-based sample of completed audit/assurance engagements.

We have engaged extensively with the JSE on the matter over the past three years to discuss the issues and challenges, and more recently to explore appropriate alternatives to the current auditor accreditation requirements. We are pleased to note that the JSE is currently in the process of consulting on the matter in view of changing its Listings Requirements.

We will continue to engage with the JSE on the matter until a suitable alternative is agreed to and the Listings Requirements are amended accordingly. Ultimately, the IRBA and the JSE have the same objective, which is to promote high audit quality and protect investors.



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INVESTIGATIONS

The Investigating Committee met twice during this period and referred 19 matters to the Disciplinary Advisory Committee with recommendations.

Disciplinary Advisory Committee

The Disciplinary Advisory Committee met once during this period and concluded on 25 matters.

Decisions not to charge

Two matters in terms of Disciplinary Rule 3.5.1.1 – the respondent was not guilty of improper conduct.

Decisions to charge and matters finalised by consent order

Twenty-two matters were finalised by consent order.

Matter 1 – The respondent failed to identify that certain annual financial statements of a client's entities were not prepared; books and records of these entities were not appropriately maintained; and tax returns were not submitted timeously. The respondent failed to report these irregularities to the IRBA. With respect to the lodging of a secretarial document, the respondent submitted incorrect information to the IRBA.

The respondent was sentenced to a fine of R100,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, an order of R5,000 contribution towards costs and publication in general terms.

Matter 2 – The respondent was the engagement partner conducting the audit of a listed company for the year ended 30 November 2012. The annual financial statements of the company for the year ended 30 November 2013 contained a significant number of restatements relating to prior period errors. The respondent had failed to detect these errors during the audit of the 30 November 2012 year-end, and was found to have issued an unqualified audit opinion in circumstances where it was inappropriate to do so. Furthermore, the respondent breached the requirements of ISA 570 as the evaluation of management's assessment of going concern was not sufficiently and appropriately documented.

The respondent was sentenced to a fine of R100,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 3 – The respondent was a trustee of a trust that held shares in a company audited by the respondent. The respondent failed to identify the self-interest threat created by the financial interest in the company and was not independent in conducting the audit of the company.

The respondent was sentenced to a fine of R50,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, costs order of R5,000

and publication in general terms.

Matter 4 – The matter arose from a referral by the Inspections Department. The respondent had two sets of signed financial statements, which were different, for a client on the audit file for the same financial year. Furthermore, the respondent's letterhead reflected the respondent, who is the registered auditor, and another person, who is not a registered auditor.

The respondent was sentenced to a fine of R20,000, of which R10,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 5 – The matter arose from a referral by the Inspections Department. The inspection revealed that practitioners in the firm had followed a practice of having partners (other than the audit engagement partners) prepare the annual financial statements of the firm's audit clients, which constituted a breach of Section 90(2) of the Companies Act.

The respondent was sentenced to a fine of R100,000, of which R60,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 6 – The matter arose from a referral by the Inspections Department. It was found that the respondent prepared financial statements for a client, while having been appointed the auditor, in contravention of Section 90(2) of the Companies Act.

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 7 – The respondent prepared a Broad-Based Black Economic Empowerment (B-BBEE) score and status level on behalf of a client and issued the related B-BBEE verification certificate while applying an inappropriate sector code, which led to material misstatements on the certificate. On re-issuance of the certificate, the respondent again failed to consider the appropriate sector code. In addition, the respondent submitted incorrect information to the IRBA.

The respondent was sentenced to a fine of R100,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 8 – The respondent prepared a Broad-Based Black Economic Empowerment (B-BBEE) score and status level on behalf of the respondent's client and did not correctly apply the B-BBEE Codes in the preparation thereof. The respondent inappropriately issued the B-BBEE verification certificate, which contained an unqualified conclusion and material errors due to an incorrect

application of the B-BBEE Codes.

The respondent was sentenced to a fine of R25,000, of which R12,500 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 9 – The respondent failed to deliver the financial records and financial statements to the company despite numerous requests to do so.

The respondent was sentenced to a fine of R20,000, of which R10,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 10 – The respondent, in performing the audit of the trust, failed to identify the requirement of the trust to be registered for VAT and consequently failed to report this irregularity to the IRBA.

The respondent was sentenced to a fine of R100,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 11 – The respondent was approached by a number of members of a close corporation to accept appointment as the corporation's accounting officer. Despite being aware of one member's refusal to agree to the replacement of the previous accounting officer, the respondent prepared and issued an accounting officer's report and a number of other documents, purporting to be the corporation's accounting officer.

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 12 – The respondent failed to comply with the Tax Act in that the respondent issued an IRP5 certificate nine months after the reasonably expected date, despite numerous requests to do so by the employee.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 13 – The respondent only notified their clients of taxes due on a particular assessment and not the total balance owing as per the SARS statement of account and, as a result, the clients were incurring interest and penalties of which they were unaware.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in

general terms.

Matter 14 – The matter arose from a referral by the Inspections Department. The inspection revealed that the respondent's client had followed accounting policies that departed from the applicable financial reporting framework, and the respondent failed to appropriately qualify the auditor's report in relation to these departures from IFRS for SMEs.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 15 – The respondent was the engagement partner conducting the audit of the company for the year ended 28 February 2014. A related firm provided consulting services to the audit client. The respondent failed to analyse the resultant threats to independence and document these considerations as required by ISA 220 and the IRBA Code of Professional Conduct.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 16 – The respondent did not apply the requirements of IFRS 3 in a reverse acquisition of a subsidiary of a listed company, and did not identify errors in the calculation of the transaction itself in the prior year audit. This resulted in a restatement of the financial statements and thus the respondent issued an incorrect audit opinion.

The respondent was sentenced to a fine of R100,000, no costs order and publication in general terms.

Matter 17 – The respondent failed to appropriately modify a review report despite being aware that the client applied accounting policies that departed from IFRS for SMEs. Additionally, the respondent failed to appropriately modify the review report in relation to a significant limitation on the scope of the review engagement. Finally, the respondent contracted with the client to carry out an ad hoc advisory engagement in terms of an inappropriate assurance pronouncement.

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 18 – The matter arose from a referral by the Inspections Department. It was found that the respondent issued a B-BBEE verification certificate containing an inappropriate conclusion. The respondent added a scope limitation disclaimer to the conclusion, which was in conflict with providing assurance on the certificate.

The respondent was sentenced to a fine of R60,000, of which R45,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed

during the period of suspension, no costs order and publication in general terms.

Matter 19 – The matter arose from a referral by the Inspections Department. It was found that the respondent issued an inappropriate auditor's report in that the respondent failed to modify the report for a material departure from IFRS for SMEs.

The respondent was sentenced to a fine of R80,000, of which R60,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 20 – The matter arose from a referral by the Inspections Department. It was found that the respondent's audit firm prepared financial statements of a close corporation while the respondent was the appointed auditor, in contravention of Section 90(2) of the Companies Act.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 21 – The matter arose from a referral by the Inspections

Department. It was found that the respondent prepared financial statements for a client, while having been appointed the auditor, in contravention of Section 90(2) of the Companies Act.

The respondent was sentenced to a fine of R80,000, of which R60,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 22 – The matter arose from a referral by the Inspections Department. The respondent failed to prepare audit documentation that provided a sufficient and appropriate record to support the auditor's opinion relating to credit balances in accounts receivable and impairment of plant and equipment.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Decision to charge and matter referred for a disciplinary hearing

One matter was referred to the Legal Department for a disciplinary hearing.



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COMMUNICATIONS

In the interest of improved communication with registered auditors and other stakeholders, a list of communiques sent by bulk e-mail during the reporting period for this issue is set out below. These communiques may be downloaded from the IRBA website at www.irba.co.za under the News section.

1 April 2016	The IRBA turns 10
12 April 2016	Fees Payable to the IRBA with Effect from 1 April 2016
15 April 2016	The International Auditing and Assurance Standards Board's (IAASB) Revised International Standards on Auditing (ISAs) – ISA 800 (Revised), Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks; and ISA 805 (Revised), Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
21 April 2016	The Controlling Body of STRATE Issues Circular 11P/2016
21 April 2016	Introduction of an Enhanced Dynamic Income Tax Return for Companies (ITR14)
26 April 2016	Products Issued by the Financial Intelligence Centre in Relation to the Implementation of the New Registration and Reporting Platform
09 May 2016	Proposed Amendments to the IRBA Code of Professional Conduct for Registered Auditors Relating to the Custody of Client Assets
12 May 2016	Changes to the IRBA's Education and Transformation Department
15 May 2016	Updated Guidance on the Provision of the Non-Audit Services by the Auditor of a Company (Section 90 of the Companies Act, 2008)
10 June 2016	Fees on Assurance Engagements Payable to the IRBA with Effect from 01 April 2016
14 June 2016	The South African Standard on Assurance Engagements (SASAE) 3502 (Revised), Assurance Engagements on Broad-Based Black Economic Empowerment Verification Certificates, Including the Registered Auditor's Limited Assurance Reports
14 June 2016	Revised Illustrative Engagement Letter, Representation Letter and Auditor's Reports for Engagements on Attorneys' Trust Accounts
15 June 2016	ISA 810 (Revised), Engagements to Report on Summary Financial Statements
20 June 2016	Employee Tax Certificate (IRP5/IT3(a)): Individual Taxpayers No Longer Able to Make Changes or Updates
23 June 2016	The Use of IRBA Inspection Results for JSE Auditor Accreditation

GENERAL NEWS

IRBA CEO Appointed to the IAESB

The CEO, Bernard Agulhas, has been appointed to the International Accounting Education Standards Board (IAESB) as a public member representing South Africa till 31 December 2016, following the resignation of Laine Katzin, former Director Education and Transformation.

This appointment means the IRBA and South Africa will continue to be represented on the IAESB until new nominations and appointments for 2017 are announced. Participation in international standard-setting bodies is critical for the IRBA as it provides an opportunity for the organisation to influence the standards being set and not simply adopt and implement them.

Accountancy Forum Focuses on Building Human Capacity and Professional Accounting Education in Africa

International accountancy education leaders, including those from South and East African regions, met in Johannesburg for the Accountancy Education Forum: Building Human Capacity and Professional Accounting Education as part of the IAESB meeting held in April 2016.

This event was jointly hosted by the Independent Regulatory Board for Auditors (IRBA) and the International Accounting Education Standards Board (IAESB).

Forum participants addressed opportunities for advancement along with the challenges being faced in developing professional competence and building human capacity in Africa. Key points addressed included:

- Recognising the importance of accounting technicians for their contributions to the workplace and the financial reporting supply chain;
- Identifying appropriate curriculum for universities and colleges with the aim of developing professional competence for the area of public sector accounting and reporting;
- Emphasising the development of behavioural skills to complement the technical competence of the future professional accountant;
- Enhancing the relevance of accountancy educators through access to both industry and academic environments; and

- Exploring new opportunities for life-long learning to ensure the development of competent professionals who have a holistic perspective.

"The forum provided some useful insight into how education programmes are adapting to a changing and growing accountancy profession in the region," said IAESB Chair Chris Austin. "We are grateful to the IRBA for serving not only as a host for this event, but as a valuable partner in making it a success."

Meanwhile, IRBA CEO Bernard Agulhas said: "The fact that the IAESB and the Consultancy Advisory Group (CAG) meetings were held in South Africa reiterates the importance of education to us. Education providers and professional bodies have to use innovative methods to react to the ever-changing needs to develop and maintain competence for professionals, and the education forum was exactly about that. The forum challenged us to implement approaches to promote innovative learning to continue to protect the public through competence and collaboration."

The event provided local member bodies and PAOs with an opportunity to describe how their professional accounting education programmes are meeting the challenge of developing competence-based education and how PAOs are partnering for the sustainability of their education programmes.

To download the presentations and papers from the event, please visit the IAESB "Meetings" page or send an email to board@irba.co.za or IAESBCommunications@iaesb.org.

New IRBA Website Launched

The IRBA launched a new-look website that boasts a "cleaner, fresh" look as well as more interactive functionality, making it easier for users to navigate.

Though the look is less cluttered than the old website, there is more information that has been conveniently packaged for easy access. For example, the menu bar at the top enables users to instantly find the relevant sections in which they have an interest.

For students who want to become registered auditors (RAs), a single click on the main menu takes them to a linked "IRBA Learner" page. From there they can access information that includes details about an RA qualification, discussion forums and a library.