

PUBLIC ACCOUNTANTS'
& AUDITORS' BOARD



ANNUAL REPORT
2003

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 The South African Institute of Chartered Accountants (SAICA) are not subject to the jurisdiction of the Board but are subject to the jurisdiction of SAICA.

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 SAICA regions 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

53rd ANNUAL REPORT 31 DECEMBER 2003

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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2003 MEMBERS OF THE PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD & SECRETARIAT



Back (L-R):

Mr ACB O'Flaherty (CEO); Mr WP du Plessis;
Prof A du Toit (alternate to Prof GK Everingham)

Middle (L-R):

Mr ID Patel (Chairman); Mr B Agulhas (Director: Auditing Standards);
MR CR Qually; Mr GJ le Roux; Ms CM Garbutt (Secretary);
Mr J van Rooyen (FSB); Ms AL Vest-Louw (Director: Education & Training);
Mr C Benjamin (Alternate to Auditor-General Mr SA Fakie)

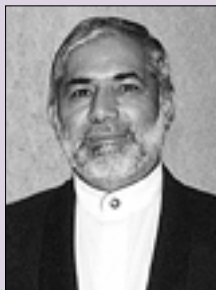
Front (L-R):

Ms J Bailey (Director: Practice Review); Prof C Koornhof; Ms S Zilwa;
Ms RE Benjamin-Swales (Vice-Chairman); Ms NF Mtoba; Ms EN Oelofse

Absent:

Mr S A Fakie (Auditor-General); Mr V Pillay (SARS); Mr CF Reid; Prof GK Everingham;
Mr IA Mamoojee (Treasury); Adv W Johnson (CIPRO); Ms PJ O'Connor (Director: Legal)

REPORT OF THE CHAIRMAN



The 2002 Annual Report drew attention to the appointment by the Minister of Finance of a “Ministerial Panel for the review of the Accounting Professions’ Bill” (the Panel). The Panel completed its report and this was released for public comment in October of 2003.

The Panel’s report was developed under widely drawn terms of reference provided by the Minister to address and advise on various matters impacting upon the integrity of financial markets, including corporate governance and the responsibilities of auditors.

The major focus of the Panel’s report and its recommendations is directed at all entities which impact upon the broader public interest.

The Panel’s report provides a principles’ based conceptual framework of recommendations that it considers necessary to enhance the corporate governance and reporting practices of public interest entities. The report includes recommendations on a range of matters that include the regulation of the public auditing profession; auditor independence; the responsibilities and liability of the external and internal auditors and the executive management and the audit committees of corporations; accounting standards and disclosure; as well as the streamlining of legislation.

The earliest expectation is that for the new legislation for the regulation of public auditors to be promulgated in 2005.

IMPLICATIONS FOR THE PAAB

The intention is for a new Act to be promulgated that will replace our current Public Accountants’ and Auditors’ Act, 1991. The new Act will regulate the public auditing profession. The PAAB is to be subsumed by a new regulatory body whose functions will be essentially the same as those of the current PAAB, but with a particular public interest focus and objective and with the statutory powers to fulfill its mandate. Funding of the new body should reflect a shared responsibility of stakeholders, including government.

THE PAAB’S RESPONSE

The PAAB has publicly expressed its support for the Panel’s report and has communicated to the Minister our desire to work closely with the ministry and other stakeholders to achieve the most orderly transition from the PAAB to the new regulatory body. The PAAB believes that it is well placed to give constructive input and assistance to achieve this. The Panel’s report draws attention to the considerable task that remains to ensure that the recommendations contained in the report are implemented not only through a redrafting of the Draft Accountancy Profession Bill, but other legislative changes that will require to be made to inter alia the Companies Act and the Financial Reporting Bill.

STRATEGIC INITIATIVES

As the statutory body charged with the regulation of the practising arm of the profession, the PAAB has

REPORT OF THE CHAIRMAN *continued*

continued to carry out its functions in pursuance of its major purpose to protect the financial interests of the public through the services rendered by registered accountants and auditors.

In addition to its routine and recurring activities, the PAAB has, over the past three years, embarked upon various strategic initiatives to strive for continuous improvement in its core activities as well as to prepare for the intended new legislative order as foreseen in the Draft Accountancy Profession Bill 2001. These have been well publicised in our quarterly Maneo news letters and in our Annual Reports over the period since these initiatives were embarked upon. These initiatives have included improvements to our disciplinary processes in line with the recommendations of the joint SAICA/PAAB disciplinary task team headed by Advocate John Myburgh SC; improvements to our corporate governance procedures in line with the King II recommendations; a more proactive approach to communications with stakeholders and the media; and the development and implementation of a recognition and monitoring system for the move to the current training and education arrangements with SAICA.

Our Board and its Executive Committee and Secretariat are resolute in their desire to continue the momentum of striving to carry out our statutory functions in the most effective and efficient manner possible throughout the transitional period to the new regulatory order.

EQUITY DEVELOPMENT

The PAAB remains fully committed to the transformation of our profession to be more representative of the population. It is very pleasing to note that the composition of our Board has over the past two years shown a significant shift to improved gender and race representation. More than a third of the 2004 Board members are female and half are from previously disadvantaged communities.

Increasing the number of black accountants and auditors is a national imperative and the PAAB, SAICA, the universities and the professional firms are all working aggressively to achieve this. The statistics for the 2003 public practice examination are analysed in the report of the Chairman of the Education Committee.

Our National Education Fund continues to support the CAs' Eden Trust with a contribution to its expenses of R160 000 and a pledge of R70 000 to support two bursaries. The PAAB's Black Advancement Programme that is financially sponsored by FASSET (The Financial and Accounting Services Sector Education and Training Authority), is an exciting ongoing initiative in this regard. Details of this are contained in the report of the Chairman of the Education Committee.

CONCERNS FOR THE FUTURE OF THE AUDITING PROFESSION

The Significant Features Summary contained in this report includes comparative statistics for registered accountants and auditors and for trainees. It continues to be of concern that the number of professionals registered to practise as auditors has remained static over the years. A major challenge for the future is to ensure that adequate numbers of talented qualified professionals are attracted to choosing public practice as a career option. Negative perceptions about the audit profession that have resulted from the current unprecedented wave of adverse publicity will require to be turned around in order for this to be achieved.



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 deficit for the year of R330 872 compares to a net surplus in 2002 of R198 259. The approximate breakeven position over the two years is in line with budget.

CHAIRMAN FOR 2004

I extend my congratulations to Ms. Ruth Benjamin-Swales who has been elected chairman for 2004 and to Mr. Charles Reid who has been elected vice-chairman. They will lead the PAAB in this challenging year of preparation and transition to the new regulatory order. I have every confidence that they will provide the necessary leadership and direction, supported by a capable team in their fellow board members and our secretariat.

DIRECTORATE AND SECRETARIAT

Mr. Claude O'Flaherty has continued to fulfil the role of CEO he took on a temporary basis. The appointment of a successor has been difficult to achieve during the protracted period of uncertainty about the future regulation of the auditing profession. Following the recent developments concerning this that are dealt with earlier in this report, the Board intends to move forward with this appointment in consultation with the Minister of Finance.

Ms. Karen Lauf, Director: Auditing Standards left our employ in July 2003 and the position has been taken up by Bernard Agulhas. We were fortunate to recruit Bernard who has long experience in auditing standards, both at SAICA and with the Office of the Auditor-General.

There have been no other changes in the directorate.

The Board acknowledges with gratitude the contribution made individually and as a team by the CEO, Claude O'Flaherty; the directors Bernard Agulhas, Jillian Bailey, Jane O'Connor and Angela Vest Louw; and all the staff to ensuring that the PAAB has operated efficiently and effectively in the fulfillment of its responsibilities.

ACKNOWLEDGEMENT OF CONTRIBUTION

I take this opportunity to thank my colleagues on the Board and the Executive Committee for their dedicated support and contribution during the past year. On behalf of the Board I would also like to thank all the members of the various committees for their efforts and contribution. Many people devote hundreds of hours annually to these activities on a voluntary basis and the profession owes them all a huge debt of gratitude for their contribution.

Ismail Patel
Chairman

MEMBERS OF THE BOARD

for the year to 31 December 2004

MEMBERS OF THE BOARD

MS R E BENJAMIN-SWALES : Ernst & Young (Chairman)

MR C F REID : Lowe & Co

MR S A FAKIE : Auditor-General

ADV W L JOHNSON : Companies and Intellectual Properties Registration Office

MR V PILLAY : South African Revenue Services

MR J VAN ROOYEN : Financial Services Board

MR S F NOMVALO : National Treasury

PROF C KOORNHOF : University of Pretoria

PROF D D VORSTER : Rand Afrikaans University

MR C R QUALLY : Deloitte.

MS S ZILWA : Nkonki Pierce

MR G J LE ROUX : Charteris & Barnes

MR I D PATEL : Gcabashe Inc

MR W P DU PLESSIS : AC Strydom & van Aswegan

MS E N OELOFSE : Oelofse Auditors

MS N F MTOBA : Deloitte.

SECRETARIAT OF THE BOARD

CLAUDE O'FLAHERTY
(Chief Executive Officer)

BERNARD AGULHAS
(Director: Auditing Standards)

JILLIAN BAILEY
(Director: Practice Review)

JANE O'CONNOR
(Director: Legal)

ANGELA VEST LOUW
(Director : Education & Training)



PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

SIGNIFICANT FEATURES SUMMARY

	2003	2002	2001	2000	1999
ACTIVITY INDICATORS (NUMBERS)					
Registered Accountants & Auditors at year-end	4 197	4 193	4 164	4 258	4 269
Trainee accountants at year-end	8 795	8 549	8 522	8 095	7 994
Entrants to final qualifying examination (PPE)	2 370	2 298	2 113	1 809	2 067
Disciplinary matters					
– investigations initiated	130	101	97	91	88
– investigation committee matters disposed of	104	86	81	68	85
– disciplinary committee hearings	8	13	10	5	12
Practice reviews performed	635	605	570	404	558
Number of staff	36	34	32	30	28
FINANCIAL INDICATORS (R000'S)					
Income					
Registration fees	542	362	339	443	352
Annual fees	6 452	6 060	5 690	5 157	4 201
Training contracts and levies	2 294	2 099	1 852	1 686	1 561
Accreditation and monitoring fees	145	130	120	120	202
Examination fees	1 587	1 269	1 077	825	746
Practice review fees	4 095	3 705	3 184	1 775	2 499
Disciplinary expense contributions	864	–	–	–	–
Interest	282	300	206	206	285
Education and training recovery	–	–	–	465	850
Total	16 261	13 925	12 468	10 677	10 696
Expenditure					
General and administration	7 177	5 865	5 231	5 295	4 318
Disciplinary expenses, net of recoveries	1 576	1 629	1 013	986	1 870
Practice review	4 365	3 648	3 217	2 117	2 912
Examinations	1 863	1 450	1 463	1 203	1 185
Auditing standards	1 611	1 135	611	–	–
Interest on finance lease	–	–	(149)	176	946
Total	16 592	13 727	11 386	9 777	11 231
(Deficit)/surplus	(331)	198	1 082	900	(535)
Accumulated funds and reserves					
Accumulated funds	1 217	2 242	2 506	2 066	1 200
National Education fund	2 660	2 633	2 630	2 703	3 077
Disciplinary reserve	2 097	1 402	940	297	264
Total	5 974	6 277	6 076	5 066	4 541

AUDITING STANDARDS BOARD



J Kelly (<i>Chairman</i>)	- PricewaterhouseCoopers Inc
GD Coppin (<i>Vice-Chairman</i>)	- Ernst & Young
NG Adams	- Grant Thornton
JM Conradie	- Office of the Auditor-General
WH De Jager	- Financial Services Board
FJ Malherbe	- Deloitte.
CR Qually	- Representing the PAAB
WF Urmson	- JSE Securities Exchange South Africa
HE Wainer	- Representing the Department of Trade & Industry
CF Wiese	- South African Reserve Bank

The year 2002 will be remembered as one in which the auditing profession was placed under intense scrutiny. When it appeared that matters could only improve in 2003, further collapses of high-profile entities necessitated the profession to do some more introspection into the behaviour, ethics and integrity of auditors. This was not entirely voluntary, but under pressure from greater powers endeavouring to protect the public interest while restoring confidence in the financial reporting process.

Although auditors have not necessarily been the guilty parties in these collapses, the dynamic environment in which businesses presently operate, combined with auditing and accounting standards becoming more complex and a tightening of regulation, have created new challenges for auditors. As international trends in oversight and regulation continue to influence local developments, the Auditing Standards Board of the PAAB monitored the major reforms and framed its processes on those changes considered appropriate for its members with the ultimate objective of maintaining high quality standards and practices in auditing and assurance.

INTERNATIONAL DEVELOPMENTS

Given the loss of confidence in the profession as a whole, the International Federation of Accountants (IFAC) had to take some major steps in driving reform, including reform in its audit standard-setting structures. As part of this process it carried out a review of its governance structures and regulatory responsibilities, resulting in a series of proposals which IFAC considers to be critical in strengthening the accountability of the international profession and building investor confidence in financial reporting and global securities markets. These proposals are aimed at a more transparent standard-setting process, wider consultation in the standard-setting process, regulatory monitoring and public interest oversight. IFAC also issued a report in August 2003 which deals with rebuilding public confidence in financial reporting and provides an international perspective on the problem of the loss of credibility in the profession.

LOCAL DEVELOPMENTS

Based on international and local developments, the Auditing Standards Board approved various proposals to reform audit standard-setting in South Africa. The aims of the proposals are consistent with those of IFAC and include streamlining the local approval process, establishing a Consultative Advisory Group and establishing a joint research function to address thought leadership projects. The objectives of the Consultative Advisory Group include pro-actively identifying matters for the standard-setter's attention, improved oversight, demonstrating the importance of protecting the public interest and increasing participation of important role-players who are affected by auditing standards and practices. The thought leadership projects are aimed at developing further guidance on audit pronouncements which auditors might find difficult to implement in practice.

AUDITING STANDARDS BOARD *continued*

It is accepted that, although measures have been implemented by governments, regulators and accountancy bodies globally to strengthen governance and financial reporting, these measures will be fruitless if those who have to comply do not behave in accordance with the spirit of the requirements. Furthermore, the accountancy profession alone cannot remedy the current situation – corporate managers, board structures, audit committees, regulators and other participants in the financial reporting process have an equally important role to play. We do, however, believe that adoption of international standards could go some way in alleviating this situation and the Auditing Standards Board has agreed in principle that South Africa will, subject to following due process, converge with international standards for implementation by January 2005.

PRONOUNCEMENTS ISSUED

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

- SAAS 200 Objective and General Principles Governing an Audit of Financial Statements,
- SAAS 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement,
- SAAS 330 The Auditor's Procedures in Response to Assessed Risks,
- SAAS 500 Audit Evidence,
- SAAPS 1005 The Special Considerations in the Audit of Small Entities, and
- SAAPS 1014 Reporting by Auditors on Compliance with International Financial Reporting Standards.

The issue of these pronouncements is in line with the issue of pronouncements by the International Auditing and Assurance Standards Board.

OTHER PROJECTS

During 2003 PAAB issued a guide on money laundering control to coincide with the release of new legislation by the Financial Intelligence Centre. The guide is specifically aimed at registered accountants and auditors and attempts to clarify some of the many complex issues which arise from the new legislation.

A project to update the existing guidance on the application of section 20(5) of the Public Accountants' and Auditors' Act, 1991, dealing with material irregularities, by registered accountants and auditors, was started during the second half of 2003 and it is anticipated that the new guidance will be issued during 2004.

The Auditing Standards Department will continue to be supported by the task forces of the Auditing Standards Committee, and will continue to prioritise projects in order to manage the extensive work programme.

APPRECIATION

The Auditing Standards Board wishes to thank the members of the Auditing Standards Committee and its task forces for their invaluable contribution to the work of the Board.

I also wish to record my thanks to the staff of the Auditing Standards Department and my fellow members of the Auditing Standards Board for their dedication and support throughout the year.

John Kelly
Chairman



INVESTIGATION COMMITTEE



H Griffiths (*Chairman*)

IJ de Villiers

KN Kooverjee

CM Read

J Rhynes

M Sindane

TP van der Mescht

WFT van Schalkwyk

A De Valence

R Morar

– PricewaterhouseCoopers Inc

– De Villiers Myburgh

– MSGM Masuku Jeena

– KPMG Inc

– Deloitte.

– Ernst & Young

– Wolmarans Kruger

– Van Schalkwyk & Vennote

– GC Ford & Co Inc

– Roshan Morar & Associates

PROCEDURE

If complaints against registered accountants and auditors cannot be conciliated by the directorate itself right at the start, these are referred to the Investigation Committee. If, after investigation, these matters cannot be conciliated by the committee, discharged with, in terms of the Disciplinary Rules, or dealt with by consent order, the matter must proceed to a hearing before the Disciplinary Committee.

The Investigation 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 practitioner 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.

YEAR UNDER REVIEW

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

During the course of the year 130 new investigations were initiated. These include allegations of improper conduct received by the directorate, as well as investigations initiated by the PAAB itself.

INVESTIGATION COMMITTEE *continued*

This figure represents only matters where a case file is opened, and excludes matters conciliated on an informal basis, or at an early stage, without the necessity of a case file being opened. These investigations concerned practitioners across the spectrum from the smallest to the largest firms, and fell into the following categories:

- 15 concerning negligence in general terms
- 11 concerning negligence in an audit, in general terms
- 8 concerning the audit of an attorney's trust account
- 1 concerning the audit of an estate agent's trust account
- 5 concerning deceased estates
- 11 concerning tax
 - 1 concerning the failure to report a material irregularity
- 11 concerning referrals from the GAAP monitoring panel
 - 4 concerning overcharging
 - 7 concerning failure to respond to communications
 - 1 concerning refusal to resign/hand over documents
- 6 concerning alleged dishonesty of all kinds
- 5 concerning impaired independence
- 10 were trainee accountant related including complaints lodged both by and against trainee accountants
- 23 arising out of practice review
 - 1 arising out of a partnership dispute

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

- 1 concerning signing an amended founding statement without authorisation
- 1 concerning unauthorised set-off of fees against a tax refund
- 1 concerning failure to account to client
- 1 concerning failure to supervise staff behaviour
- 1 concerning malicious withdrawal of financial statements
- 1 concerning boorish behaviour
- 1 concerning failure to pay an account from a fellow professional
- 1 concerning failure to detect a 'scam'
- 1 concerning failure to pay agreed witness fees
- 1 relating to a money market investment practice which collapsed

Excluding matters which proceeded to a disciplinary hearing, 104 cases were disposed of during the year. Of these cases 23 were conciliated by the directorate (after the opening of a case file, but before the matter was tabled before the Committee); did not comply with the requirements for the

INVESTIGATION COMMITTEE *continued*

formulation of a proper complaint; or were not proceeded with by the Investigation Committee for various reasons including conciliation by the Committee or the death of the accused. The remaining **81** cases were disposed of by the Committee as follows:

MATTERS DISMISSED IN TERMS OF RULE 3.7

[the complaint not disclosing a prima facie case of improper conduct],

- **2** concerning alleged abuse of position

MATTERS DISCHARGED

- **20 in terms of Rule 3.9.1** [the Committee being satisfied that the practitioner had given an acceptable explanation regarding the alleged conduct]
 - **8** alleging negligence
 - **1** alleging failure to report a material irregularity
 - **1** concerning administration of a deceased estate
 - **1** alleging overcharging
 - **1** alleging failure to respond to communications
 - **1** alleging signing an amended founding statement without authorisation
 - **2** alleging misrepresentation
 - **3** trainee accountant related
 - **1** alleging malicious reporting of a material irregularity
 - **1** referral from the GAAP monitoring panel
- **8 in terms of rule 3.9.2** [the Committee being satisfied that the alleged conduct – even if proved – would not constitute improper conduct]
 - **1** alleging negligence
 - **1** tax related
 - **1** concerning administration of a deceased estate
 - **1** concerning an attorney's trust account audit
 - **1** alleging the failure to report a material irregularity
 - **1** alleging theft
 - **1** alleging failure to account to client
 - **1** alleging incorrect disclosure
- **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]
 - **1** alleging negligence
 - **1** concerning administration of a deceased estate

INVESTIGATION COMMITTEE *continued*

- 1 alleging refusal to resign
- 2 alleging dishonesty
- 1 alleging misrepresentation
- 1 alleging lack of independence
- 1 concerning behaviour of a staff member

PRACTITIONERS FOUND GUILTY

- 10 practitioners were **cautioned**, by consent. Of these matters
 - 3 concerned negligence
 - 3 were tax related
 - 1 concerned inadequate communication with client
 - 1 concerned the rendition of an account to a joint client without prior consultation with the joint auditor
 - 1 concerned the unauthorised deposit of a client's tax refund cheque and set off of fees therefrom
 - 1 was trainee accountant related
- 3 practitioners were **reprimanded** by consent. Of these matters
 - 2 concerned negligence
 - 1 concerned a conflict of interest
- 30 practitioners were **fined** by consent. Of these matters
 - 1 related to questionable share transactions (fined R20 000 suspended on conditions)
 - 1 related to failure to report a material irregularity (fined R20 000)
 - 7 related to negligence (the fines were R50 000; R30 000; R10 000; R10 000; R50 000; R20 000 – R10 000 of which suspended on conditions; and R10 000 respectively)
 - 1 related to a deceased estate (fined R3 000)
 - 4 related to the audit of an attorney's trust account (in two cases the fines were R25 000; in the other two cases the fines were R10 000 – R5 000 of which suspended on conditions)
 - 2 related to failure to respond to communications (the fines were R5 000 and R2 000 respectively)
 - 1 related to holding out to be non-attest when the practitioner was indeed performing the attest function (fined R10 000)
 - 1 related to operating a 'trust account' and negligence (fined R10 000)
 - 12 arose out of practice review:
 - ♦ 1st cycle 2nd review: 1 matter (fined R15 000 suspended on conditions)
 - ♦ 1st cycle 3rd review: 2 matters (one fined R15 000 suspended on conditions; and the other fined R50 000 – R25 000 of which suspended on conditions)
 - ♦ 2nd cycle 2nd review: 5 matters (one fined R30 000 – R15 000 of which suspended on conditions; one fined R10 000 suspended on conditions; two fined R20 000 – R10 000 of which

INVESTIGATION COMMITTEE *continued*

suspended on conditions; and one fined R10 000 -- R5 000 of which suspended on conditions)

- ♦ *2nd cycle 3rd review*: 4 matters (one fined R30 000, – R15 000 of which suspended on conditions; and three fined R20 000 – R10 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. The Committee was not called on to deal with any such cases during the year under review.

The escalating costs of the disciplinary process, especially in a constitutional democracy, continues to cause concern not only in South Africa but in many other jurisdictions. There is no simple or glib solution to the problem. However, this year for the first time, the Investigation Committee has incorporated a voluntary contribution towards the costs of the investigation into certain of its consent orders. Four such orders were made in the sums of R50 000; R5 000; R5 000 and R65 000 respectively.

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. This occasionally requires members meeting between themselves, in between meetings. This year the PAAB implemented the recommendations of the Myburgh Commission, and consequently the Committee includes two members nominated by SAICA. I believe that this has been an unqualified success. It also gave the Committee the opportunity to expand its numbers by two.

Thank you to all the Committee members for their commitment and especially their willingness to contribute hours and hours of preparation before each meeting. Few people other than those involved have any idea of the amount of time consumed by the work of this Committee.

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
Chairman

DISCIPLINARY COMMITTEE

report for the year ended 31 December 2003



S J van Maaren (<i>Chairman</i>)	– S J van Maaren
B Abrahams	– Brian Ellis Abrahams
D I Boake	– Boake Inc
F M Bruce-Brand	– Meyer Wilson Marsh Inc
J S W Clulow	– Alan H English & Co
J H du Plessis	– Geyser & du Plessis
W P du Plessis	– AC Strydom & van Aswegen
B J Eaton	– RSM Betty & Dickson
N Gerber	– Morrison Murray
A Jagga	– Deane & Thresher
G A Noble	– Hills Howard
A C W Norval	– Norval & Co Inc
I D Patel	– Gcabashe Inc
C F Reid	– Lowe & Co
H C Staple	– PricewaterhouseCoopers Inc

PANEL OF CHAIRMEN
The Hon. G Friedman
The Hon. C Plewman
Adv P McNally
Adv A Dodson
Mr D Gihwala

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 accountants and auditors, which were incapable of resolution by the Investigation Committee. 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 practitioner.

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 practitioner 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. The wording of the Act is such that it is left to the discretion of the Disciplinary Committee to consider publication.

It is important to remember that the power to investigate, hear and punish incidences of unprofessional conduct has been assigned to the Investigation and Disciplinary Committees, and that the Board is not empowered to amend or withdraw any decision arrived at, or anything done by, one of those committees in the exercise of those functions. This is in terms of section 10(3) of the Act.

The Committee operates differently from other PAAB committees in that the entire Committee does not get involved in each hearing. The members of the Disciplinary Committee are senior members of the profession with a wide range of expertise and experience. Effectively the Committee forms a pool of members from which a panel of five is drawn to hear any particular case. This is to overcome issues such as conflict of interest, expertise required and availability. Furthermore, although I am the chairman of the Committee, I do not chair hearings. In addition to the Committee 'pool' of RAAs, there is a further panel of five chairmen, any one of whom can be called upon to chair a hearing. This is a new development which was instituted in the year under review, as a result of the Myburgh Commission recommendations.

DISCIPLINARY COMMITTEE *continued*

Chairmen are now all independent, remunerated for their services, unlike other Committee members, and are senior legal professionals being either retired judges, or advocates or attorneys of 10 years' experience. We have been extremely fortunate to be availed of the services of some exceptionally skilled people and this has enhanced the status of this Committee.

YEAR UNDER REVIEW

CASES HEARD

The Disciplinary Committee was called on to hear 8 matters during the year, as follows. Some of these involved the consolidation of more than one complaint (case) against the practitioners concerned.

A further development this year has been the far more detailed reporting of cases heard in the PAAB's publication '*Maneo*', which is widely distributed and publically available on our website. Accordingly, only the following summary is published in this report:

CASE ONE:

This case concerned the audit of an attorney's trust account. The practitioner was found guilty of one charge and sentenced to a fine, suspended on certain conditions. Publication in *Maneo* was ordered as well as a contribution towards costs.

CASE TWO:

This case was a consolidation of two files and concerned the practitioner's professional attitude towards his clients, including his billing and recovery procedures. The practitioner was found guilty of six charges and sentenced to suspension from practice for two years, which was itself suspended on conditions, as well as a fine. Publication in *Maneo* was ordered as well as a contribution towards costs.

CASE THREE:

This case arose out of practice review. The practitioner was found guilty of two charges and sentenced to suspension from practice for three years, which was itself suspended on conditions, as well as a fine. Publication in *Maneo* was ordered as well as a contribution towards costs.

CASE FOUR:

This case concerned a false reference given for a work seeker. The practitioner was found guilty of one charge and sentenced to removal from the register, which was suspended on conditions, as well as a fine. Publication in *Maneo* was ordered as well as a contribution towards costs.

CASE FIVE:

This case arose out of practice review. The practitioner was found guilty of three charges and sentenced to removal from the register, which was suspended on conditions, as well as a fine. Publication in *Maneo* was ordered as well as a contribution towards costs.

CASE SIX:

This case concerned the audit of an attorney's trust account. The practitioner was found guilty of three charges and sentenced to a fine. Publication in *Maneo* was ordered as well as a contribution towards costs.

DISCIPLINARY COMMITTEE *continued*

CASE SEVEN:

This case was a consolidation of three complaints and concerned the practitioner's professional attitude towards his clients and their work. The practitioner was found guilty of six charges and sentenced to removal from the register, which was suspended on conditions. Publication in *Maneo* was ordered as well as a contribution towards costs.

CASE EIGHT:

This case was a consolidation of three complaints and concerned certain financial irregularities as well as a deceased estate and practice review. The practitioner was found guilty of five charges and sentenced to suspension from practice for a period of 12 months, as well as removal from the register (which removal was suspended on conditions). Publication in *Maneo* was ordered as well as a contribution towards costs.

GENERAL

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

The disciplinary procedure can be divided into two main areas: the Investigation Committee procedures, and the Disciplinary Committee hearings.

Whilst the Act gives the practitioner the right to a fair hearing it is of concern that every so often a case, the nature of which should not have necessitated a hearing, comes before the Disciplinary Committee, which matter could, and should, have been resolved at the Investigation Committee level. In these cases the practitioner has often protested his innocence to the Investigation Committee, which in its deliberations could not find the practitioner innocent as pleaded, thereby necessitating a hearing. What is more surprising is that in a number of these cases the practitioner 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 reflect that not all practitioners are adhering to the auditing standards. It is imperative that practitioners, if they wish to perform the attest function, 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 climate of constitutional entitlement in which we live does however by its very nature tend to lengthen the time until a matter is finally determined.

As will be noted from the summaries above, and from the Significant Features Summary contained elsewhere in the Annual Report, the fines imposed and costs recovered this year were substantial.

APPRECIATION

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

EDUCATION COMMITTEE



Prof JE Rowlands (*Chairman*)
M D Engelbrecht (*Vice-Chairman*)
SG Ball
Prof D Forsyth
SE Lehapa
S McGregor
JS Mthimunya
B Patel
Prof L J Stainbank
GE Teare
LIN Tomlinson
F Tonelli
Prof SD van Esch
RE Wadsworth
H Wessels
TS Zakuza

- University of Port Elizabeth
- PricewaterhouseCoopers Inc
- PricewaterhouseCoopers Inc
- University of Port Elizabeth
- Deloitte.
- KPMG Inc
- AloeCap (Pty) Ltd
- Grant Thornton
- University of Natal
- KPMG Inc
- Ernst & Young
- PricewaterhouseCoopers Inc
- University of the Witwatersrand
- Deloitte.
- PricewaterhouseCoopers Inc
- TS Zakuza & Co

CHAIRMAN'S REPORT

The year under review proved challenging for the education committee (EDCOM), particularly with regard to its monitoring role, the ongoing development of the Public Practice Examination and matters related to transformation of the profession. I am pleased to report that the committee made good progress in these and other responsibilities.

THE MONITORING COMMITTEE

The Monitoring Committee (MCOM) issued the final monitoring reports with respect to the 2002 recognised programmes of The South African Institute of Chartered Accountants (SAICA). 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.

The monitoring process allowed for several aspects of common concern to be identified and where appropriate for recommendations to be made. Consensus was reached with SAICA on most issues of principle that the MCOM raised and continued recognition of SAICA's academic, education, training and examination programmes for admission to the Public Practice Examination (PPE) were accordingly confirmed.

With regards to the monitoring of the core assessment programme of SAICA, agreement could not be reached on a number of matters. These matters will be addressed in the course of ongoing engagement with SAICA and the MCOM is confident of their resolution.

EDUCATION COMMITTEE *continued*

EXAMINATIONS

A record number of 2370 (2002:2298) candidates wrote the Public Practice Examination (PPE) set by the PAAB in November 2003. Of these 1 452 (2002: 1372) passed, representing a pass rate of 61% (2002: 60%). The pass rate for candidates who wrote for the first time was 70% (2002: 68%). Five candidates were awarded honours for achieving a pass mark of over 75%.

Comments related to the examination paper, received from a range of parties, were generally positive. A process of independent review of the examination, including the marking of scripts, has been introduced this year. This process is intended to provide an independent assessment of the PPE with a view to ongoing improvement. The chairman of the examination sub-committee, Mr Herman Wessels, and his committee are commended for their efforts in preparing and marking the 2003 PPE.

TRANSFORMATION OF THE PROFESSION

The pass rate achieved by the total number of black candidates (African black, Coloured and Indian) for the 2003 PPE was disappointing. A total of 334 (2002: 351) black candidates passed. This equates to a pass rate of 51% (2002: 56%).

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. The Financial Accounting and other Services (FASSET) Sector Education and Training Authority (SETA) once again provided funding for a Black Advancement Bridging Programme for those black candidates (including African Black, Coloured and Indian) who have been unsuccessful in a previous attempt at the PPE. Of the 80 candidates who attended the programme and wrote the PPE in November 2003, 35 passed.

OPEN BOOK EXAMINATIONS

Over the past few years the committee has conducted extensive research into open-book assessment with a view to conducting the PPE in this form. After broad consultation with SAICA, registered training offices and providers, the EDCOM forwarded its proposed open-book assessment policy to all stakeholders for comment.

The policy document outlined the committee's underlying philosophy of "knowledge management" which refers to the transforming of data into meaningful information to be effectively put to use. The relevance of this for open-book assessment is entrenched in the idea that not all professional knowledge can be held in ones head. It consequently stands to reason that learners should not be expected to recall all information by heart. Certain resource materials, particularly those that change regularly, should be allowed into the examination room.

EDUCATION COMMITTEE *continued*

The responsibility ultimately lies with the candidates to effectively prepare his/her understanding of the data in order to find it quickly and use it productively. Knowledge management is therefore when we refer to an individual's ability to effectively access data, transform it into meaningful information and use it productively. The situation becomes one of placing more emphasis on understanding and application and less on the regurgitation of data.

In 2003 the committee received feedback on the proposed policy from stakeholders. The comments received were mostly complimentary and positive with a few suggestions of a logistical nature. Based on the positive response from the relevant stakeholders the committee agreed that open-book examinations would be instituted from 2004.

In order to facilitate the process the committee published a booklet which has been forwarded to all providers, training offices, candidates and other relevant stakeholders. The booklet outlines the committee's rationale behind open-book assessment and gives valuable information on examination preparation and technique.

The committee is confident that all candidates, providers and training offices have been sufficiently informed and that the open-book examination of 2004 will be successful.

DRAFT APPLICATION BY ACCA

In October 2002, the Association of Chartered Certified Accountants (ACCA) submitted a draft application to the PAAB seeking the right for certain of their members to perform the attest function in South Africa. The application took the form of a self-assessment in anticipation of the full accreditation model proposed in the draft legislation.

The draft application has received close attention from the EDCOM with a number of meetings being held with ACCA representatives and the formation of an Independent Review Panel. The Ministerial Panel Report released in September 2003 influenced the basis for consideration of the application determined by the EDCOM.

The process has proceeded smoothly, but a number of issues have arisen recently which will require the attention of both the EDCOM and ACCA.

NATIONAL QUALIFICATIONS FRAMEWORK (NQF)

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

EDUCATION COMMITTEE *continued*

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 committee has also ensured that through its representation on the relevant National Standards Body, the interests of the particular stakeholder group were addressed.

MEMBERS

Mr S McGregor has stepped down as chairman of SAICA's Education Committee and accordingly withdrew from the EDCOM. He will be replaced by Mr JJ Njeke, the incoming chairman of SAICA's Education Committee.

Mr L Tomlinson and Mr G Teare joined the EDCOM during the year.

APPRECIATION

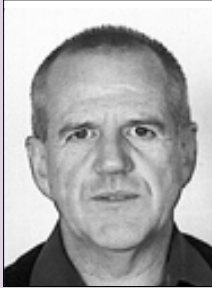
My sincere gratitude is extended to the committee members who gave unselfishly of their time and expertise during the year. Without the commitment of all members our achievements this year would not have been possible.

I also wish to extend my thanks to the Director: Education and Training, Ms Angela Vest Louw and her staff for their dedication and commitment.

Professor J E Rowlands

Chairman

PRACTICE REVIEW COMMITTEE



F Timmins (<i>Chairman</i>)	– Grant Thornton
CR Qually	– Deloitte.
P J Cottrell	– Morrison Murray
S Naidoo	– SAB & T Inc
P J Brink	– KPMG Inc
G J Oberholster	– Ensins

Recent years have seen increased focus internationally on the quality of financial information and on quality assurance. During 2003 IFAC issued a proposed Statement of Membership Obligations (SMO) on Quality Assurance. This SMO addresses quality control at three levels: the engagement level, the firm level and the regulatory level. South Africa has had a mandatory quality assurance review program in place since 1994. Registered Accountants and Auditors performing the attest function are subject to practice review at least once in a five-year cycle.

During 2003 a total of 635 reviews were performed. As at 31 December 2003, a total of 3885 first cycle reviews had been completed of which 1018 were repeat reviews, and a total of 1985 second cycle reviews had been completed of which 461 were repeat reviews.

During the year a further 24 practitioners were referred to the Investigation Committee, bringing the cumulative number of referrals to 151. The most common reasons for referral were failure to keep adequate audit working papers and/or to obtain adequate audit evidence. The findings of the Investigation Committee and the Disciplinary Committee indicate that appropriate action is being taken against practitioners who fail to adhere to standards.

The more common critical areas of non-compliance with South African Auditing Standards during the second review cycle were in the following areas:

1. Income statement verification, particularly in the areas of completeness of income testing and validity of expense testing.
2. Planning risk identification.
3. Verification of accounts payable and provisions.
4. Property, plant and equipment verification, including verification of ownership and assessment of carrying amount.
5. Investment verification, including title and assessment of the carrying amount.
6. Inventory valuation verification, including inadequate documentation relating to costings, pricing tests and reasonableness of the obsolescence provision.
7. Verification of accounts receivable and the reasonableness of the provision for doubtful debts.

PRACTICE REVIEW COMMITTEE *continued*

8. Going concern considerations.
9. Subsequent events reviews.
10. Analytical review, in particular corroboration of the explanations obtained for fluctuations and verification of bases used for predictions.
11. Verification of intangible assets and justification for the carrying amount.
12. Verification of inventory existence, including quantities, a consideration of all locations and categories for sampling, testing through to the final inventory listing and resolving differences.

In addition to monitoring quality, Practice Review has assisted practitioners by holding 3 hour interactive discussion groups which advise on risk based auditing and quality control procedures at firm level. Feedback from these discussion groups is very positive.

The third review cycle, which is planned to commence in January 2005, will introduce major changes to the practice review process. More emphasis will be placed on “public interest” attest assignments. The current 5 year cycle will be replaced with a 3 year cycle for the financial statements of “public interest” auditors and a 6 year cycle for practitioners not involved in providing assurance on public interest entities. Public interest entities will include listed companies and their subsidiaries, public entities, unit trusts, asset managers, retirement, pension and provident funds and medical schemes. The third review cycle will also include a new top down review of overall systems of quality control in place for firms who have public interest clients. This top down review will also take place every three years.

I record my thanks to the Practice Review staff who have performed diligently and consistently throughout 2003. I also thank my committee members for their continuing involvement in and dedication to the practice review process.

Frank Timmins
Chairman

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

CORPORATE GOVERNANCE STATEMENT

for the year ended 31 December 2003

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 36 persons.

The Board appoints a smaller 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

CORPORATE GOVERNANCE STATEMENT

for the year ended 31 December 2003 continued

through the directors of the departments concerned, and to the Board on an annual basis through their respective chairpersons.

AUDIT COMMITTEE

The Board has a two-member Audit Committee comprised of persons not registered as Accountants and Auditors under the Act. The Audit Committee operates in accordance with terms of reference authorised by the Board and the auditors have unrestricted access to the committee members.

The Audit Committee met twice in respect of the year to review the matters arising from the half year review, the internal risk analysis, the external audit plan and budget, the matters arising from the completed audit, and the fair presentation of the financial statements presented to the Board.

INTERNAL CONTROL AND INTERNAL AUDIT

The Board and its Chief Executive Officer assume responsibility for effective systems of internal control. The PAAB is too small to warrant a separate internal audit function; in lieu thereof, the external auditors perform an interim review of the operation of the system of internal control.

EQUITY DEVELOPMENT AND EMPLOYEE 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 2003

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 and ensures 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 Statements of Generally Accepted Accounting Practice, and include amounts based on judgments 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 16 March 2004 and are signed on its behalf by:

Ismail Patel

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 2003. 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 statements require that we plan and perform the audit to obtain reasonable assurance that the Financial Statements are free of material misstatements. 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 2003 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.

Registered Accountants and Auditors

Chartered Accountants (S.A.)

Per KR Lydall

Director

16 March 2004

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

BALANCE SHEET

at 31 December 2003

	Note	2003 R	2002 R
ASSETS			
Non-current assets		4 674 352	4 974 106
Land and building	2.1	4 264 972	4 411 459
Furniture, equipment and motor vehicle	2.2	409 380	562 647
Current assets		2 675 154	2 947 768
Accounts receivable and prepayments		1 428 282	1 066 267
Short-term bank deposits		855 405	1 662 963
Cash at bank and in hand		391 467	218 538
		7 349 506	7 921 874
National Education Fund investment	3	2 659 873	2 632 714
Total assets		10 009 379	10 554 588
RESERVES AND LIABILITIES			
Reserves		5 973 553	6 277 266
<i>Board</i>		3 313 680	3 644 552
Accumulated funds		1 216 600	2 242 472
Disciplinary reserve fund		2 097 080	1 402 080
<i>National Education Fund</i>		2 659 873	2 632 714
Current liabilities		4 035 826	4 277 322
Accounts payable		1 588 161	1 292 660
Fees in advance		447 665	951 442
National Education Fund	3	2 000 000	2 033 220
Total reserves and liabilities		10 009 379	10 554 588

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

INCOME STATEMENT*for the year ended 31 December 2003*

	Note	2003 R	2002 R
REVENUE			
Fees		9 433 245	8 650 992
Registrations		542 175	362 340
Annual		6 451 951	6 059 752
Training contracts and levies		2 294 119	2 098 900
Monitoring fee		145 000	130 000
Disciplinary expense contribution		864 000	–
Interest		281 651	299 506
		10 578 896	8 950 498
EXPENDITURE			
General and administration		7 176 813	5 865 614
Administration expenses	4	6 065 464	5 009 861
Board and committee expenses	5	376 809	377 041
Legal expenses	6	95 301	(53 407)
Local secretaries' expenses		122 636	116 088
Public relations		121 823	180 868
Publications		394 780	235 163
Disciplinary expenses		1 576 435	1 628 609
Committee expenses		375 733	249 669
Legal and other expenses		2 459 476	1 819 564
Cost awards		(423 051)	(229 124)
Disciplinary fines		(695 000)	(211 500)
Income from workshops		(140 723)	–
Practice review		270 404	(57 156)
Practice review fee income		(4 094 669)	(3 705 198)
Salaries and direct expenses		3 634 073	3 018 042
Allocated expenses	4	731 000	630 000
Auditing standards		1 610 887	1 134 677
Salaries, travel and other direct expenses		1 510 887	1 057 677
Allocated expenses	4	100 000	77 000
Examinations		275 229	180 495
Entrance fees and other income		(1 587 247)	(1 269 081)
Expenses	7	1 862 476	1 449 576
		10 909 768	8 752 239
(DEFICIT)/SURPLUS FOR THE YEAR		(330 872)	198 259

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

STATEMENT OF CHANGES IN RESERVES*for the year ended 31 December 2003*

	National Education Fund R	Accumulated Funds R	Disciplinary Reserve Fund R	Total R
Balance at 1 January 2002	2 630 000	2 505 713	940 580	6 076 293
Surplus for the year	2 714	198 259	–	200 973
Transfer to/(from) reserve				
– disciplinary fines	–	(211 500)	211 500	–
– additional amount	–	(250 000)	250 000	–
Balance at 31 December 2002	2 632 714	2 242 472	1 402 080	6 277 266
Balance at 1 January 2003	2 632 714	2 242 472	1 402 080	6 277 266
Surplus/(deficit) for the year	27 159	(330 872)		(303 713)
Transfer to/(from) reserve				
– disciplinary fines	–	(695 000)	695 000	–
Balance at 31 December 2003	2 659 873	1 216 600	2 097 080	5 973 553

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

CASH FLOW STATEMENT*for the year ended 31 December 2003*

	Note	2003 R	2002 R
Cash flows generated from operating activities			
Net deficit for the year		(303 713)	200 973
Board		(330 872)	198 259
National Education Fund		27 159	2 714
<i>Adjustment for:</i>			
– depreciation	4	369 502	387 845
– interest income		(342 031)	(354 216)
Operating deficit before working capital changes		(276 242)	234 602
Working capital changes		(570 291)	35 748
– increase in accounts receivable		(362 015)	(54 360)
– decrease in accounts payable and fees in advance		(208 276)	90 108
Cash flows utilised from operations		(846 533)	270 350
Interest income		342 031	354 216
Net cash outflow from operating activities		(504 502)	624 566
Cash outflow on investing activities			
– additions to equipment	2.2	(69 748)	(198 032)
Net decrease in cash and cash equivalents		(574 250)	426 534
Cash and cash equivalents at beginning of year		2 480 995	2 054 461
Cash and cash equivalents at end of year		1 906 745	2 480 995
<i>Comprising:</i>			
National Education Fund			
Bank deposit	3	659 873	599 494
Public Accountants' and Auditors' Board			
Bank deposits		855 405	1 662 963
Cash		391 467	218 538
		1 906 745	2 480 995

NATIONAL EDUCATION FUND
INCOME STATEMENT

for the year ended 31 December 2003

	Note	2003 R	2002 R
REVENUE			
Bridging programme funding		681 900	497 216
Interest			
– Board		250 000	220 000
– Bank		60 380	54 710
		<u>992 280</u>	<u>771 926</u>
EXPENDITURE			
Portion of Board's education and administration expenses		30 000	40 000
Grants		230 000	210 000
CAs' Eden Trust: Contribution to expenses		160 000	160 000
Bursary awards		70 000	50 000
Examination bridging programme		681 900	497 126
Meetings and other expenses		6 872	6 256
Publications – SA Journal of Accounting Research		16 349	15 740
		<u>965 121</u>	<u>769 212</u>
SURPLUS FOR THE YEAR		<u>27 159</u>	<u>2 714</u>

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2003***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 Non-current assets, other than land carried at cost, is 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 A disciplinary reserve fund has been established to protect the operating capacity of the Board against the impact of unforeseen exceptional disciplinary costs which may result in the future. Disciplinary fines are transferred to the disciplinary reserve fund and additional amounts may, from time-to-time, be transferred from accumulated funds to the disciplinary reserve fund.
- 1.5 Financial instruments carried in the balance sheet are measured as follows:
- 1.5.1 Bank deposits and cash, accounts receivable at fair value.
- 1.5.2 Accounts payable and fees in advance at the cost of the legal or constructive obligations.

2. NON-CURRENT ASSETS

	2003 R	2002 R
2.1 Land and buildings	4 264 972	4 411 459
Cost	5 389 020	5 389 020
At beginning of year	5 389 020	5 389 020
Accumulated depreciation	1 124 048	977 561
At beginning of year	977 561	830 927
Charge for the year	146 487	146 634
The land and buildings are situated at Erf 201 Bruma Township. Buildings are valued every 5 years on the net existing use value by independent valuers. As at 31 December 2000, 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 2003 (continued)*

	2003 R	2002 R
2.2 Furniture, computers, equipment and motor vehicle	409 380	562 647
2.2.1 Furniture, computers and equipment	397 380	550 647
Cost	2 242 039	2 172 291
At beginning of year	2 172 291	1 974 259
Additions	69 748	198 032
Accumulated depreciation	1 844 659	1 621 644
At beginning of year	1 621 644	1 380 433
Charge for the year	223 015	241 211
2.2.2 Motor vehicle	12 000	12 000
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	78 282
Charge for the year	—	—
TOTAL NET BOOK VALUE	4 674 352	4 974 106
3. NATIONAL EDUCATION FUND INVESTMENT		
Bank deposits	659 873	599 494
Owing by the Board	2 000 000	2 033 220
	2 659 873	2 632 714
Amount owing by Board carries interest at the bank deposit rate		

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

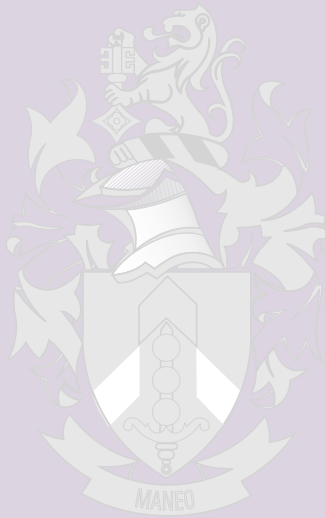
NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2003 (continued)*

	2003 R	2002 R
4. ADMINISTRATION EXPENSES		
Audit fees	70 000	70 000
Computer expenses	700 202	316 894
Depreciation	369 502	387 845
General office expenses	549 574	611 302
Interest – National Education Fund	250 000	220 000
Insurance	86 209	94 286
Motor vehicle expenses	70 437	73 704
Overseas travel	67 329	18 496
Printing and stationery	517 735	482 464
Pension fund-ex gratia contribution	218 000	–
Salaries and benefits	4 260 049	3 628 906
Telephone and postages	363 111	374 781
Water, electricity and property levy	174 316	178 183
	7 696 464	6 456 861
Less Apportioned to	1 631 000	1 447 000
Examinations	770 000	700 000
National Education Fund	30 000	40 000
Practice Review	731 000	630 000
Auditing Standards	100 000	77 000
	6 065 464	5 009 861
5. BOARD AND COMMITTEE EXPENSES		
Board and Executive Committees	127 359	168 959
Accounting Practices Board	13 600	12 696
Education Committees	235 850	195 386
Investigating and Disciplinary Committees	375 733	249 669
	752 542	626 710
Less transfer to disciplinary expenditure	375 733	249 669
	376 809	377 041
6. LEGAL EXPENSES		
General	95 301	196 593
Prior year provision reversed	–	(250 000)
	95 301	(53 407)

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2003 (continued)*

	2003 R	2002 R
7. EXAMINATION EXPENSES		
Administration expenses (note 4)	770 000	700 000
Invigilators' fees and hire of halls and equipment	76 848	42 007
Outsourced salary costs	55 000	40 000
Postage and miscellaneous expenses	88 659	76 807
Printing and stationery	194 490	127 953
Question composers' panel	50 000	40 848
Sundries	29 200	3 458
Umpires' and markers' fees	598 279	418 503
	1 862 476	1 449 576
8. GROSS REVENUE		
Revenue per income statement	10 578 896	8 950 498
Practice review fee income	4 094 669	3 705 198
Examination fees and other income	1 587 247	1 269 081
Cost awards	423 051	229 124
Disciplinary fines	695 000	211 500
Income from workshops	140 723	–
	17 519 586	14 365 401
9. GROSS REMUNERATION OF CEO		
Package inclusive of salary and pension fund contributions	880 000	707 166
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 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 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

