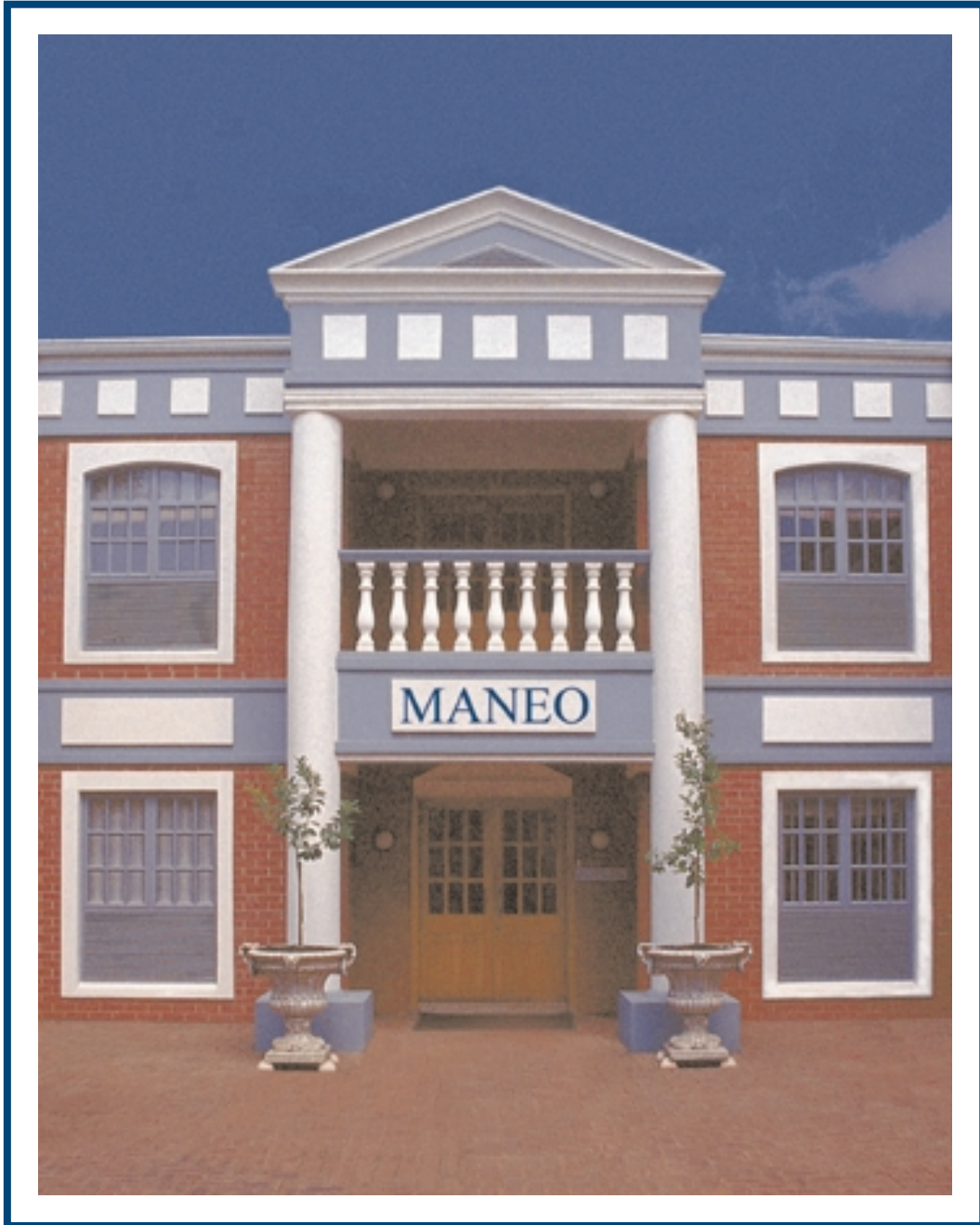


**PUBLIC ACCOUNTANTS'  
& AUDITORS' BOARD**



**ANNUAL REPORT  
2002**

# PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

## CORPORATE PROFILE AND MISSION

### CORPORATE PROFILE

The Board is the statutory body controlling that part of the accountancy profession involved in public practice 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**

## **52nd ANNUAL REPORT 31 DECEMBER 2002**

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 & SECRETARIAT



### **Back (L-R):**

Mr ACB O'Flaherty (CEO); Mr C F Reid; Mr G J le Roux;  
Ms C M Garbutt (Secretary); Mr F M Bruce-Brand;  
Mr J van der Walt (alternate to Commissioner: Inland Revenue).

### **Middle (L-R):**

Prof G K Everingham; Prof B Stobie;  
Mr I Mamoojee (Accountant-General: National Treasury);  
Mr J A Boyd (alternate to Mr J van Rooyen: Executive Officer: Financial Services Board);  
Ms J Bailey (Director: Practice Review);  
Mr A Jagga; Mr C J Peterson.

### **Front (L-R):**

Ms A Vest-Louw (Director: Education & Training);  
Ms RE Benjamin-Swales; Ms P J O'Connor (Director: Legal);  
Mr I D Patel (Vice-Chairman); Mr C R Qually (Chairman);  
Ms Z B M Bassa; Ms K Lauf (Director: Auditing Standards).

### **Absent:**

Mr S A Fakie (Auditor-General);  
Adv F D M Malunga (CEO: Companies and Intellectual Properties Registration Office).

## REPORT OF THE CHAIRMAN



Posterity will probably record that 2002 was one of the more traumatic years for the auditing profession in South Africa and in major western countries. Further high-profile company collapses and alleged accounting scandals have ensured that the spotlight placed on auditors in 2001 has intensified. We have also seen the demise of one of the big 5 international auditing firms. There is little to suggest that justice has been served in this regard or that capital markets and the free enterprise system have not been damaged unnecessarily.

The roles and responsibilities of auditors clearly need close examination and, if necessary, amendments so as to ensure greater regard for the public interest and enhanced investor protection. However, it is imperative that this should be done on a realistic basis and as part of a critical review and examination of the roles and responsibilities of all stakeholders including directors, company management, government and regulators. Written representations with regard to auditors' roles and responsibilities and those of other stakeholders were made to the Minister of Finance and the Deputy Minister but, unfortunately, we were not able to meet with either of them to discuss this further despite numerous requests and attempts to arrange a meeting.

As you are no doubt aware, the Draft Accountancy Profession Bill was put on hold by the Minister of Finance pending a review of its adequacy in the light of current developments. A "Ministerial Panel for the Review of the Accounting Professions' Bill" has been established to perform this function. The views and recommendations of the PAAB have been made known to our nominee on this panel. We have also made a written submission of our views on critical issues to the Panel. We understand that National Treasury would like the Panel to finalise its proposals by July 2003. We shall certainly be providing whatever support and research capabilities we can to our nominee and to the Panel.

### STRATEGIC INITIATIVES

In addition to the routine and recurring activities of the PAAB, various steps have been taken to achieve our strategic goals. Various comments in this regard are included in the reports of the chairmen of the different PAAB committees. Other aspects that I would like to highlight are:

- We have not yet been successful in recruiting a new CEO. This may be difficult to achieve until the the future role of the PAAB is resolved.
- A joint disciplinary task team headed up by Advocate John Myburgh SC reviewed the disciplinary processes of the PAAB and SAICA and made various recommendations for improvement. These are in the process of implementation and include:
  - ◆ a joint disciplinary process for both bodies
  - ◆ hearings to be held in public unless the chairman otherwise decides
  - ◆ hearings to be chaired by an independent non-auditor (often a retired judge)
  - ◆ guidelines to be developed for sentencing and fines

Recommended changes to the PAAB's statutory powers, made by the task team, have been passed on to government

## **REPORT OF THE CHAIRMAN** *continued*

- The corporate governance procedures recommended in the King II report have been compared to the policies and procedures applied by the PAAB. As a result, the following changes have been made:
  - ♦ two PAAB members who are not registered auditors will serve on the Executive Committee
  - ♦ an Audit Committee has been established
- The terms of reference of the various committees were reviewed and amended as necessary.
- A more proactive approach has been adopted with regard to current events impacting auditors and to communications with stakeholders and the media.
- The PAAB's commitment to black advancement has been boosted by the success of the bridging programme for black repeat students. I would particularly like to record our appreciation of the financial support for this programme by FASSET (the Financial and Accounting Services Sector Educational and Training Authority).
- Significant progress has been made in developing accreditation and monitoring criteria for institutes or associations whose members will be entitled to register as auditors in future.
- A review of the practice review procedures is in progress and the intention is to place greater emphasis on higher risk areas in future.

### **EQUITY DEVELOPMENT**

The PAAB is committed to the transformation of our profession so as to be more representative of the population. Accordingly, it is pleasing to note that the composition of the Board for 2003 has a better gender representation and is more representative of the demographics of the country than in prior years.

Together with SAICA and ABASA, the PAAB recognises that, despite some progress, ongoing and increased efforts need to be made to increase the number of black chartered accountants in South Africa. The bridging programme and the contributions to the Eden Trust by the National Education Fund are two steps taken to help in this regard. The bridging programme for black repeat students mentioned earlier is an exciting development in this regard.

### **REGISTRATION STATISTICS**

The Significant Features Summary contained in this report includes comparative statistics for registered accountants and auditors and for trainees. It is of concern that the number of registered auditors continues to remain static. The adverse publicity given to the auditing profession and the consequent loss of prestige does not augur well for reversing this trend in the short term. Ill-informed media comment as well as the regular quotation of untested allegations against auditors exacerbates an already difficult situation.

## **REPORT OF THE CHAIRMAN** *continued*

### **FINANCIAL POSITION**

The annual financial statements included in this report set out the financial position and results of activities. The net surplus for the year of R198 259 compares to a net surplus in 2001 of R1 082 226. The main reasons for this are significantly increased disciplinary costs and increased salary costs.

### **CHAIRMAN FOR 2003**

It is with pleasure that I record that Mr Ismail Patel has been elected chairman for 2003 and that Ms Ruth Benjamin-Swales has been elected vice-chairman. I have no doubt that they will capably lead the PAAB in what will likely be another challenging year.

### **DIRECTORATE AND SECRETARIAT**

Mr Claude O'Flaherty has continued as CEO, the role he took over on a temporary basis until his successor is appointed. He has fulfilled this role with competence, dedication and dignity. The four directors, Mesdames Jillian Bailey, Karen Lauf, Jane O'Connor and Angela Vest Louw have all been effective and efficient in carrying out their responsibilities and the many pressures they have faced. Together with their able staff, they have ensured that the PAAB has operated smoothly and fulfilled its responsibilities. The Board acknowledges with gratitude the contribution that each has made.

### **ACKNOWLEDGEMENT OF CONTRIBUTIONS BY BOARD AND COMMITTEE MEMBERS**

I would like to record my thanks and grateful appreciation to my fellow Board and Executive Committee members for their support and for their services to the PAAB and the profession during the past year. I would also like to thank all the members of the various committees of the PAAB for their efforts and contributions.

Many people devote hundreds of hours each year to these activities and this is on a voluntary and honorary basis. The profession, and indeed the country, owes everyone who has participated a huge debt of gratitude. Most of these people are registered auditors. Those critics who wish to reduce or eliminate the involvement of registered auditors in the regulation and running of the profession may not realise what an enormous contribution registered auditors have made over the years. Without these voluntary time commitments in future, suitable resources may well be difficult to find and could well be extremely expensive.

***Costa Qually***  
*Chairman*



## **MEMBERS OF THE BOARD**

*For the year to 31 December 2003*

### **MEMBERS OF THE BOARD**

**Mr I D Patel** *Gcabashe Mahomed Mzizi (Chairman)*

**Ms R E Benjamin-Swales** *Ernst & Young (Vice-Chairman)*

**Mr S A Fakié** *Auditor-General*

**Advocate W L Johnson** *Companies and Intellectual Properties Registration Office*

**Mr I Pillay** *South African Revenue Services*

**Mr J van Rooyen** *Financial Services Board*

**Mr I A Mamoojee** *National Treasury*

**Prof G K Everingham** *University of Cape Town*

**Prof C Koornhof** *University of Pretoria*

**Mr C R Qually** *Deloitte & Touche*

**Ms S Zilwa** *Nkonki & Pierce*

**Mr G J Le Roux** *Charteris & Barnes*

**Mr C F Reid** *Lowe & Co*

**Mr W P Du Plessis** *AC Strydom & van Aswegen*

**Ms E N Oelofse** *Oelofse Auditors*

**Ms F Mtoba** *Deloitte & Touche*

### **SECRETARIAT OF THE BOARD**

**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)*





PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD  
**SIGNIFICANT FEATURES SUMMARY**

	2002	2001	2000	1999
<b>ACTIVITY INDICATORS (NUMBERS)</b>				
Registered Accountants & Auditors at year-end	4 193	4 164	4 258	4 269
Trainee accountants at year-end	8 549	8 522	8 095	7 994
Entrants to final qualifying examination (PPE)	2 298	2 113	1 809	2 067
Disciplinary matters				
– investigations initiated	101	97	91	88
– investigation committee matters disposed of	86	81	68	85
– disciplinary committee hearings	13	10	5	12
Practice reviews performed	605	570	404	558
Number of staff	34	32	30	28
<b>FINANCIAL INDICATORS (R000'S)</b>				
<b>Income</b>				
Registration fees	362	339	443	352
Annual fees	6 060	5 690	5 157	4 201
Training contracts and levies	2 099	1 852	1 686	1 561
Accreditation and monitoring fees	130	120	120	202
Examination fees	1 269	1 077	825	746
Practice review fees	3 705	3 184	1 775	2 499
Interest	300	206	206	285
Education and training recovery –	–	–	465	850
<b>Total</b>	<b>13 925</b>	<b>12 468</b>	<b>10 677</b>	<b>10 696</b>
<b>Expenditure</b>				
General and administration	6 115	5 392	5 464	4 522
Disciplinary costs, net of recoveries	1 379	852	817	1 666
Practice review	3 648	3 217	2 117	2 912
Examinations	1 450	1 463	1 203	1 185
Auditing standards	1 135	611	–	–
Interest on finance lease	–	(149)	176	946
<b>Total</b>	<b>13 727</b>	<b>11 386</b>	<b>9 777</b>	<b>11 231</b>
<b>Surplus/(Deficit)</b>	<b>198</b>	<b>1 082</b>	<b>900</b>	<b>(535)</b>
<b>Accumulated funds and reserves</b>				
Accumulated funds	2 242	2 506	2 066	1 200
National Education fund	2 633	2 630	2 703	3 077
Disciplinary reserve	1 402	940	297	264
<b>Total</b>	<b>6 277</b>	<b>6 076</b>	<b>5 066</b>	<b>4 541</b>

## AUDITING STANDARDS BOARD



<b>Z BASSA</b> (Chairman)	– <i>Representing the PAAB</i>
<b>J KELLY</b> (Vice-Chairman)	– <i>PricewaterhouseCoopers</i>
<b>NG ADAMS</b>	– <i>Grant Thornton Kessel Feinstein</i>
<b>LJ BOTHA</b>	– <i>Financial Services Board</i>
<b>J CONRADIE</b>	– <i>Auditor-General's Office</i>
<b>GD COPPIN</b>	– <i>Ernst &amp; Young</i>
<b>F MALHERBE</b>	– <i>Deloitte &amp; Touche</i>
<b>PM SMITH</b>	– <i>Ernst &amp; Young</i>
<b>WF URMSON</b>	– <i>JSE Securities Exchange South Africa</i>
<b>PROF HE WAINER</b>	– <i>Representing the Department of Trade &amp; Industry</i>
<b>C WIESE</b>	– <i>South African Reserve Bank</i>

I am pleased to report that the transfer of the standard-setting process from the South African Institute of Chartered Accountants to the Public Accountants' and Auditors' Board was successfully completed during the year. The past year has however seen increased scrutiny on the accounting and auditing profession following a number of corporate scandals both locally and globally. While criticism has not been directed at auditing standards *per se*, the Auditing Standards Board remains committed to the development of high quality auditing pronouncements in the public interest.

Internationally it has been questioned whether a principles or a rules based approach to standard-setting is appropriate. The Auditing Standards Board continues to support a principles based approach to standard-setting, as the differing nature of each audit engagement requires the exercise of professional judgement in the conduct of the engagement. To this end, it is worth noting that the Chairman of the International Auditing and Assurance Standards Board has stated in the International Auditing and Assurance Standards Board's 2002 Annual Report that "The IAASB continues to believe that high quality standards based on basic principles and essential procedures best serve the public interest by eliciting thoughtful auditor assessment of the particular circumstance of each engagement." He goes on to state that "It is recognized that related guidance and explanatory material need to be sufficiently comprehensive and complete to drive auditor behaviour and eliminate differences in practice."

### PRONOUNCEMENTS ISSUED

The Auditing Standards Board approved the issue of the following pronouncements during the course of the year:

- SAAS 545 Auditing Fair Value Measurements and Disclosures,
- SAAPS 1004 The Relationship between Banking Supervisors and Banks' External Auditors,
- SAAPS 1006 Audits of the Financial Statements of Banks, and
- SAAPS 1013 Electronic Commerce – Effect on The Audit of Financial Statements.

The issue of these pronouncements ensures that harmonisation with the pronouncements issued by the International Auditing and Assurance Standards Board is maintained.

In response to a request from the local legal profession for improvement of the process for obtaining legal representation letters, SAAS 502 Enquiries Regarding Litigation and Claims was issued in December 2002 and will replace AU 257 Enquiries of Attorneys from its effective date.

### PUBLICATION OF AUDITING PRONOUNCEMENTS

With effect from 1 January 2003 all auditing pronouncements will be published on the Public Accountants' and Auditors' Board website, [www.paab.co.za](http://www.paab.co.za) under Auditing Standards, as well as in The South African Institute of Chartered Accountants Handbook.

## **AUDITING STANDARDS BOARD** *continued*

### **CURRENT PROJECTS**

Project proposals for the development of guidance on the auditor's responsibility for money laundering and access to auditor working papers have been approved and these projects will commence during 2003.

It is anticipated that the following projects will be completed during the course of 2003:

- SAAS 850 Reporting Accountant's Report on the Report of Historical Financial Information to be Included in a Prospectus or Circular, and
- SAAS 000 Preface.

There are a number of other subjects where the Auditing Standards Board has identified a need for guidance locally in respect of which projects have been initiated by the International Auditing and Assurance Standards Board (for instance dating of audit reports and dual reporting). In these instances the Auditing Standards Board is monitoring the work of the International Auditing and Assurance Standards Board and providing its input through the South African member of the Board.

### **INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (FORMERLY THE INTERNATIONAL AUDITING PRACTICES COMMITTEE)**

During 2001 the International Federation of Accountants commissioned a review task force to undertake a comprehensive review of the International Auditing Practices Committee's membership, organisation and processes. The review task force's report resulted in a number of changes to improve both the transparency and effectiveness of the International Auditing Practices Committee.

With effect from 1 April 2002 the name of the International Auditing Practices Committee was changed to International Auditing and Assurance Standards Board to better reflect its role, mandate and new structure.

The Public Accountants' and Auditors' Board and the South African Institute of Chartered Accountants were honoured to host the second very successful meeting of the newly constituted International Auditing and Assurance Standards Board in Cape Town during September 2002.

The Auditing Standards Board has continued to provide support, through the Auditing Standards Committee, to Suresh Kana, deputy CEO of PricewaterhouseCoopers, who was elected to serve on the newly constituted International Auditing and Assurance Standards Board. The Auditing Standards Board is grateful for the significant contribution that Suresh makes to the international standard-setting process, as it believes that South Africa's participation is important for the image and profile of our profession in the global market place.

### **OPENING OF MEETINGS TO THE PUBLIC**

The Public Accountants' and Auditors' Board has approved the Auditing Standards Board's proposal to open its meetings to the public. Accordingly, these meetings will be open to the public as soon as the Auditing Standards Board has approved rules for the conduct of such meetings. Further information in this regard will be published during 2003 in *Maneo* and on the Public Accountants' and Auditors' Board website.

### **THANKS**

The Auditing Standards Board would also like to record its thanks to the members of the Auditing Standards Committee for their invaluable contribution to the work of the Auditing Standards Board.

I wish to record my thanks to the Auditing Standards staff and my fellow members of the Auditing Standards Board for their dedication and support during a challenging year.

**Zarina Bassa**  
*Chairman*



## DISCIPLINARY COMMITTEE



<b>SJ VAN MAAREN</b> (Chairman)	– <i>SJ van Maaren</i>
<b>BE ABRAHAMS</b>	– <i>Brian Ellis Abrahams</i>
<b>J BLAIR</b>	– <i>Ernst &amp; Young</i>
<b>FM BRUCE-BRAND</b>	– <i>Meyer Wilson Marsh Inc</i>
<b>JH DU PLESSIS</b>	– <i>Geyser &amp; du Plessis</i>
<b>BJ EATON</b>	– <i>Betty &amp; Dickson</i>
<b>N GERBER</b>	– <i>Morrison Murray</i>
<b>A JAGGA</b>	– <i>Deane &amp; Thresher</i>
<b>KG KARRO</b>	– <i>Horwath Zeller Karro</i>
<b>GA NOBLE</b>	– <i>Hills Howard</i>
<b>C REID</b>	– <i>Lowe &amp; Co</i>
<b>JFJ SCHEEPERS</b>	– <i>PricewaterhouseCoopers (retired)</i>
<b>JH TROLLOPE</b>	– <i>KPMG (retired)</i>

In terms of the Public Accountants' and Auditors' Act, 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 Disciplinary Committee comprises a panel of people of which any five sit to hear a case.

### YEAR UNDER REVIEW

#### CASES HEARD

The Disciplinary Committee was called on to hear 13 matters during the year. Seven of these arose out of practice review and are dealt with together. All of them related, to a greater or lesser extent, to the failure to adequately document audit evidence.

#### PRACTICE REVIEW CASES

##### **Case one:**

The practitioner was found guilty of one charge, which related to inadequate working papers and lack of an engagement letter. This was his second review in the first cycle.

*The Committee imposed the following sentence:-*

- Removal from the register of accountants and auditors;
- Permanent disqualification from registration as an accountant and auditor;
- Publication of the findings and sentence including the name of the practitioner and that of his firm, in *Maneo*, and that the local press in [Q] be advised of the punishment;
- Payment of R15 000 towards the costs of the proceedings.

##### **Case two:**

The practitioner was found guilty of three charges, which related to inadequate working papers and inconsistencies between the working papers and the statements. This was his third review in the first cycle.

## **DISCIPLINARY COMMITTEE** *continued*

*The Committee imposed the following sentence:-*

- Suspension from practice for five years, which suspension was suspended for five years on the following conditions:
  - ♦ the practitioner be re-reviewed between the months of March and May 2003
  - ♦ the practitioner is not found guilty of contravening disciplinary rule 2.1.5 and/or 2.1.21 during the period of suspension;
- Publication of the facts and the sentence, but not the name of the practitioner or his firm, in *Maneo*;
- Payment of R20 000 towards the costs of the proceedings.

### **Case three:**

The practitioner was found guilty of two charges, which related to inadequate working papers. This was his fourth review in the first cycle.

*The Committee imposed the following sentence:*

- Suspension from practice for three years, which suspension was suspended for three years on the following conditions:
  - ♦ the practitioner be reviewed within a period of 12 months
  - ♦ the practitioner is not found guilty of contravening Disciplinary Rule 2.1.5 and/or 2.1.21 as a result of any work done during the period of suspension;
- The suspended fine of R15 000 previously imposed by the Investigation Committee brought into effect;
- Publication of the facts and the sentence, but not the name of the practitioner or his firm, in *Maneo*.
- Payment of R10 000 towards the costs of the proceedings.

### **Case four:**

The practitioner was found guilty of two out of three charges, which related to inadequate working papers. This was his third review in the first cycle.

*The Committee imposed the following sentence:*

- Suspension from practice for one year, which suspension was suspended for three years on condition that the practitioner is not found guilty of contravening Disciplinary Rule 2.1.5 and/or 2.1.21 as a result of audit work done during the period of suspension;
- Publication of the facts and the sentence, but not the name of the practitioner or his firm, in *Maneo*;
- Payment of R15 000 towards the costs of the proceedings.

### **Case five:**

The practitioner was found guilty of three charges, two arising out of practice review, which related to inadequate working papers, and one of failure to reply to correspondence. This was his fourth review in the first cycle.

*The Committee imposed the following sentence:*

- A fine of R20 000, which was suspended for two years, on condition that the practitioner is not found guilty of contravening Disciplinary Rule 2.1.5 and/or 2.1.21 as a result of any audit work done during the period of suspension;
- The suspended fine of R15 000 previously imposed by the Investigation Committee brought into effect;

## DISCIPLINARY COMMITTEE *continued*

- A reprimand in respect of the charge of failure to reply to correspondence;
- Publication of the facts and the sentence, but not the name of the practitioner or his firm, in *Maneo*;
- Payment of R15 000 towards the costs of the proceedings.

### Case six:

The practitioner was found guilty of two charges, which related to inadequate working papers, the lack of engagement letters and the use of the wrong form of audit report. This was his third review in the first cycle.

*The Committee imposed the following sentence:*

- Removal from the register of accountants and auditors;
- Disqualification from [re]registration as an accountant and auditor subject to the qualification that he may apply for re-registration after expiry of three years, from date of hearing, upon production to the Board of a satisfactory report by the Practice Review Committee;
- Publication of the findings and sentence, together with the name of the practitioner and that of his firm, in *Maneo*;
- Payment of R15 000 towards the costs of the proceedings.

### Case seven:

The practitioner was found guilty of two charges, which related to inadequate working papers. This was his third review in the second cycle.

*The Committee imposed the following sentence:*

- Suspension from practice for two years, which was suspended for three years on the following conditions:
  - ♦ the practitioner is not convicted within the period of suspension, of a similar offence under Disciplinary Rules 2.1.5 or 2.1.21;
  - ♦ the practitioner be re-reviewed within a period of one year from the date of the hearing in respect of audit files covering the 2003 financial year end;
  - ♦ the practitioner, his partners if any, and professional staff must attend a practice review workshop conducted by the Practice Review Department prior to completion of the 2003 year end audit.
- The suspended fine of R15 000 previously imposed by the Investigation Committee brought into effect;
- A further fine of R15 000;
- Publication of the facts and the sentence, but not the name of the practitioner or his firm, to be published in *Maneo*;
- Payment of R10 000 towards the costs of the proceedings.

### OTHER CASES

#### Case eight:

The practitioner was found guilty of three charges of unprofessional conduct.

He was found guilty of one charge of failing to perform work or duties commonly performed by a practitioner, namely the issue of a valuation, with such a degree of care and skill as may reasonably be expected.

## **DISCIPLINARY COMMITTEE** *continued*

He was found guilty of two charges of conducting himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tended to bring the profession of accounting into disrepute. These related to the issuing of a material irregularity letter which he should not have dispatched, because at the time in question he was not acting in the capacity of auditor to the undertaking to which the material irregularity related, and to the signing of an accounting officer's report, when in fact he was not the accounting officer of the close corporation.

*The Committee imposed the following sentence:*

- A fine of R20 000;
- Publication of the findings and sentence including the name of the practitioner and that of his firm, in *Maneo*;
- Payment of R16 000 towards the costs of the proceedings.

### **Case nine:**

The practitioner was found guilty on two charges of conducting himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tended to bring the profession of accounting into disrepute. These related to misappropriation of funds.

*The Committee imposed the following sentence:*

- Permanent disqualification from registration as an accountant and auditor;
- Publication of the findings and the sentence, but not the name of the practitioner or his firm, in *Maneo*;
- Payment of R40 000 towards the costs of the proceedings.

### **Case ten:**

The practitioner was found guilty of one out of two charges brought against him, arising out of the reporting of a material irregularity. More particularly he was found guilty of an error of professional judgement which reflected a lack of due care and skill on his part.

*The Committee imposed the following sentence:*

- A reprimand;
- Publication of the findings and the sentence, but not the name of the practitioner or his firm, in *Maneo*;
- Payment of R15 000 towards the costs of the proceedings.

### **Case eleven:**

The practitioner was found guilty on five charges.

He was found guilty of one charge of failing to perform work or duties commonly performed by a practitioner, with such a degree of care and skill as may reasonably be expected. This related to the winding-up of the practice of a doctor client and the advising of his wife in relation to her financial affairs, and included the preparation and submission of tax returns over a number of years.

He was found guilty of two charges of conducting himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tended to bring the profession of accounting into disrepute. These related to the non-payment of salary and benefits due to staff members, over a period.

## **DISCIPLINARY COMMITTEE** *continued*

He was found guilty of two charges of failing to reply to correspondence.

*The Committee imposed the following sentence:*

- Permanent disqualification from registration as an accountant and auditor;
- Publication of the name of the practitioner, his firm, the nature of the charges, the findings of the Committee and the sentence, in *Maneo*;
- Payment of R50 000 towards the costs of the proceedings.

### **Case twelve:**

The practitioner was found guilty on three out of eight charges, all of failing to perform his duties in his capacity as auditor, with such a degree of care and skill as was reasonably to be expected. These related to a certain restructuring arrangement which was incorporated into the annual financial statements of his client, and the description of a compromise with creditors as a rights issue, which was misleading. In addition, the report entitled "Report of the Independent Auditors" did not comply with generally accepted auditing standards relating to reports by auditors, either in form or in content, and was misleading.

*The Committee imposed the following sentence:*

- A fine of R30 000;
- Publication of the facts and the sentence, but not the name of the practitioner or his firm, in *Maneo*;
- Payment of R50 000 towards the costs of the proceedings.

### **Case thirteen:**

The practitioner was found guilty on five charges.

He was found guilty of two charges of failing to perform work or duties commonly performed by a practitioner with a degree of care and skill as may reasonably be expected, or failing to perform them at all. These related to the administration of a deceased estate.

He was found guilty of two charges of conducting himself in a manner which was improper or discreditable or unprofessional or dishonourable or unworthy on the part of a practitioner or which tended to bring the profession of accounting into disrepute, in that he informed various parties, on enquiry as to progress with the winding-up of the estate, that documents had been lodged with the Master of the High Court and that progress had been made, when in fact this was not so.

He was found guilty of one charge of failing to reply to correspondence.

*The Committee imposed the following sentence:*

- Permanent disqualification from registration as an accountant and auditor;
- Publication of the findings and sentence together with the name of the practitioner, in *Maneo*;
- Payment of R20 000 towards the costs of the proceedings.

## **INVESTIGATION INTO DISCIPLINARY PROCESS**

The Myburgh Joint Disciplinary Task Team which was appointed by the PAAB and SAICA to investigate the disciplinary processes of both bodies and how they impact on each other as well as the public at large has now reported.



## **DISCIPLINARY COMMITTEE** *continued*

The Commission addressed eleven issues and made 16 recommendations. The Commission had two main thrusts:

- How the PAAB's disciplinary process could be improved generally, and
- How the PAAB/SAICA processes could be better harmonised, with particular regard to the contentious issue of "double trials" for people who are registered with both bodies.

The full report is available on our website under "News". The report makes 16 recommendations and records the proposed action plans which have been drawn up jointly by SAICA and the PAAB. Certain of the action plans have already been acted on, and a special disciplinary workshop, for those persons who are responsible for the disciplinary functions of the PAAB and SAICA, will be held on 10 March 2003 to discuss further the details of the implementation of the recommendations

As from 1 January 2003 the new disciplinary dispensation will prevail.

### **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 this year clearly reflect that not all practitioners are, even after all this time, 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**  
*Chairman*

## INVESTIGATION COMMITTEE



<b>H GRIFFITHS</b> (Chairman)	– <i>PricewaterhouseCoopers</i>
<b>IJ DE VILLIERS</b>	– <i>De Villiers Myburgh</i>
<b>K KOOVERJEE</b>	– <i>MSGM Masuku Jeena</i>
<b>CM READ</b>	– <i>KPMG</i>
<b>J RHYNES</b>	– <i>Deloitte &amp; Touche</i>
<b>M SINDANE</b>	– <i>Ernst &amp; Young</i>
<b>TP VAN DER MESCHT</b>	– <i>Wolmarans Kruger</i>
<b>WFT VAN SCHALKWYK</b>	– <i>Van Schalkwyk &amp; Vennote</i>

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 **101** new investigations were initiated. These include enquiries or allegations of improper conduct received by the directorate, as well as investigations initiated by the PAAB itself. These concerned practitioners across the spectrum, from the smallest to the largest firms, and fell into the following categories:

- 17** concerning negligence
  - 5** concerning deceased estates
- 13** concerning tax
  - 1** concerning the audit of an attorney’s trust account
  - 2** concerning the audit of listed companies, referred by the JSE
  - 3** concerning failure to respond to correspondence
  - 5** concerning overcharging
  - 5** concerning refusal to resign/hand over documents

## INVESTIGATION COMMITTEE *continued*

- 17 concerning alleged dishonesty of all kinds
- 5 concerning impaired independence
- 1 concerning poaching of clients
- 1 concerning failure to contact the previous auditor
- 13 arising out of practice review

The other 13 allegations were of a general nature as follows:

- 1 failure to pay staff
- 1 concerning unauthorised set-off of fees against a tax refund
- 1 concerning homophobia
- 1 concerning failure to comply with the client's mandate
- 1 concerning an unauthorised cheque deposit and set-off
- 1 concerning failure to supervise staff adequately
- 1 concerning irregular share transactions
- 1 trainee accountant related
- 2 malicious reporting of a material irregularity
- 2 failure to report a material irregularity
- 1 abandonment of 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 **86** cases were disposed of during the year. Of these cases **18** 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, including settlement. The remaining **68** cases were disposed of as follows:

### MATTERS DISCHARGED

- **1 in terms of Rule 3.7** [the complaint not disclosing a prima facie case of improper conduct], concerning soliciting by an employee of the clients of his former firm
- **16 in terms of Rule 3.9.1** [the Committee being satisfied that the practitioner had given an acceptable explanation regarding the alleged conduct]
  - 4 concerning negligence
  - 1 concerning a deceased estate
  - 3 tax related
  - 1 concerning overcharging
  - 1 refusal to resign or hand over documents
  - 2 concerning impaired independence
  - 1 false confirmation
  - 1 trainee accountant related

## INVESTIGATION COMMITTEE *continued*

- 1 malicious reporting of a material irregularity
- 1 abandonment of practice
- **9 in terms of rule 3.9.2** [the Committee being satisfied that the alleged conduct – even if proved – would not constitute improper conduct]
  - 4 concerning negligence
  - 1 tax related
  - 1 failure to reply to correspondence
  - 1 false confirmation of facts
  - 1 concerning refusal to refund monies paid in error
  - 1 concerning alleged fraudulent transfer of shares
- **10 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 overcharging
  - 2 concerning impaired independence
  - 2 concerning using a forensic engagement to secure liquidation work
  - 1 concerning rudeness
  - 1 concerning unauthorised cheque deposit and set off against fees

### PRACTITIONERS FOUND GUILTY

- **4 practitioners were cautioned.** Of these
  - 1 concerned negligence
  - 1 matter concerned a deceased estate
  - 1 matter concerned refusal to resign
  - 1 was trainee accountant related
- **3 practitioners were reprimanded.** Of these
  - 1 matter concerned negligence
  - 1 matter concerned a lack of independence
  - 1 matter concerned the failure to contact the previous auditor
- In 25 matters **finer** were imposed after the practitioners pleaded guilty to the conduct alleged.
  - 1 related to questionable share transactions (fined R25 000, of which R20 000 was suspended on conditions)
  - 1 related to an unauthorised cheque deposit (fined R5 000 suspended on conditions)
  - 3 related to negligence (all fined R5 000)
  - 3 related to deceased estates (two fined R5 000, one fined R2 500)
  - 1 related to tax (fined R3 000)

## **INVESTIGATION COMMITTEE** *continued*

- 1 related to failure to reply to correspondence (fined R2 000)
- 1 related to conduct concerning a loan (fined R2 000)
- 1 related to misrepresentation (fined R30 000, of which R20 000 was suspended on conditions)
- 1 related to impaired independence (fined R3 000)
- 2 related to poaching – 1 of staff (fined R1 000); 1 of clients (fined R5 000)
- 1 trainee accountant related (fined R3 000)
- 8 arose out of practice review:
  - ❖ 1st cycle 3rd review: 6 matters (all fined R15 000 suspended on conditions;)
  - ❖ 2nd cycle 2nd review: 1 matter (fined R20 000, of which R10 000 was suspended on conditions)
  - ❖ 2nd cycle 3rd review: 1 matter (fined R10 000, of which R5 000 was suspended on conditions)
- 1 concerning breach of confidentiality (fined R3 000)

### **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. The Committee was not called on to deal with any such cases during the year under review.

### **CONCLUDING REMARKS**

Although the case load of the Committee is ever increasing, in number and complexity, the hard work and dedication of the Committee members ensures that the cases under investigation at any one time do not get out of hand. As is mentioned elsewhere, in the report of the chairman of the Disciplinary Committee, this Committee is now a joint Committee of the PAAB and SAICA. I welcome this development as the 'double trials' of our members has been a matter of concern for some time. I look forward to working with our new colleagues as from the 1<sup>st</sup> of January 2003. 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.

**Horton Griffiths**  
*Chairman*

## EDUCATION COMMITTEE



PROF J ROWLANDS (Chairman)	– University of Port Elizabeth
M D ENGELBRECHT (Vice-Chairman)	– PricewaterhouseCoopers Inc
S BALL	– PricewaterhouseCoopers Inc
PROF D FORSYTH	– University of Port Elizabeth
E LEHAPA	– Deloitte & Touche
S MCGREGOR	– KPMG
J MTHIMUNYE	– AloeCap (Pty) Ltd
B PATEL	– Grant Thornton Kessel Feinstein
PROF L J STAINBANK	– University of Natal
F TONELLI	– PricewaterhouseCoopers Inc
PROF S VAN ESCH	– University of the Witwatersrand
R WADSWORTH	– Deloitte & Touche
H WESSELS	– PricewaterhouseCoopers Inc
T ZAKUZA	– Nkonki Pierce

The Education Committee was met with many challenges during the course of 2002.

### THE MONITORING COMMITTEE

The Final Monitoring Reports with respect to the 2001 recognised programmes of SAICA, which are the culmination of a formal process carried out by the Monitoring Committee were issued. The process is designed to conduct an objective assessment of the recognised programmes against the recognition standards defined by the PAAB in the Recognition Model.

Through the monitoring process, several aspects of common concern were identified and where appropriate recommendations were made which SAICA has undertaken to investigate. It is pleasing to confirm that consensus was reached with SAICA on all issues of principle that the PAAB raised and the continued recognition of SAICA's academic, education, training and examination programmes for admission to the PPE were accordingly confirmed.

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

In view of the *post facto* nature of monitoring, in 2002, members of the committee carried out several procedures relating to the provision of the recognised programme which will form the basis of the final monitoring reports that the Committee will issue in 2003.

### EXAMINATIONS

A record number of 2 298 (2001: 2113) candidates wrote the Public Practice Examination (PPE) set by the PAAB in November 2002. Of these, 1 372 (2001: 1 258) passed, representing a pass rate

## **EDUCATION COMMITTEE** *continued*

of 60% (2001: 60%). The pass rate for candidates who wrote for the first time was 68% (2001: 66%). Two candidates were awarded honours for achieving a pass mark of over 75%.

The pass rate achieved by the total number of black candidates (African black, Coloured and Indian) for the 2002 PPE is encouraging. It is particularly noteworthy that two of the top ten candidates are Black. Out of the 630 Black candidates who wrote, 351 passed. This equates to a pass rate of 56% (54% in 2001).

### **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. During 2002, The Financial Accounting and other Services (FASSET) Sector Education and Training Authority (SETA) sponsored the PAAB to implement a Black Advancement Bridging Programme for those black candidates (including African black, Coloured and Indian) who have been unsuccessful in a previous attempt to pass the PPE. 43 candidates who attended the programme and who wrote the PPE in November 2002 passed.

### **OPEN BOOK EXAMINATIONS**

The committee conducted an investigation into open book assessment with a view to determining the possibility of conducting the PPE in this form some time in the future. Members of the committee consulted broadly with providers of recognised education and academic programmes in order to gain a clearer understanding of the implications of open book assessment for the delivery of programmes which prepare students to write the PPE. There is much evidence to suggest that a move to open book assessment will have a positive impact on the way auditing is taught and learned as it will place less emphasis on rote learning and enhance the learning to learn approach which is the foundation for life long learning. In late 2002, a document containing the committee's proposal was forwarded to providers in order to elicit their views. It is hoped that, once this comment is reviewed in 2003, the committee will be able to give clear guidance as to the likely date for an open book PPE, and the form that the assessment will take.

### **DRAFT APPLICATION BY ACCA**

In October 2002, the Association of Chartered Certified Accountants (ACCA) submitted a draft application to the PAAB for the purpose of establishing whether or not the recognition model could accommodate their programmes. The application does not constitute any form of formal application by the ACCA on behalf of its members. We anticipate that much of 2003 will be spent in carrying out our brief relating to this application, at the request of the Board.

### **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

## **EDUCATION COMMITTEE** *continued*

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**

Mr Herman Wessels, who has served as Chairman of the Education Committee since 1998, stepped down. It was under his leadership that the current model for the recognition of programmes that enable admission to the PPE, was initiated, developed and implemented. We are most grateful to be able to retain his expertise and experience as a valuable member of the committee and as chairman of the Examinations Sub-Committee.

We also extend a warm welcome to Derek Forsyth, Temba Zakuza and Bhasker Patel who joined the committee this year.

### **THANKS**

A sincere word of gratitude is extended to all the members of the Education Committee who gave so much of their time towards achieving the educational objectives of the PAAB. This was a challenging year and our many accomplishments could not have been achieved without the full participation of all members.

A special word of thanks to Ms Laine Katzin and Ms Lucille Pickersgill of the secretariat and in particular to Ms Angela Vest Louw for her dedication to the affairs of the committee and for her wise counsel.

***Professor Jeff Rowlands***  
*Chairman*



## PRACTICE REVIEW COMMITTEE



**MR F TIMMINS** (Chairman) – *Grant Thornton Kessel Feinstein*

**MR C QUALLY** – *Deloitte & Touche*

**MR J H VILJOEN** – *Havenga Rossouw Viljoen*

**MR P J COTTRELL** – *Morrison Murray*

**MR A A DADD** – *PricewaterhouseCoopers*

**MR S NAIDOO** – *SAB & T Incorporated*

Corporate failure is an inevitable fact of business life. A number of failures, both internationally and in South Africa, however, continue to raise concerns regarding the quality of financial information and the need for high quality standards in both the preparation and audit of annual financial statements. One essential element of audit quality is the enforcement of audit standards, implemented thoroughly and consistently.

Practice Review monitors the work of practitioners. It is designed to address concerns of users of audited financial information and thereby to enhance the creditability of audited financial information.

During 2002, a total of 605 reviews were performed. By 31 December 2002 a total of 3864 reviews in the first cycle had been completed, of which 997 were repeat reviews. In the second cycle a total of 1371 reviews had been completed of which 291 were repeat reviews. Failure to evidence compliance with standards through documentation of audit procedures continues to be the most common reason for repeat reviews.

A further 12 practitioners were referred to the Investigation Committee, bringing the total number of referrals to date to 127. Referrals to the Investigation Committee are made:

- where re-reviews indicate a failure to implement recommendations made on the initial review;
- where there is a lack of co-operation with the review process;
- where the public is at risk; and
- where there is flagrant disregard for standards, fraud or misrepresentation.

The Investigation and Disciplinary Committees continue to take strong action against practitioners who fail to meet standards.

Audit quality is under the spotlight in a number of countries and Practice Review is considering best practice internationally. Issues under consideration during 2003 will include the feasibility of placing greater emphasis on practitioners and practices performing listed or public interest audits in line with IFAC's proposed new requirements in this regard.

I record my thanks to the Practice Review staff who have performed diligently and consistently throughout 2002. I also thank my fellow committee members for their continuing involvement in the practice review process and their dedication.

**Frank Timmins**  
Chairman

# PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

## **CORPORATE GOVERNANCE STATEMENT**

*for the year ended 31 December 2002*

### **INTRODUCTION**

The Public Accountants' and Auditors' Board (PAAB) is the statutory body controlling that part of the accountancy profession involved in public practice in the Republic of South Africa. It functions in terms of the Public Accountants' and Auditors' Act, 1991 (the Act). It has a 16 member Board that has the statutory responsibility to fulfil the functions and duties of the PAAB. It employs a staff of some 34 persons.

The Board appoints an Executive Committee (currently 7 members) from amongst its members to assist it in fulfilling its day-to-day responsibilities. Numerous other committees are appointed by the Board that are responsible for training and education, setting of auditing and professional conduct standards, and for the monitoring and enforcement of compliance with professional standards.

The members of the Board and its committees do not receive remuneration for their services to the PAAB, other than reimbursement of out-of-pocket expenses.

Whilst the function of the PAAB as a statutory regulator is very different to that of a corporation, it is committed to the principles of good corporate governance advocated in the King Code of Corporate Practices and Conduct, 2002.

### **THE BOARD**

The Board meets at least three times per annum to review the operations and performance of the PAAB and to approve strategies, policies, budgets, major contracts and commitments.

### **THE EXECUTIVE COMMITTEE**

The Executive Committee meets at least four times per annum to deal with all the executive business of the PAAB. The Executive Committee is responsible, on behalf of the Board, for coordinating and directing the PAAB's business in accordance with the purposes, policies and priorities approved by the Board.

The Executive Committee is responsible for the appointment and determination of the remuneration of persons at the level of Director and of the Chief Executive Officer and for determining the remuneration scales of all other staff.

### **OTHER COMMITTEES**

The Education, Investigation, Disciplinary, Practice Review and Auditing Standards Board Committees meet as frequently as required to carry out the functions and duties of the PAAB assigned to them by the Board. They report back to the Executive Committee on a quarterly basis through the directors of the departments concerned, and to the Board on an annual basis through their respective chairpersons.

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD  
**CORPORATE GOVERNANCE STATEMENT**

*for the year ended 31 December 2002 continued*

**AUDIT COMMITTEE**

In the 2002 financial year, the Board has appointed a two-member Audit Committee. The members are Board members who are not persons nominated by the profession in terms of Section 3(1) (c) of the Act. The Audit Committee met twice in respect of the year to review the internal risk analysis, the external audit plan and budget, matters arising from the completed audit, and the fair presentation of the financial statements presented to the Board. The Board has approved detailed terms of reference for the Committee for the 2003 year.

**EMPLOYMENT EQUITY, DEVELOPMENT AND PARTICIPATION**

The PAAB's equity development policy is an integral part of the strategic plan. Staff members at all levels are encouraged to participate in training and educational programmes to improve their skills and to develop them to achieve promotion within their levels of potential.

The PAAB fully subscribes to the principles of affirmative employment and in this regard has lodged its employment equity plan with the Department of Labour.

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD  
**STATEMENT OF RESPONSIBILITY  
OF BOARD MEMBERS**

*for the year ended 31 December 2002*

The Minister of Finance appoints the Board members on an annual basis in terms of Section 3 of the Public Accountants' and Auditors' Act. The Board members are responsible for the preparation, integrity and fair presentation of the financial statements and related information included in this annual report.

The Board members have ultimate responsibility for ensuring that adequate accounting records and effective systems of internal control are being maintained. To enable the Board to meet its responsibilities, it employs adequately trained and skilled personnel with appropriate segregation of duties to implement and maintain the accounting records and systems of control.

The annual financial statements presented on pages 28 to 36 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and include amounts based on judgements and estimates made by management.

The Board believes that the Public Accountants' and Auditors' Board will continue as a going concern in the year ahead. For this reason it continues to adopt the going concern basis in preparing the annual financial statements.

The annual financial statements have been audited by the independent auditors KPMG Inc., which was given unrestricted access to all financial records and related data, including all minutes of meetings of the Board and its committees. The Board believes that all representations made to the auditors during their audit are valid and appropriate. The report of the auditors is presented on page 27.

The annual financial statements of the Public Accountants' and Auditors' Board were approved by the Board on 18 March 2003 and are signed on its behalf by:

**Costa R Qually**  
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 28 to 36 for the year ended 31 December 2002. 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 2002 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 (S.A.)*

*Registered Accountants and Auditors*

**Per KR Lydall**

*Partner*

18 March 2003

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

**BALANCE SHEET**

at 31 December 2002

	Note	2002 R	2001 R
<b>ASSETS</b>			
<b>Property and equipment</b>		<b>4 974 106</b>	5 163 919
Land and building	2.1	4 411 459	4 558 093
Furniture, equipment and motor vehicle	2.2	562 647	605 826
<b>Current assets</b>		<b>2 947 768</b>	2 519 066
Accounts receivable and prepayments		1 066 267	1 011 907
Short-term bank deposits		1 662 963	1 445 551
Cash at bank and in hand		218 538	61 608
		<b>7 921 874</b>	7 682 985
<b>National Education Fund investment</b>	3	<b>2 632 714</b>	2 630 000
<b>Total assets</b>		<b>10 554 588</b>	10 312 985
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>		<b>6 277 266</b>	6 076 293
<i>Board</i>		<b>3 644 552</b>	3 446 293
Accumulated funds		2 242 472	2 505 713
Disciplinary reserve fund		1 402 080	940 580
<i>National Education Fund</i>			
Accumulated funds		<b>2 632 714</b>	2 630 000
<b>Current liabilities</b>		<b>4 277 322</b>	4 236 692
Accounts payable		1 292 660	1 695 375
Fees in advance		951 442	458 619
Owing to the National Education Fund		2 033 220	2 082 698
<b>Total reserves and liabilities</b>		<b>10 554 588</b>	10 312 985

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD  
**INCOME STATEMENT**

for the year ended 31 December 2002

	Note	2002 R	2001 R
<b>REVENUE</b>			
Fees		8 650 992	8 001 309
Registrations		362 340	338 850
Annual		6 059 752	5 690 675
Training contracts and levies		2 098 900	1 851 784
Monitoring fee		130 000	120 000
Interest		299 506	206 046
		<b>8 950 498</b>	<b>8 207 355</b>
<b>EXPENDITURE</b>			
General and administration		6 115 283	5 392 854
Administration expenses	4	5 009 861	4 150 875
Board and committee expenses	5	626 710	417 167
Legal expenses	6	(53 407)	112 679
Local secretaries' expenses		116 088	119 683
Publications		180 868	281 356
Public relations		235 163	311 094
Disciplinary proceedings		1 378 940	851 959
Legal and other expenses		1 819 564	1 317 434
Recoveries		(229 124)	(322 475)
Disciplinary fines		(211 500)	(143 000)
Practice review		(57 156)	32 492
Practice review fee income		(3 705 198)	(3 184 338)
Salaries and direct expenses		3 018 042	2 646 830
Allocated expenses	4	630 000	570 000
Auditing standards		1 134 677	611 179
Salaries, travel and other direct expenses		1 057 677	570 914
Allocated expenses		77 000	40 265
Examinations		180 495	385 917
Entrance fees		(1 269 081)	(1 077 290)
Expenses	7	1 449 576	1 463 207
Interest on finance lease		-	(149 272)
		<b>8 752 239</b>	<b>7 125 129</b>
<b>SURPLUS FOR THE YEAR</b>		<b>198 259</b>	<b>1 082 226</b>

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD  
**STATEMENT OF CHANGES IN RESERVES**

*for the year ended 31 December 2002*

	National Education Fund R	Accumulated Funds R	Disciplinary Reserve Fund R	Total R
<b>Balance at 1 January 2001</b>	2 702 595	2 066 487	297 580	<b>5 066 662</b>
(Deficit)/surplus for the year	(72 595)	1 082 226	–	<b>1 009 631</b>
Transfer to/(from) reserve				
– disciplinary fines	–	(143 000)	143 000	–
– additional amount	–	(500 000)	500 000	–
<b>Balance at 31 December 2001</b>	<b>2 630 000</b>	<b>2 505 713</b>	<b>940 580</b>	<b>6 076 293</b>
<b>Balance at 31 December 2001</b>	2 630 000	2 505 713	940 580	<b>6 076 293</b>
Surplus for the year	2 714	198 259	–	<b>200 973</b>
Transfer to/(from) reserve				
– disciplinary fines	–	(211 500)	211 500	–
– additional amount	–	(250 000)	250 000	–
<b>Balance at 31 December 2002</b>	<b>2 632 714</b>	<b>2 242 472</b>	<b>1 402 080</b>	<b>6 277 266</b>



PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD  
**CASH FLOW STATEMENT**

for the year ended 31 December 2002

	Note	2002 R	2001 R
<b>Cash flows generated from operating activities</b>			
Net surplus/(deficit) for the year		200 973	1 009 631
Board		198 259	1 082 226
National Education Fund		2 714	(72 595)
<i>Adjustment for:</i>			
- depreciation	4	387 845	374 534
- interest income		(354 216)	(260 753)
- interest on finance lease		-	(149 272)
<b>Operating surplus before working capital changes</b>		<b>234 602</b>	<b>974 140</b>
<i>Working capital changes</i>			
Working capital changes		35 748	(422 752)
- increase in accounts receivable		(54 360)	(437 513)
- increase in accounts payable, fees in advance and interest-bearing borrowings		90 108	14 761
Cash flows generated from operations		270 350	551 388
Interest income		354 216	260 753
Interest on finance lease		-	149 272
<b>Net cash inflow from operating activities</b>		<b>624 566</b>	<b>961 413</b>
<i>Cash outflow on investing activities</i>			
- additions to equipment	2.2	(198 032)	(116 145)
Net increase in cash and cash equivalents		426 534	845 268
Cash and cash equivalents at beginning of year		2 054 461	1 209 193
Cash and cash equivalents at end of year		<b>2 480 995</b>	<b>2 054 461</b>
<i>Comprising:</i>			
National Education Fund			
Bank deposit	3	599 494	547 302
Public Accountants' and Auditors' Board			
Bank deposits		1 662 963	1 445 551
Cash		218 538	61 608
		<b>2 480 995</b>	<b>2 054 461</b>

NATIONAL EDUCATION FUND  
**INCOME STATEMENT**

for the year ended 31 December 2002

	Note	2002 R	2001 R
<b>GROSS REVENUE</b>			
Bridging programme funding		497 216	–
<i>Interest</i>			
– Board		220 000	220 000
– Bank		54 710	54 707
		<u>771 926</u>	<u>274 707</u>
<b>EXPENDITURE</b>			
Portion of Board's education and administration expenses		40 000	40 000
Grants		210 000	190 000
Universities		–	(20 000)
CAs' Eden Trust: Contribution to expenses		160 000	160 000
Bursary awards		50 000	50 000
Examination bridging programme		497 126	177 235
Recognition model		–	15 113
Meetings and other expenses		6 256	6 280
Educational development project		–	(100 000)
Publications – SA Journal of Accounting Research		15 740	18 674
		<u>769 212</u>	<u>347 302</u>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		<u>2 714</u>	<u>(72 595)</u>

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

for the year ended 31 December 2002

**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.

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 Accounts payable and fees in advance at the cost of the legal or constructive obligations.

**2. PROPERTY AND EQUIPMENT**

	2002 R	2001 R
<b>2.1 Land and buildings</b>	<b>4 411 459</b>	4 558 093
Cost	5 389 020	5 389 020
At beginning of year	5 389 020	5 389 020
Accumulated depreciation	977 561	830 927
At beginning of year	830 927	684 293
Charge of the year	146 634	146 634

The land and buildings are situated at Erf 201 Bruma Township. Buildings are valued every 5 years on the net replacement value by independent valuers. As at 31 December 2001, the value of the building together with the cost of land was R4 705 000.

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

for the year ended 31 December 2002 (continued)

	2002 R	2001 R
<b>2.2 Furniture, computers, equipment and motor vehicle</b>		
<b>2.2.1 Furniture, computers and equipment</b>	<b>550 647</b>	<b>593 826</b>
Cost	2 172 291	1 974 259
At beginning of year	1 974 259	1 858 114
Additions	198 032	116 145
Accumulated depreciation	1 621 644	1 380 433
At beginning of year	1 380 433	1 152 571
Charge for the year	241 211	227 862
<b>2.2.2 Motor vehicle</b>	<b>12 000</b>	<b>12 000</b>
Cost	90 282	90 282
At beginning of year	90 282	90 282
Accumulated depreciation	78 282	78 282
At beginning of year	78 282	78 244
Charge for the year	-	38
<b>TOTAL NET BOOK VALUE</b>	<b>562 647</b>	<b>605 826</b>
<b>3. NATIONAL EDUCATION FUND INVESTMENT</b>		
Bank deposits	599 494	547 302
Owing by the Board	2 033 220	2 082 698
	<b>2 632 714</b>	<b>2 630 000</b>

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

for the year ended 31 December 2002 (continued)

	2002 R	2001 R
<b>4. ADMINISTRATION EXPENSES</b>		
Audit fees	70 000	66 285
Computer expenses	316 894	235 287
Depreciation	387 845	374 534
General office expenses	629 798	529 205
Interest – National Education Fund	220 000	220 000
Insurance	94 286	99 078
Motor vehicle expenses	73 704	59 811
Printing and stationery	482 464	327 847
Salaries and benefits	3 628 906	3 068 704
Telephone and postages	374 781	366 179
Water, electricity and property levy	178 183	154 210
	<b>6 456 861</b>	<b>5 501 140</b>
Less Apportioned to	1 447 000	1 350 265
Examinations	700 000	700 000
National Education Fund	40 000	40 000
Practice Review	630 000	570 000
Auditing Standards	77 000	40 265
	<b>5 009 861</b>	<b>4 150 875</b>
<b>5. BOARD AND COMMITTEE EXPENSES</b>		
Board and Executive Committees	168 959	126 163
Accounting Practices Board	12 696	11 700
Education Committees	195 386	118 396
Investigating and Disciplinary Committees	249 669	160 908
	<b>626 710</b>	<b>417 167</b>
<b>6. LEGAL EXPENSES</b>		
General	196 593	112 679
Prior year provision reversed	(250 000)	–
	<b>(53 407)</b>	<b>112 679</b>

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

for the year ended 31 December 2002 (continued)

	2002 R	2001 R
<b>7. EXAMINATION EXPENSES</b>		
Administration expenses (note 4)	700 000	700 000
Invigilators' fees and hire of halls and equipment	42 007	61 617
Outsourced salary costs	40 000	80 000
Postage and miscellaneous expenses	76 807	40 368
Printing and stationery	127 953	96 013
Question composers' panel	40 848	40 000
Sundries	3 458	15 000
Umpires' and markers' fees	418 503	430 209
	<u>1 449 576</u>	<u>1 463 207</u>

**8. GROSS REMUNERATION OF CHIEF EXECUTIVE OFFICER**

Inclusive of salary and pension fund contributions	<u>707 166</u>	<u>520 000</u>
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**9. OPERATING LEASE COMMITMENTS**

There are no significant operating lease commitments.

**10. 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.

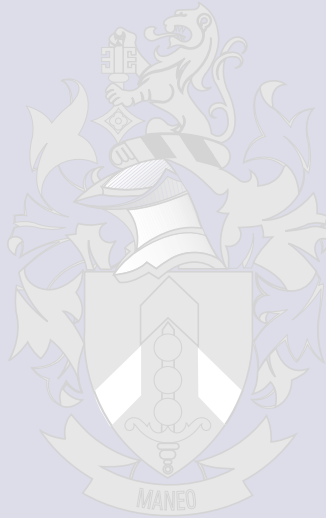
It is a condition of employment that any person who is permanently appointed in the service of the Board shall become a member of the fund.

**11. 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.

**12. COMPARATIVE FIGURES**

Comparative figures have been regrouped where necessary.



## **ADMINISTRATIVE OFFICES**

### **HEAD OFFICE**

MANEO, 7 Ernest Oppenheimer Avenue, Bruma, Johannesburg

### **POSTAL ADDRESS**

PO Box 751595, Garden View 2047

### **BRANCH OFFICES**

The Local Secretary, PO Box 408, Bloemfontein 9300

The Local Secretary, PO Box 4484, Cape Town 8000

The Local Secretary, PO Box 1098, Westville 3630

## THE STAFF OF THE BOARD

