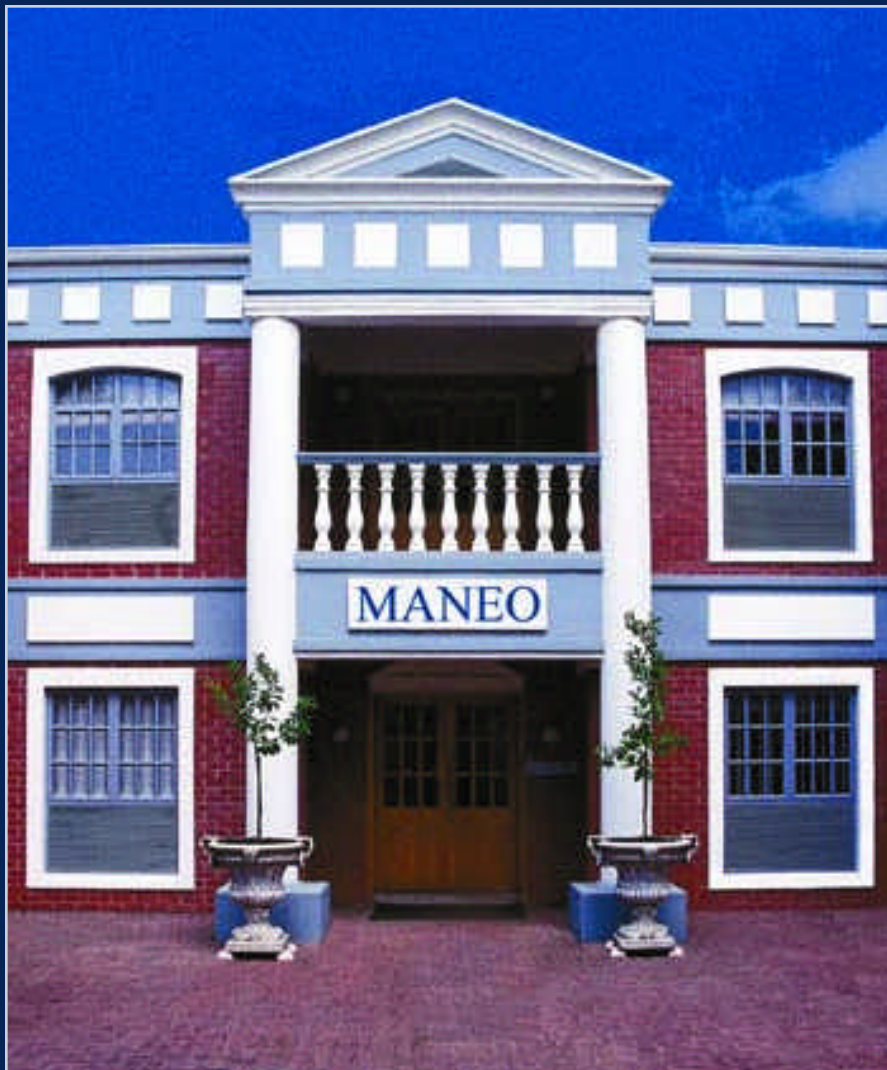




PUBLIC ACCOUNTANTS'
& AUDITORS' BOARD



ANNUAL REPORT
2001

CORPORATE PROFILE AND MISSION

OF THE PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

CORPORATE PROFILE

The Board is the statutory body controlling that part of the accountancy profession involved with public accountancy in the Republic of South Africa.

It is important to stress that all entrants to the public accountancy profession are subject to consistent requirements. Following qualification, accountants entering public practice are required to register with the Board and are governed by its regulations. Those qualified accountants entering other disciplines who are members of a provincial society of chartered accountants, are not subject to the jurisdiction of the Board but are subject to the jurisdiction of The South African Institute of Chartered Accountants.

The Board functions in terms of the Public Accountants' and Auditors' Act, 1991 (Act 80 of 1991) (previously Act 51 of 1951). Its members are appointed by the Minister of Finance from amongst the State departments, members of the accountancy profession nominated by the provincial societies of chartered accountants and academics nominated by the Committee of University Principals.

The Board is funded by fees and levies payable by registered accountants and auditors and reports annually to the Minister of Finance, who then tables the report in Parliament.

CORPORATE MISSION

Basic purpose

To protect the financial interests of the people of South Africa, and other stakeholders, through services rendered by registered accountants and auditors.

Our task

- To provide the means and the regulatory framework for the education and training of adequate numbers of competent and disciplined accountants and auditors, to serve the needs of South Africa.
- To strive constantly towards the maintenance and improvement of standards of registered accountants and auditors.
- To protect and support registered accountants and auditors who carry out their duties competently, fearlessly and in good faith.

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

51st ANNUAL REPORT

For submission to the Minister of Finance in terms of section 9(1) of the *Public Accountants' and Auditors' Act, 1991* (Act 80 of 1991), as amended.

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MEMBERS OF THE PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD



Back (L-R):

Mr ACB O'Flaherty (CEO); Mr CJ Peterson; Mr CF Reid; Mr FM Bruce-Brand;
Adv. FDM Malunga (Registrar of Companies); Ms CM Garbutt (Secretary).

Middle (L-R):

Mr ID Patel; Mr S Fakie (Auditor-General); Prof GK Everingham; Prof JBJ van Rensburg;
Mr B Petersen; Ms J Parfitt (Alternate for Commissioner: Inland Revenue).

Front (L-R):

Ms A Vest-Louw (Director: Education & Training); Ms RE Benjamin-Swales;
Ms J Bailey (Director: Practice Review); Mr A Jagga; Ms Z Bassa (Chairman);
Mr CR Qually (Vice-Chairman); Ms PJ O'Connor (Director: Legal).

Absent:

Mr J van Rooyen (Executive Officer: Financial Services Board);
Mr I Mamoojee (Accountant-General: National Treasury).

REPORT OF THE CHAIRMAN



The year 2001 has been an especially challenging one for the Public Accountants' and Auditors' Board (PAAB). The incidence of failure of high-profile companies in South Africa and abroad, especially the late 2001 major USA Enron Corporation collapse, has and continues to receive unprecedented publicity calling into sharp relief the demand globally for higher standards of corporate governance. The release of the draft King report on Corporate Governance as well as the long awaited final report of the Nel Commission of Enquiry have added to the governance debate locally. Integral to the broader governance issues is the role of the auditor. Some of the media reporting on these issues has been speculative and, at times, misleading and generally does not give recognition to our unique 50-year South African system of statutory regulation.

As the statutory body charged with the responsibility for the regulation of the public practicing arm of the profession, the PAAB has and will continue to support any practical and cost effective measures to improve investor protection through the services which registered accountants and auditors render. To this end, the PAAB has continued to drive its well-publicized strategic initiatives to strive for continuous improvement in its core activities in relation to the admission and continuance of the right to practice of persons registered as accountants and auditors in the public interest.

The reports by chairmen of the various committees of the PAAB responsible for the education, investigation, disciplinary and practice review functions as well as of the newly introduced Auditing Standards Board are included elsewhere in the Annual Report and demonstrate the considerable level of activities. Our main Board is responsible for the strategic direction of the PAAB and its seven member executive committee is responsible for ensuring that the day-to-day activities are efficiently and effectively performed. The considerable time and quality effort which is devoted by members of our Board and its Committees on an honorary basis is beyond measure.

DRAFT ACCOUNTANCY PROFESSION BILL, 2001

There has been no further progress in finalizing the new legislation to replace our existing Act. In his March budget speech, the Minister of Finance drew attention to the need to reinforce corporate governance in the light of company collapses discussed above. Concerning the draft bill he stated "Having considered the draft legislation and taking account of recent developments both nationally and globally, it is my view that the Bill does not go far enough. Over the next coming months, we will actively engage with all the role players to ensure that the Bill addresses our country's needs in this regard."

As the statutory regulator, the PAAB welcomes the Minister's undertaking to actively engage with the role players concerning the Bill over the coming months. Whilst the PAAB fully accepts the need for a review of the proposed legislation, it believes that continuing protracted delay in achieving finality will be counter productive to addressing the expectation gap and achieving the objective of appropriate investor protection.

EQUITY DEVELOPMENT

Increasing the number of black accountants and auditors is a national imperative and the PAAB, the South African Institute of Chartered Accountants, the universities and the professional firms are all working aggressively to achieve this.

REPORT OF THE CHAIRMAN *continued*

It is encouraging that there was an increase of 30% to 267 in the number of black candidates who passed the 2001 public practice examination compared to 2000. This represents 21% of all successful candidates.

Our National Education Fund continued to support the CAs' Eden Trust with a contribution of R160 000 to its expenses and a pledge of R50 000 to provide two bursaries. The Fund also expended a total amount of R177 235 on the examination bridging course for black repeat students reported on by the Chairman of our Education Committee elsewhere in this Annual Report.

REGISTRATION STATISTICS

Statistics relating to the two registers kept by the PAAB are set out in an appendix to this report. The number of registered accountants and auditors continues to decrease, whilst student numbers and those completing the final examinations reflect continued growth. Market forces determine the number of qualified accountants who choose public practice as a career. It is of concern that we have a shrinking population of public practitioners in the face of the enormous challenges that the auditing profession is facing at this time.

THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS (ACCA)

The legal status of the recognition dispute has remained unchanged from that reported last year. Both parties have committed to continued constructive engagement to resolve the matter.

FINANCIAL POSITION

The financial position is fully set out in the financial statements.

The net surplus for the year is R1 082 226 compared to the R900 257 for the previous year. An additional amount of R500 000 over and above the disciplinary fines of R143 000 has been transferred from Accumulated Funds to the Disciplinary Reserve Fund for the reasons explained under Note 1.4 to the financial statements.

SECRETARIAT

Mr. Claude O'Flaherty has continued to fulfil the interim role of Chief Executive Officer and under his able leadership assisted by our competent directorate and staff, the PAAB has operated effectively and efficiently, whilst continuing with our strategic initiatives to put in place a sound foundation for the future.

The only change at executive level during the year was the appointment of Ms. Karen Lauf to the position of Director: Auditing Standards, which has enabled us to progress the transfer of the auditing standards function from SAICA to the PAAB as reported elsewhere in the Annual Report.

Our strategic plan includes the appointment of a Chief Executive Officer to take over the leadership baton for our changed role under the proposed new legislative dispensation, and the initiatives to achieve this objective are continuing despite the uncertainties reported on under Draft Accountancy Bill, 2001 above.

REPORT OF THE CHAIRMAN *continued*

The Board gratefully acknowledges the loyalty and dedication of the directorate and staff that has contributed significantly to the PAAB's achievements over the year.

CHAIRMAN FOR 2002

I extend my congratulations to Messrs. Costa Qually and Ismail Patel who have been elected Chairman and Vice Chairman respectively for 2002. They will lead the PAAB in what will undoubtedly be a challenging year in this time where our profession is under such intense scrutiny.

THANKS

I take this opportunity to thank my colleagues on the Executive Committee, members of the Board and all who served on the various committees of the PAAB during 2001. Their support and dedication to the PAAB and the profession is invaluable and greatly appreciated.

Zarina Bassa
12 March 2002

MEMBERS OF THE BOARD

For the year ended 31 December 2002

C R Qually (Chairman) (Deloitte & Touche)

Z Bassa (Ernst & Young)

R E Benjamin-Swales (Gobodo Inc)

F M Bruce-Brand (Meyer Wilson Marsh Inc)

Prof G K Everingham (University of Cape Town)

S A Fakie (Auditor-General)

P Gordhan (Commissioner: SA Revenue Services)

A Jagga (Deane & Thresher)

G J Le Roux (Charteris & Barnes)

Adv F D M Malunga (CIPRO Companies)

I Mamoojee (National Treasury)

I D Patel (Gcabashe Mahomedy Mzizi)

C J Peterson (Moores Rowland)

C F Reid (Lowe & Company)

J van Rooyen (Financial Services Board)

Prof Bruce Stobie (University of Natal) (Pietermaritzburg)

SECRETARIAT

OF THE BOARD (2002)

Claude O'Flaherty
(Chief Executive Officer)

Jillian Bailey
(Director: Practice Review)

Karen Lauf
(Director: Auditing Standards)

Jane O'Connor
(Director: Legal)

Angela Vest Louw
(Director: Education & Training)

APPENDIX

STATISTICS – REGISTERED ACCOUNTANTS AND AUDITORS AT 31 DECEMBER 2001

| | 2001 | 2000 | 1999 |
|---|--------------|-------|-------|
| Resident Accountants and Auditors at 1 January | 4 224 | 4 234 | 4 339 |
| Registrations during the year | 294 | 358 | 318 |
| | 4 518 | 4 592 | 4 657 |
| Re-instatements | 55 | 66 | 51 |
| nett category changes | (2) | 1 | 1 |
| Resignations, lapses, deceased | (441) | (435) | (475) |
| Total registrations at 31 December | 4 130 | 4 224 | 4 234 |
| Net decrease | (94) | (10) | (105) |
| | | | |
| Non-Resident Accountants and Auditors at 1 January | 34 | 35 | 37 |
| Registrations during the year | 1 | 7 | – |
| | 35 | 42 | 37 |
| Re-instatements | – | – | – |
| nett category changes | 2 | (1) | (1) |
| Resignations, lapses, deceased | (3) | (7) | (1) |
| Total registrations at 31 December | 34 | 34 | 35 |
| Net decrease | – | (1) | (2) |

STATISTICS – TRAINEE ACCOUNTANTS IN PUBLIC PRACTICE (TIPP)

| | | | |
|---|---------------|---------|---------|
| Trainees registered at 1 January | 8 324 | 7 994 | 7 780 |
| New registrations | 2 670 | 2 677 | 2 562 |
| | 10 994 | 10 671 | 10 342 |
| Discharges | (2 130) | (1 987) | (1 988) |
| Cancelled | (412) | (360) | (360) |
| Trainees registered at 31 December | 8 452 | 8 324 | |
| Net increase | 128 | 330 | 214 |

AUDITING STANDARDS BOARD



| | |
|---------------------------|---|
| Z BASSA (Chairman) | – Ernst & Young |
| NG ADAMS | – Grant Thornton Kessel Feinstein |
| BP A GULHAS | – Auditor Generals' Office / replaced by J Conradie |
| LJ BOTHA | – Financial Services Board |
| GD COPPIN | – Ernst & Young |
| J KELLY | – PricewaterhouseCoopers |
| F MALHERBE | – Deloitte & Touche |
| G ROTHMANN | – South African Chamber of Business |
| PM SMITH | – Gobodo Chartered Accountants |
| WF URMSON | – Johannesburg Stock Exchange |
| PROF HE WAINER | – Representing the Department of Trade & Industry |

In terms of section 10(1) of the Public Accountants' and Auditors' Act, 1991 (Act 80 of 1991) the Auditing Standards Board was established as a committee of the Board to assist the Board in the performance of certain of its functions and duties as arise from its powers to maintain the integrity, enhance the status and maintain and improve the standards of professional qualifications, and of the competence of Registered Accountants and Auditors.

The objective of the independent Auditing Standards Board is to develop, maintain and issue, in the public interest, auditing pronouncements and to ensure the greatest possible consistency between South African auditing pronouncements and pronouncements of the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC).

The Auditing Standards Board was established by the Public Accountants' and Auditors' Board (PAAB) in anticipation of the draft Accountancy Profession Bill which will in future require the Regulatory Board for Auditors to establish an Independent Standard-setting Board for Auditing which will be required to develop and maintain in the public interest auditing pronouncements as well as publish such pronouncements.

In May 2001 Karen Lauf was appointed as Director: Auditing Standards. With a secretariat finally in place the process of transfer of the auditing standard-setting process from The South African Institute of Chartered Accountants (SAICA) to the PAAB commenced in earnest.

Agreement was reached between SAICA and the PAAB during the year, that the Auditing Standards Committee, previously a standing committee of SAICA, would become the working committee of the Auditing Standards Board as of 1 January 2002.

From 2002 onwards, auditing standards will be developed by the Auditing Standards Committee, a sub-committee of the Auditing Standards Board, and recommended to the Auditing Standards Board for approval and issue.

I wish to take this opportunity to thank the members of the Auditing Standards Board for their dedication and support in achieving the successful transfer of the audit standard-setting process. I also wish to take this opportunity to welcome the members of the Auditing Standards Committee as members of a committee of the PAAB.

Zarina Bassa

DISCIPLINARY COMMITTEE



| | |
|--------------------------|--------------------------|
| SJ VAN MAAREN (Chairman) | – PricewaterhouseCoopers |
| B A BRAHAMS | – Arthur Andersen |
| J BLAIR | – Ernst & Young |
| FM BRUCE-BRAND | – Meyer Wilson Marsh Inc |
| JH DU PLESSIS | – Geyser & du Plessis |
| BJ E ATON | – Betty & Dickson |
| N GERBER | – Morrison Murray |
| A JAGGA | – Deane & Thresher |
| KG KARRO | – Horwath Zeller Karro |
| GA NOBLE | – Hills Howard |
| C REID | – Lowe & Co |
| JFJ S CHEEPERS | – PricewaterhouseCoopers |
| J T ROLLOPE | – KPMG (retired) |

In terms of the Public Accountants' and Auditors' Act, 1991 (Act 80 of 1991) it is the function of the Disciplinary Committee to hear cases of improper conduct alleged to have been perpetrated by registered public accountants and auditors. The Committee has the responsibility to protect the public, but it has an equal responsibility in its search for justice to uphold the integrity and dignity of the profession, whilst at all times ensuring absolute fairness to the accused.

The Committee conducts its hearings on behalf of the Board in terms of Sections 23 and 24 of the Act. Section 13(1)(h)(ii) of the Act permits the Board to make known in a journal or other publication the name of the accountant and auditor who has been heard, with or without the name of his firm, together with the finding of the Committee holding the enquiry and the punishment, if any, imposed on the accountant and auditor. The wording of the Act is such that it is left to the discretion of the Disciplinary Committee to consider publication, which is, effectively, a punishment.

YEAR UNDER REVIEW

CASES HEARD

The Committee was called upon to hear ten matters during the year as follows:-

Case 1:

There were five charges against the accused practitioner and he was found guilty on three charges of contravening Disciplinary Rule 2.1.4 in that he was dishonest in the performance of work or duties devolving upon him in relation to an office of trust which he had undertaken or accepted.

The Committee imposed the following sentence:

- permanent disqualification from registration as an accountant and auditor;
- publication of the findings and sentence of the Committee in *Maneo* and *Accountancy SA* disclosing the name of the accused but not the name of the firm of which he was a partner;
- payment of R215 000 towards the costs incurred.

DISCIPLINARY COMMITTEE *continued*

Case 2:

The accused practitioner was initially charged with refusing to submit to practice review; when a review was eventually carried out, the practitioner was not successful. He pleaded guilty.

The committee imposed the following sentence:

- suspension from practice for a period of two years, which suspension was in turn suspended on various conditions.

Case 3:

The accused practitioner was charged with improper conduct within the meaning of Rule 2.1.4 of the Disciplinary Rules in that he was dishonest in the performance of work or duties devolving upon him in relation to an office of trust which he had undertaken or accepted, and alternatively with contravening Rule 2.1.5 of the Disciplinary Rules in that without reasonable cause or excuse he failed to perform his duties as trustee of and principal officer of a pension fund, being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all. The case arose out of conduct in his capacity as trustee and principal officer of a pension fund.

The practitioner was found guilty on the alternative charge and the Committee imposed the following sentence:

- a fine of R50 000;
- disqualification from registration as an accountant and auditor for a period of five years from the date of the hearing;
- publication of the facts of the case, the sentence imposed and the name of the accused in *Maneo*;
- payment of R50 000 towards the costs incurred.

Case 4:

The accused practitioner was found guilty of one charge of contravening Disciplinary Rule 2.1.1 read with Section 20(5)(a) of the (old) Public Accountants' and Auditors' Act in that he failed to comply with the provisions of the Act with which it was his duty to comply, and one charge of improper conduct within the meaning of Disciplinary Rule 2.1.5 in that, without reasonable cause or excuse, he failed to perform his duties as auditor to a market agent, being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all.

The Committee imposed the following sentence:-

- a fine of R40 000;
- publication of the findings of the Committee and the punishment imposed, together with the name of the accused in *Maneo*;
- payment of R25 000 towards the costs incurred.

Case 5:

The accused practitioner was found guilty of two charges of improper conduct within the meaning of Disciplinary Rule 2.1.5 in that, without reasonable cause or excuse, he failed to perform his duties as auditor to [ABC], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, and one charge of improper conduct within the meaning of Disciplinary Rule 2.1.14 in that he failed to answer or to deal with appropriately within a reasonable time correspondence or other communications from the Board which required a reply or other response. The matter arose out of practice review.

DISCIPLINARY COMMITTEE *continued*

The committee imposed the following sentence:

- disqualification from re-registration for a period of 5 years from the date of the hearing;
- imposition of an amount of R15 000 in respect of a previous fine of R30 000 which had been suspended;
- publication of the findings of this Committee and the punishment imposed but in view of the special circumstances of the case, no publication of the accused's name, in *Maneo*;
- payment of R10 000 towards the costs incurred.

Case 6:

There were four charges against the practitioner. Three of the charges related to the audit of a Body Corporate and the fourth related to practice review. The practitioner was found guilty on all four charges. He has however indicated his intention of taking the committee's finding and sentence on review and it is accordingly not appropriate to report further on the matter here.

Case 7:

The accused practitioner was charged with 8 counts of unprofessional conduct within the meaning of Disciplinary Rule 2.1.4 in that he was dishonest in the performance of work or duties devolving upon in relation to an office of trust which he had undertaken or accepted, and was found guilty on four of those.

The committee imposed the following sentence:

- permanent disqualification from registration as an accountant and auditor;
- publication of the name of the practitioner together with the findings of the Committee and the punishment in *Maneo*. In addition the Director: Legal was authorised to advise the local press of the name of the practitioner, the findings of the Committee and the punishment imposed;
- payment of R12 000 towards the costs incurred.

Case 8:

The practitioner was found guilty of four counts of improper conduct within the meaning of Disciplinary Rule 2.1.5 in that, without reasonable cause or excuse, he failed to perform his duties as auditor to [various entities], being work or duties commonly performed by a practitioner, with such a degree of care and skill as in the opinion of the Board may reasonably be expected, or he failed to perform the work or duties at all, and one count of improper conduct within the meaning of Disciplinary Rule 2.1.14 in that he failed to answer or to deal with appropriately within a reasonable time correspondence or other communications from the Board which required a reply or other response. The matter arose out of practice review.

The committee imposed the following sentence:

- removal from the register and permanent disqualification from registration as an accountant and auditor;
- publication of the name of the practitioner together with that of his firm, the findings of the Committee and the punishment imposed in *Maneo*. In addition the Director: Legal was authorised to advise the local press of the name of the practitioner, the findings of the Committee and the punishment imposed.
- payment of R12 000 towards the costs incurred.

DISCIPLINARY COMMITTEE *continued*

Case 9:

The accused practitioner was found guilty of one count of contravening Disciplinary Rule 2.1.4 in that he was dishonest in the performance of work or duties devolving upon him in relation to an office of trust which he had undertaken or accepted, and one count of contravening disciplinary rule 2.1.21 in that he conducted himself in a manner which bring the profession of accounting into disrepute.

The committee imposed the following sentence:

- permanent disqualification from registration as an accountant and auditor;
- publication of the findings of the committee, the punishment and the name of the accused in *Maneo*.

Case 10:

This related to the audit of a listed company. The accused practitioner pleaded guilty to various charges but has indicated his intention of taking the punishment imposed by the committee on review. It is accordingly not appropriate to report further on the matter here.

GENERAL

Experience has shown that there are no easy hearings and each have their own unique circumstance and facts which need to be considered.

Disciplinary procedures can be divided into two main areas: the investigation committee procedures, and the disciplinary committee hearings.

Whilst the Act gives the accused the right to a fair hearing it is of concern that every so often a case, the nature of which should not necessitate a hearing, comes before the disciplinary committee, which matter could, and should, have been resolved at the investigation committee level. In these cases the accused has often protested his innocence to the investigation committee, thereby necessitating a hearing. What is more surprising is that in a number of these cases the accused pleads guilty at the beginning of a hearing and could have spared himself, and the Board, the time, cost and anxiety of a hearing.

Practice Review cases heard clearly reflect that not all practitioners are adhering to the auditing standards. It is imperative that practitioners remain up to date and fully implement the auditing standards.

It is a pleasure to report that the Board is dealing with cases reported as speedily as procedures will permit. The new climate of constitutional entitlement in which we now live does however by its very nature tend to lengthen the time until a matter is finally determined.

THANKS

Certain hearings are complex and often extend over a number of days and sometimes weeks.

To the members of the Committee, my sincere thanks for their willingness to serve on this Committee, knowing that this can absorb much valuable time. To the staff of the legal secretariat, who have been under a lot of pressure, thank you also for your efforts and diligent work.

Sander van Maaren

EDUCATION COMMITTEE



| | |
|----------------------|-------------------------------------|
| H WESSELS (Chairman) | – PricewaterhouseCoopers |
| S BALL | – PricewaterhouseCoopers |
| PROF W BOTHA | – University of Pretoria |
| MD ENGELBRECHT | – PricewaterhouseCoopers |
| E LEHAPA | – Deloitte & Touche |
| C MCCLELLAND | – SA Petroleum Industry Association |
| S MCGREGOR | – KPMG |
| J MTHIMUNYE | – AluCap (Pty) Ltd |
| S NTSALUBA | – Transnet |
| PROF J ROWLANDS | – University of Port Elizabeth |
| PROF LJ S TAINBANK | – University of Natal |
| F TONELLI | – PricewaterhouseCoopers |
| PROF S VAN ESCH | – University of the Witwatersrand |
| R WADSWORTH | – Deloitte & Touche |
| T WIXLEY | – Ernst & Young |

This year, as with any other, was filled with many challenges.

THE MONITORING COMMITTEE

Final monitoring reports for 2000 programmes

This was the second year in which the Committee issued its Final Monitoring Reports in respect of the recognised programmes of SAICA. These reports are the culmination of the formal monitoring process carried out by the Monitoring Committee, a process designed to conduct an objective assessment of the recognised programmes against the recognition standards defined by the PAAB.

It is pleasing to confirm that consensus was reached with SAICA on all issues of principle that the PAAB raised. Several aspects of common concern were identified during the monitoring process and where appropriate recommendations were made which SAICA has undertaken to investigate.

The Recognition Model is based on the principle of co-operation between the PAAB and the professional institute whose programmes are recognised and the focus is on fostering high quality programmes. The Committee believes that its monitoring procedures have assisted the PAAB and SAICA with the identification of matters of common concern relating to the quality of the education, training and assessment of prospective RAAs.

The PAAB is pleased to confirm the continued recognition of SAICA's academic, education, training and examination programmes for admission to the PPE.

EDUCATION COMMITTEE *continued*

Monitoring activities in 2001

Implicit in recognition is the ongoing monitoring of these programmes against the PAAB's recognition standards.

During 2001, the EDCOM, upon recommendation of the Monitoring Committee adopted a risk-based approach for the purpose of monitoring the extent to which recognised programmes continue to meet the PAAB's standards. This approach determined the nature and extent of the monitoring procedures carried out by the PAAB, depending on the risk assessment of the programme. It is believed that this will enable greater focus on areas of common concern between the PAAB and the professional body whose programmes are recognised. In terms of the risk-based approach, self-evaluations by professional bodies will remain a requirement for monitoring purposes.

However, given the important role that the self-evaluation by the professional body in respect of each of the programmes plays in the monitoring process, these elements of the monitoring process still apply, regardless of the risk-assessment of the programme.

In view of the *post factum* nature of monitoring, the results of the 2001 monitoring procedures will form the basis of the final monitoring reports that the Committee will issue in 2002.

CURRICULUM DEVELOPMENT

During this year, the Curriculum Committee met on several occasions to consider the response to its December 2000 invitation for comment on the draft curriculum framework. After making the necessary amendments, the EDCOM approved and published the final Curriculum Framework.

The framework recognises that auditing is an integral component of evolving systems of accountability and takes a view of auditing that extends beyond the statutory audit of financial statements to include the broader attest function and other reporting engagements. It provides the basis on which these programmes can be assessed to determine the extent to which the relevant recognition standards have been met.

EXAMINATIONS

A record number of 2113 (2000: 1809) candidates wrote the Public Practice Examination (PPE) set by the Public Accountants' and Auditors' Board (PAAB) in November 2001. Of these, 1258 (2000: 1144) passed, representing a pass rate of 60% (2000: 63%). The pass rate for candidates who wrote for the first time was 66% (2000: 69%). One candidate was awarded honours for achieving a pass mark of over 75%.

Particularly noteworthy is the increase of 30% in the total number of black candidates (african black, coloured and indian) who passed the PPE this year. In total 267 black candidates passed in comparison to the 205 candidates in 2000.

EDUCATION COMMITTEE *continued*

TRANSFORMATION OF THE PROFESSION

Increasing the number of black accountants and auditors is a national imperative and the PAAB, SAICA, the universities and the professional firms are working aggressively to address this. One such special initiative of the PAAB is the implementation of a Black Advancement Programme for black candidates who have been unsuccessful in a previous attempt to pass the PPE. In 2001, 89 candidates attended the course and wrote the PPE, 43 (48%) of whom passed. This compares favourably with the overall pass rate for repeat candidates of 46%.

NATIONAL QUALIFICATIONS FRAMEWORK (NQF)

There is unqualified support for the objectives of the NQF and the PAAB has accordingly participated in the NQF through the various structures established under the auspices of the South African Qualifications Authority (SAQA). The PAAB continues to be represented on the National Standards Body 03 – Business, Commerce and Management Studies.

The Education and Training Department provided support for the Standards Generating Body established under the SAQA Act to generate national standards and qualifications in the accounting and financial management fields. The PAAB has also ensured that through its representation on the relevant National Standards Body, the interests of the particular stakeholder group were addressed.

MEMBERS

We bid a warm farewell to Mr Tom Wixley who retired after many years of service to the Committee. Most recently, Tom served as the chairman of the Curriculum Committee under whose guidance the Curriculum Framework was completed and published this year.

We also say goodbye to Mr Sango Ntsaluba who resigned from the Committee.

We wish these members everything of the best for the future and thank them for the dedicated contribution they made to the work of the Committee.

We extend a warm welcome to Joe Mthimunye who joined the Committee this year.

THANKS

This was a challenging year and credit is due to all the members of the Education Committee who gave so much of their valuable time and their abilities towards achieving the educational objectives of the PAAB.

The many achievements of the education department would not have been possible without the hard work and dedication of our Director, Angela Vest Louw, and her team.

A sincere word of gratitude is extended to them all for their support.

Herman Wessels

INVESTIGATION COMMITTEE



| | |
|------------------------|-------------------------------|
| H GRIFFITHS (Chairman) | – PricewaterhouseCoopers |
| PW BEAUCLERK | – Ernst & Young / replaced by |
| M SINDANE | – Ernst & Young |
| IJ DE VILLIERS | – De Villiers Myburgh |
| K KOOVERJEE | – MSGM Masuku Jeena |
| CM READ | – KPMG |
| J RHYNES | – Deloitte & Touche |
| TP VAN DER MESCHT | – Wolmarans Kruger |
| WFT VAN SCHALKWYK | – Van Schalkwyk & Vennote |

Allegations of improper conduct imputed to public accountants and auditors received by the Board are initially dealt with by the Investigation Committee. If, after investigation, the matter cannot be discharged with in terms of the Disciplinary Rules, or dealt with because the accused practitioner pleads guilty, the matter must proceed to a hearing before the Disciplinary Committee.

The Committee also has powers (in terms of Rule 3.8.2 of the Disciplinary Rules) to call upon an accused to discuss the matter on a “without prejudice” basis. This rule affords an excellent opportunity to fully understand the issues involved. No attorneys or other representatives are present, and proceedings are not recorded and are conducted informally. Matters which would otherwise proceed to a costly and time-consuming hearing can often be resolved by means of this procedure. Occasionally a complainant is also invited to put his case under like conditions. This procedure provides reassurance to complainants that their complaints receive due consideration.

If a practitioner decides not to attend such an informal discussion, or there remains a difference of opinion between the Committee and the practitioner, the matter must proceed to the Disciplinary Committee for a formal hearing. Furthermore, if the accountant does plead guilty, but the matter is sufficiently serious either because of its nature or because of the number of previous convictions of the practitioner, the matter is also referred to the Disciplinary Committee. Certain cases also have to be referred to the Disciplinary Committee because the accused simply does not respond to the Committee’s communications, and only the Disciplinary Committee is empowered to handle a matter in the absence of the accused.

During the course of the year 97 new enquiries or allegations of improper conduct were channelled to the Investigation Committee. These concerned the following matters:

- 1 concerning soliciting
- 41 concerning negligence
- 4 concerning failure to respond to correspondence
- 4 concerning refusal to resign/hand over documents
- 9 concerning dishonesty
- 6 concerning impaired independence
- 4 concerning “poaching” – 1 staff, 3 clients
- 1 concerning unjustified criticism of a colleague
- 2 concerning a breach of confidentiality
- 15 arising out of practice review

INVESTIGATION COMMITTEE *continued*

The other **10** allegations were of a general nature as follows:

- 2 concerning a partnership dispute
- 1 concerning medical aid payments
- 1 concerning refusal to increase trust payments to a beneficiary
- 2 concerning failure to pay staff members
- 1 concerning refusal to repay monies paid in error
- 1 concerning rudeness of staff
- 1 concerning fraudulently obtaining tax information from CIR
- 1 complaint against a trainee regarding his own business practice

The Investigation Committee met on **seven** occasions to consider complaints brought forward from the previous year, as well as these new complaints.

A total of **81** cases were disposed of during the year. Of these cases **21** were handled by the Director: Legal as they were either more in the nature of an enquiry; did not comply with the requirements for the formulation of a proper complaint; were withdrawn prior to being referred to the Investigation Committee; or were not actioned or not proceeded with by the Investigation Committee for various reasons. The remaining **60** cases were disposed of as follows:

MATTERS DISCHARGED

- **16 in terms of Rule 3.9.1** [the Committee being satisfied that the practitioner had given an acceptable explanation regarding the alleged conduct]
 - 9 concerning negligence
 - 1 concerning tricking a client into signing a suretyship
 - 2 concerning alleged dishonesty
 - 3 concerning failure to reply to correspondence
 - 1 tax related
- **7 in terms of Rule 3.9.2** [the Committee being satisfied that the alleged conduct – even if proved – would not constitute improper conduct]
 - 5 concerning negligence
 - 1 concerning refusal to increase trust payments to a beneficiary
 - 1 concerning unjustified criticism of a colleague
- **8 in terms of Rule 3.9.3** [the Committee being satisfied that there was no reasonable prospect of proving the practitioner guilty of the conduct imputed]
 - 3 concerning negligence
 - 1 concerning a partnership dispute
 - 2 concerning overcharging
 - 1 concerning unfair dismissal
 - 1 concerning defamation

INVESTIGATION COMMITTEE *continued*

PRACTITIONERS FOUND GUILTY

- 3 practitioners were **cautioned**. Of these
 - 1 matter concerned failure to reply to correspondence
 - 1 matter concerned alleged dishonesty investing client's funds inappropriately
 - 1 matter concerned a lack of independence

- 8 practitioners were **reprimanded**. Of these
 - 2 matters concerned trainee accountant administration
 - 4 matters concerned negligence
 - 1 matter concerned a lack of independence
 - 1 matter concerned the setoff of monies received from the CIR from monies owed to the practitioner without agreement

- In 18 matters **fin**es were imposed after the practitioners pleaded guilty to the conduct alleged.
 - 1 related to a failure to reply to correspondence (Fined R3 000)
 - 4 related to negligence (One practitioner was fined R25 000, the other three were fined R5 000 each)
 - 1 related to trainee accountant administration (Fined R5 000)
 - 12 arose out of practice review (In 8 matters R15 000 suspended on conditions; in 2 matters R5 000 suspended on conditions, in 1 matter R10 000, R5 000 of which suspended on conditions and in 1 matter R30 000, R15 000 of which suspended on conditions.)

MATTERS REFERRED TO THE DISCIPLINARY COMMITTEE

Various other matters were referred to the Disciplinary Committee and these are reported on elsewhere.

OTHER MATTERS

The Executive Committee has delegated to this Committee the function of interviewing persons who have been sequestered, with a view to recommending whether or not their registration should be cancelled. During the year the Committee dealt with a number of such cases.

CONCLUDING REMARKS

During the year Mr Vaatjie Du Plessis, who chaired this Committee until December 2000, retired. Vaatjie served on the Committee for many years. His wealth of experience and guidance was certainly a great asset to the Committee. On behalf of all the Committee members I would like to express my appreciation for the time and effort that Vaatjie has contributed to the success of this Committee.

Fortunately a number of the Committee members have served for some time. This allowed us to bring in new members under their guidance. Thank you to all the Committee members for their commitment and especially their willingness to contribute hours and hours of preparation before each meeting.

Finally, I wish to record my sincere gratitude to the staff of the Legal Department, without whose able assistance and support the Committee would be unable to function effectively.

H Griffiths

PRACTICE REVIEW COMMITTEE



| | |
|-----------------------------|--|
| CR QUALLY (Chairman) | – <i>Deloitte & Touche</i> |
| PJ C OTTRELL | – <i>Morrison Murray</i> |
| JH L OUBSER | – <i>PricewaterhouseCoopers</i> |
| F T IMMINS | – <i>Grant Thornton Kessel Feinstein</i> |
| BP VAN DEN BERG | – <i>Logista Incorporated</i> |
| JH V ILJOEN | – <i>Havenga Rossouw Viljoen</i> |

The auditing profession is under scrutiny in many countries in the world. High-profile corporate failures and perceived lack of protection for the public have resulted in a number of people questioning the standards of auditing that are being applied.

Whilst some of the criticism and comment is uninformed and some of it unfair, there can be little doubt that we need to make sure that audits are performed to the highest technical and professional standards. Unless we do this consistently and on virtually every audit, there is little doubt that we will be perceived to be failing in our duty and not playing our part in the economic well-being of our country. In my view, the vast majority of registered auditors in South Africa are competent and professional.

The Practice Review Programme is designed to monitor the level of compliance by practitioners with professional standards during the performance of the attest function. Accordingly, it can help to address the concerns that have been identified and help to ensure that auditors provide the reliable level of independent assurance that is expected.

During 2001, a total of 570 reviews were performed. A total of 3 827 reviews in the first cycle had been completed by 31 December 2001. Of these, 963 were repeat reviews. In the second cycle, 803 reviews had been completed of which 133 were repeat reviews.

A further 14 practitioners were referred to the Investigation Committee during the year, bringing the total number of referrals to date to 115. Once again, the prime cause of referral was repeat reviews that indicated non-compliance with auditing standards. Inadequate documentation of audit procedures performed and of conclusions reached remains the main shortcoming. The findings of the Disciplinary and Investigation Committees indicate that strong action is being taken against practitioners found guilty of failing to adhere to auditing standards.

Once again, practitioners have largely indicated that the Practice Review team continues to provide beneficial input to them during the review process. The three-hour interactive training and discussion workshops that Practice Review mounts at the request of practitioners continue to be popular and worthwhile.

I would like to record my grateful thanks to the Practice Review staff and to my fellow committee members for their commitment and contributions during the past year.

Costa Qually

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

BALANCE SHEET

at 31 December 2001

| | <i>Note</i> | 2001 R | 2000 R |
|--|-------------|------------|-----------|
| ASSETS | | | |
| Property and equipment | | 5 163 919 | 5 422 308 |
| Land and building | 3.1 | 4 558 093 | 4 704 727 |
| Furniture, equipment and motor vehicle | 3.2 | 605 826 | 717 581 |
| Current assets | | 2 519 066 | 1 080 992 |
| Accounts receivable and prepayments | | 1 011 907 | 574 394 |
| Short-term bank deposits | | 1 445 551 | 504 064 |
| Cash at bank and in hand | | 61 608 | 2 534 |
| | | 7 682 985 | 6 503 300 |
| National Education Fund investment | 4 | 2 630 000 | 2 702 595 |
| Total assets | | 10 312 985 | 9 205 895 |
| RESERVES AND LIABILITIES | | | |
| Reserves | | | |
| Board | | 3 446 293 | 2 364 067 |
| Accumulated funds | | 2 505 713 | 2 066 487 |
| Disciplinary reserve fund | | 940 580 | 297 580 |
| National Education Fund | | | |
| Accumulated funds | | 2 630 000 | 2 702 595 |
| Current liabilities | | 4 236 692 | 4 139 233 |
| Accounts payable | | 1 695 375 | 1 715 424 |
| Current portion of interest bearing borrowings | 5 | – | 416 251 |
| Fees in advance | | 458 619 | 7 558 |
| Owing to the National Education Fund | | 2 082 698 | 2 000 000 |
| Total reserves and liabilities | | 10 312 985 | 9 205 895 |

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
INCOME STATEMENT

for the year ended 31 December 2001

| | Note | 2001 R | 2000 R |
|---------------------------------|------|------------------|------------------|
| GROSS REVENUE | | | |
| Fees | | 8 001 309 | 7 406 261 |
| Registrations | | 338 850 | 443 569 |
| Annual | | 5 690 675 | 5 157 264 |
| Training contracts and levies | | 1 851 784 | 1 685 428 |
| Monitoring fee | | 120 000 | 120 000 |
| Interest | | 206 046 | 205 788 |
| Education and training recovery | | – | 465 000 |
| | | <u>8 207 355</u> | <u>8 077 049</u> |
| EXPENDITURE | | | |
| General and administration | | 5 243 582 | 5 640 295 |
| Administration expenses | 6 | 4 150 875 | 4 124 613 |
| Board and committee expenses | 7 | 417 167 | 433 050 |
| Interest on finance lease | 5 | (149 272) | 175 844 |
| Legal expenses | 8 | 112 679 | 468 924 |
| Local secretaries' expenses | | 119 683 | 116 764 |
| Publications | | 281 356 | 273 498 |
| Public relations | | 311 094 | 47 602 |
| Disciplinary proceedings | | 851 959 | 817 556 |
| Legal and other expenses | | 1 317 434 | 866 486 |
| Recoveries | | (322 475) | (15 000) |
| Disciplinary fines | | (143 000) | (33 930) |
| Practice review | | 32 492 | 341 581 |
| Practice review fee income | | (3 184 33 8) | (1 775 314) |
| Salaries and direct expenses | | 2 646 830 | 1 634 150 |
| Allocated expenses | 6 | 570 000 | 482 745 |
| Auditing standards | | 611 179 | – |
| Salaries and direct expenses | | 570 914 | – |
| Allocated expenses | | 40 265 | – |
| Examinations | | 385 917 | 377 360 |
| Entrance fees | | (1 077 290) | (825 574) |
| Expenses | 9 | 1 463 207 | 1 202 934 |
| | | <u>7 125 129</u> | <u>7 176 792</u> |
| SURPLUS FOR THE YEAR | | <u>1 082 226</u> | <u>900 257</u> |

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
STATEMENT OF CHANGES IN FUNDS

for the year ended 31 December 2001

| | National Education Fund R | Accumulated Funds R | Disciplinary Reserve Fund R | Total R |
|------------------------------------|---------------------------------|---------------------------|-----------------------------------|------------|
| Balance at 1 January 2000 | 3 077 498 | 1 737 818 | 263 650 | 5 078 966 |
| Change in accounting policy | – | (537 658) | – | (537 658) |
| Restated balance | 3 077 498 | 1 200 160 | 263 650 | 4 541 308 |
| Surplus/(deficit) for the year | (374 903) | 900 257 | – | 525 354 |
| Transfer (from)/to reserve | – | (33 930) | 33 930 | – |
| Balance at 31 December 2000 | 2 702 595 | 2 066 487 | 297 580 | 5 066 662 |
| Balance at 31 December 2000 | 2 702 595 | 2 066 487 | 297 580 | 5 066 662 |
| Surplus/(deficit) for the year | (72 595) | 1 082 226 | – | 1 009 631 |
| Transfer to/(from) reserve | | | | |
| – disciplinary fines | – | (143 000) | 143 000 | – |
| – additional amount | – | (500 000) | 500 000 | – |
| Balance at 31 December 2001 | 2 630 000 | 2 505 713 | 940 580 | 6 076 293 |

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
CASH FLOW STATEMENT

for the year ended 31 December 2001

| | Note | 2001 R | 2000 R |
|---|------|------------------|------------------|
| Cash flows generated from operating activities | | | |
| Net surplus/(deficit) for the year | | 1 009 631 | 525 354 |
| Board | | 1 082 226 | 900 257 |
| National Education fund | | (72 595) | (374 903) |
| Adjustment for: | | | |
| – depreciation | 6 | 374 534 | 395 404 |
| – interest income | | (480 753) | (489 951) |
| – interest on finance lease | | (149 272) | 175 844 |
| Operating surplus before working capital changes | | 754 140 | 606 651 |
| Working capital changes | | (422 752) | (832 263) |
| – (increase)/ decrease in accounts receivable | | (437 513) | 649 322 |
| – increase/(decrease) in accounts payable, fees in advance and interest-bearing borrowings | | 14 761 | (1 481 585) |
| Cash flows applied from/(to) operations | | 331 388 | (225 612) |
| Interest income | | 480 753 | 489 951 |
| Interest on finance lease | | 149 272 | (175 844) |
| Net cash inflow from operating activities | | 961 413 | 88 495 |
| Cash outflow on investing activities | | | |
| – additions to equipment | 3.2 | (116 145) | (270 825) |
| Net increase/(decrease) in cash and cash equivalents | | 845 268 | (182 330) |
| Cash and cash equivalents at beginning of year | | 1 209 193 | 1 391 523 |
| Cash and cash equivalents at end of year | | 2 054 461 | 1 209 193 |
| Comprising: | | | |
| National Education Fund | | | |
| Bank deposit | | 547 302 | 702 595 |
| Public Accountants' and Auditors' Board | | | |
| Bank deposits | | 1 445 551 | 504 064 |
| Cash | | 61 608 | 2 534 |
| | | 2 054 461 | 1 209 193 |

NATIONAL EDUCATION FUND
INCOME STATEMENT

for the year ended 31 December 2001

| | <i>Note</i> | 2001 R | 2000 R |
|---|-------------|-----------------|------------------|
| GROSS REVENUE | | | |
| Interest | | <u>274 707</u> | <u>284 163</u> |
| EXPENDITURE | | | |
| Portion of Board's education and administration expenses | 6 | 40 000 | 40 000 |
| Grants | | 190 000 | 360 000 |
| Universities | | (20 000) | 150 000 |
| CAs' Eden Trust: Contribution to expenses | | 160 000 | 160 000 |
| Bursary awards | | 50 000 | 50 000 |
| Examination bridging course | | 177 235 | 117 500 |
| Recognition model | | 15 113 | 25 000 |
| Meetings and other expenses | | 6 280 | 5 786 |
| Educational development project | | (100 000) | 100 000 |
| Publications – SA Journal of Accounting Research | | <u>18 674</u> | <u>10 780</u> |
| | | <u>347 302</u> | <u>659 066</u> |
| DEFICIT FOR THE YEAR | | <u>(72 595)</u> | <u>(374 903)</u> |

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2001

1. ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis, and in accordance with South African Statements of Generally Accepted Accounting Practice, and incorporate the following principal accounting policies, which are consistent with those adopted in the previous year except as noted in Note 2.

- 1.1 Property and equipment, other than land carried at cost, are depreciated on a straight-line basis at the following rates estimated to write off each asset to residual value over the term of its useful life.

| | |
|--------------------|--------|
| Buildings | 3,33% |
| Computer equipment | 25,00% |
| Office furniture | 10,00% |
| Motor vehicle | 20,00% |

- 1.2 Appropriate portions of the Board's education and administration expenses are allocated to the examinations, practice review and auditing standards functions as well as to the National Education Fund expenses.
- 1.3 Retirement funding in respect of the defined contribution plan is expensed as incurred.
- 1.4 Disciplinary fines are transferred to a disciplinary reserve fund to cover future disciplinary costs. Additional amounts may from time-to-time, be transferred from accumulated funds to the disciplinary reserve fund to protect the operating capacity of the Board against the impact of unforeseen exceptional disciplinary costs which may result in the future.
- 1.5 Financial instruments carried in the balance sheet are measured as follows:
- 1.5.1 Bank deposits and cash, accounts receivable and accounts payable at fair value.
- 1.5.2 Capitalised finance lease agreement loan at the original debt less principal repayments.

2. CHANGE IN ACCOUNTING POLICY – 2000

The accounting policy relating to land and buildings has been changed to comply with the requirements of the revised AC 123 Accounting Statement by providing depreciation. Previously land and buildings were treated as an investment property and disclosed at cost, adjusted for periodic valuations. The results of the change in accounting policy are as follows:

| | 2001 | 2000 |
|---|------|------------------|
| Change in surplus for the year | – | (146 635) |
| Change in retained surplus at the beginning of the year | – | (537 658) |
| Total change | – | <u>(684 293)</u> |

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2001 (continued)

| | 2001 R | 2000 R |
|---|----------------|----------------|
| 3. PROPERTY AND EQUIPMENT | | |
| 3.1 Land and buildings | 4 558 093 | 4 704 727 |
| Cost | 5 389 020 | 5 389 020 |
| At beginning of year | 5 389 020 | 5 389 020 |
| Accumulated depreciation | 830 927 | 684 293 |
| At beginning of year | 684 293 | 537 658 |
| Charge of the year | 146 634 | 146 635 |
| <p>The land and buildings are situated at Erf 201 Bruma Township. In the previous year, the asset was held under a capitalised finance lease (see note 5).</p> <p>Buildings are revalued every 5 years by independent valuers. As at 31 December 2000, the value of the building together with the cost of land was R4 705 000.</p> | | |
| 3.2 Furniture, computers, equipment and motor vehicle | | |
| 3.2.1 Furniture, computers and equipment | 593 826 | 705 543 |
| Cost | 1 974 259 | 1 858 114 |
| At beginning of year | 1 858 114 | 1 587 289 |
| Additions | 116 145 | 270 825 |
| Accumulated depreciation | 1 380 433 | 1 152 571 |
| At beginning of year | 1 152 571 | 921 859 |
| Charge for the year | 227 862 | 230 712 |
| 3.2.2 Motor vehicle | 12 000 | 12 038 |
| Cost | 90 282 | 90 282 |
| At beginning of year | 90 282 | 90 282 |
| Accumulated depreciation | 78 282 | 78 244 |
| At beginning of year | 78 244 | 60 187 |
| Charge for the year | 38 | 18 057 |
| TOTAL NET BOOK VALUE | 605 826 | 717 581 |

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2001 (continued)

| | 2001 R | 2000 R |
|---|------------------|--------------------|
| 4. NATIONAL EDUCATION FUND INVESTMENT | | |
| Bank deposits | 547 302 | 702 595 |
| Owing by the Board | <u>2 082 698</u> | <u>2 000 000</u> |
| | <u>2 630 000</u> | <u>2 702 595</u> |
| 5. INTEREST BEARING BORROWINGS | | |
| Capitalised finance lease agreement | – | 3 416 251 |
| Current portion transferred to current liabilities | – | (416 251) |
| Advance payment | – | <u>(3 000 000)</u> |
| | <u>–</u> | <u>–</u> |
| <p>On 1 March 1996 the Board entered into a finance lease agreement with Maneco (Proprietary) Limited for a period of 10 years.</p> <p>The obligations in terms of the finance lease have been fully discharged in the current year and the transfer of ownership of the land and buildings into the name of the Board was effected during February 2002.</p> | | |
| 6. ADMINISTRATION EXPENSES | | |
| Audit fees | 66 285 | 41 296 |
| Computer expenses | 235 287 | 234 447 |
| Depreciation | 374 534 | 395 404 |
| General office expenses | 628 283 | 455 919 |
| Interest – National Education Fund | 220 000 | 220 000 |
| Motor vehicle expenses | 59 811 | 43 297 |
| Printing and stationery | 327 847 | 355 950 |
| Salaries and benefits | 3 068 704 | 3 051 335 |
| Telephone and postages | 366 179 | 404 842 |
| Water, electricity and property levy | <u>154 210</u> | <u>155 868</u> |
| | 5 501 140 | 5 358 358 |
| Less Apportioned to | 1 350 265 | 1 233 745 |
| Examinations | 700 000 | 711 000 |
| National Education Fund | 40 000 | 40 000 |
| Practice Review | 570 000 | 482 745 |
| Auditing Standards | <u>40 265</u> | <u>–</u> |
| | <u>4 150 875</u> | <u>4 124 613</u> |

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2001 (continued)

| | 2001 R | 2000 R |
|--|------------------|------------------|
| 7. BOARD AND COMMITTEE EXPENSES | | |
| Board and Executive Committees | 126 163 | 138 784 |
| Accounting Practices Board | 11 700 | 10 800 |
| Education Committees | 118 396 | 114 482 |
| Investigating and Disciplinary Committees | 160 908 | 168 984 |
| | <u>417 167</u> | <u>433 050</u> |
| 8. LEGAL EXPENSES | | |
| General | 112 679 | 137 787 |
| Court action | – | 331 137 |
| | <u>112 679</u> | <u>468 924</u> |
| 9. EXAMINATION EXPENSES | | |
| Administration expenses | 700 000 | 711 000 |
| Invigilators' fees and hire of halls and equipment | 61 617 | 33 350 |
| Outsourced salary costs | 80 000 | 44 254 |
| Postage and miscellaneous expenses | 40 368 | 12 262 |
| Printing and stationery | 96 013 | 109 830 |
| Question composers' panel | 40 000 | 15 000 |
| Sundries | 15 000 | – |
| Umpires' and markers' fees | 430 209 | 277 238 |
| | <u>1 463 207</u> | <u>1 202 934</u> |

10. OPERATING LEASE COMMITMENTS

There are no significant operating lease commitments.

11. RETIREMENT FUNDING

The Public Accountants' and Auditors' Board Retirement Fund is registered in terms of the Pension Funds Act, 1956 (Act 24 of 1956), as amended.

The Fund does not require to be actuarially valued as it is a defined contribution plan.

The Board has no commitment, formal or otherwise, to meet unfunded benefits.

It is a condition of employment that any person who is permanently appointed in the service of the Board shall become a member of the fund.

12. POST EMPLOYMENT MEDICAL BENEFITS

The Board is a participating employer in a medical aid scheme, but has no responsibility for post-employment medical costs of its employees.

13. COMPARATIVE FIGURES

Comparative figures have been restated in terms of the change in accounting policy and have been regrouped where necessary.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements for the year ended 31 December 2001 were approved by the Public Accountants' and Auditors Board on 12 March 2002 and are signed on its behalf by:

ZBM Bassa
Chairman

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

We have audited the annual financial statements of Public Accountants' and Auditors' Board set out on pages 19 to 27 for the year ended 31 December 2001. These financial statements are the responsibility of the members of the Board. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Board at 31 December 2001 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice.

KPMG Inc.
Chartered Accountants (SA)
Registered Accountants and Auditors

Per KR Lydall
Partner
12 March 2002



ADMINISTRATIVE OFFICES

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BRANCH OFFICES

The Local Secretary, PO Box 4484, Cape Town 8000

The Local Secretary, PO Box 1098, Westville 3630

The Local Secretary, PO Box 408, Bloemfontein 9300

THE STAFF OF THE BOARD

