

PUBLIC ACCOUNTANTS'
AND AUDITORS' BOARD



ANNUAL REPORT
2004

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

54th ANNUAL REPORT 31 DECEMBER 2004

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.

CONTENTS

Members of the Board 2004	2
Report of the Chairperson	3
Members of the Board 2005	6
Significant Features Summary	7
Auditing and Assurance Standards Board	8
Investigation Committee	11
Disciplinary Committee	15
Education Committee	18
Practice Review Committee	21
Corporate Governance Statement	23
Statement of Responsibility of Board Members	25
Report of the Independent Auditors	26
Annual Financial Statements	27

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.
- 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.



2004 MEMBERS OF THE PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD & SECRETARIAT



BACK (L-R):

Mr SA Fakie (*Auditor-General*); Mr WP du Plessis; Mr ACB O'Flaherty (*CEO*).

THIRD ROW (L-R):

Mr M Dukander (*representing MR SF Nomvalo*); Mr CF Reid;
Mr RP Brussow (*alternate to Ms EN Oelofse*); Mr J van Rooyen (*FSB*);
Mr BP Agulhas (*Director: Auditing Standards*).

SECOND ROW (L-R):

Ms CM Garbutt (*Secretary*); Mr ID Patel; Prof DD Vorster; Ms J Bailey (*Director: Practice Review*);
Ms AL Vest Louw (*Director: Education & Training*); Prof C Koornhof.

FRONT (L-R):

Ms NF Mtoba; Ms S Zilwa; Ms RE Benjamin-Swales (*Chairperson*);
Ms PJ O'Connor (*Director: Legal*).

ABSENT:

Adv WL Johnson; Mr CR Qually; Mr GJ Le Roux; Ms C Makgeledisa (*SARS*).

REPORT OF THE CHAIRPERSON



The 2003 Annual Report and those for a number of years prior to that, as well as the quarterly issues of our MANEO publication, have dealt with the long and often painful path of the process towards the reform of legislation for our profession. South Africa is not alone in this. Around the world, more and more focused attention has been placed on the need for change following increased instances of company collapses and alleged accounting scandals. During 2001-2003 the calls for change reached fever pitch following the fallout from a spate of collapses of high profile companies in major western countries and in South Africa.

The 2004 year ended on a very positive note with the release in November by National Treasury of the new Draft Auditing Profession Bill, 2004, together with a summary of certain proposed amendments to the Companies Act, 1973, for public comment by 11 February 2005. Our understanding is that Government's intention is for the Companies Act amendments to be passed into law during 2005 followed by the Auditing Profession Act in 2006.

The PAAB submitted its full commentary on the Bill, a copy of which is posted on our web-site. The PAAB has welcomed the release as a positive and important step towards achieving finality of a matter which has been the subject of much debate over an extended period. The PAAB has largely supported the Bill in terms of its underlying principles. Our comments and suggestions have been offered with the intention of contributing positively to assist in the achievement of new legislation that is clear, unambiguous and practical, to enable the successor regulator to carry-out its functions effectively and efficiently in the public interest.

IMPLICATIONS FOR THE PAAB

The promulgation of the new Auditing Profession Bill is intended to finally lay to rest the perception and reality of self-regulation by the profession with a more direct role in the regulation by the Minister of Finance and National Treasury. It is also intended that the current PAAB will be subsumed into the new regulatory body, with principally the same present functions; save for uncertainty as to the exact role and responsibility of the new regulatory body for the education and training of new entrants to the profession, which will require to be clarified. It will also be necessary for the funding arrangements for the new regulatory body to be clarified as the recognition of our regulatory structure internationally will require that this body not be self funded by the auditing profession.

STRATEGIC INITIATIVES

In addition to ensuring that it is focused to continue carrying out its statutory functions effectively and efficiently, the PAAB has continued to pursue its strategic initiatives of continuous improvement in its core activities as well as to prepare for the new legislative order to the extent we are currently able. Despite the many delays in the finalisation of the new legislation, we have endeavoured to maintain the momentum of our strategic initiatives to ensure that our many committees and the secretariat are focused to ensuring that the new regulatory body can, to coin the phrase used in our strategy theme, "hit the road running." Some of these initiatives have included continued improvements to our

REPORT OF THE CHAIRPERSON *continued*

disciplinary processes and procedures, planning for the new enhanced third cycle of practice review which is aimed at placing greater emphasis on the public interest audit assignments; improvements to the monitoring processes and procedures of the education and training functions carried out by SAICA; full adoption of global auditing standards and the establishment of a Consultative Advisory Group of users of financial statements to achieve more transparency in the standard setting process. We have continued to focus on a more proactive approach to communications with stakeholders and the media with valuable assistance from our media consultants. Internally within the PAAB, we have continued to focus on improvements to our corporate governance procedures in line with the King II recommendations and in the current year we introduced a more focused approach to risk management.

EXAMINATION RESULTS

We are extremely proud of our 2004 Public Practice Examination (PPE) results, as contained in the report of the Chairperson of our Education Committee elsewhere in this report. An overall pass of a record 1675 (2003-1452) candidates and a record overall pass rate of 70% (2003-61%) is very encouraging. Especially rewarding is the marked increase in the number of Black candidates who passed – 740 (2003-645) and the improvement in their pass rate to 63% (2003-51%). Black African candidates also achieved better results with 262 (2003-200) who passed and an improvement in the pass rate to 55% (2003-41%).

Increasing the number of Black accountants and auditors remains a national imperative and the PAAB, SAICA, ABASA, the universities and the professional firms continue to work aggressively to address this. The encouraging 2004 results are a step in the right direction on the long and hard road to ultimately achieving a profession that is more representative of the demographics of our country.

EQUITY DEVELOPMENT

Despite the withdrawal by FASSET of funding for our Support Programme for black candidates who have been unsuccessful in previous attempts to pass the PPE examination, the PAAB continued to persevere with this initiative with funding from our National Education Fund. This programme was introduced in 2000 and we are delighted with the good 2004 results. They bear testimony to the continued faith of our National Education Committee in the potential for this initiative to bear fruit as an important contribution to the transformation imperative. In the 2004 PPE, 117 candidates completed the programme, of whom 71 passed, representing a pass rate of 61%, which is 5% higher than the national pass rate for all repeat candidates. The net cost to the National Education Fund for the year was approximately R335 000.

The PAAB was a founder member of the CAs' Eden Trust which was set up in 1987 as an initiative of the accountancy profession to provide bursaries for disadvantaged students to study fulltime at university. Over the years, the Trust made a significant contribution to the mammoth task of increasing the number of chartered accountants from the black communities. In 2003, following protracted discussions, it was agreed by all parties that the Trust should be absorbed into the Thuthuka Education Upliftment Fund. The Thuthuka programme, which is managed by SAICA, is a major broad based transformation initiative that involves significant funding from Government, FASSET and many participating firms and companies. The PAAB fully supports the Thuthuka programme as an initiative

REPORT OF THE CHAIRPERSON *continued*

that has the potential to make a very meaningful difference to the imperative of transformation and we have continued to provide financial support for students through our National Education Fund.

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 R2 205 298 compares to the net deficit in 2003 of R330 872. The major reasons for the turnaround are a practice review surplus of R499 290 compared to a deficit of R270 404 for the previous year and to a significant reduction in our net disciplinary expenses.

BOARD CHANGES

I am extremely honoured that the Board has re-elected me as Chair for the 2005 year and my congratulations to Charles Reid who has been re-elected as Vice Chair. I look forward to another year of continued focus on our functions and strategies to ensure that the PAAB retains its world class status.

It is with sadness that I have to report that two long serving members retire from the Board at the end of 2004 as required by the Public Accountants' and Auditors' Act 1991. Both Ismail Patel and Costa Qually have served on the Board for six years and chaired the Board in 2003 and 2002 respectively and both have made an invaluable contribution over the years.

DIRECTORATE AND SECRETARIAT

Claude O'Flaherty has continued to fulfill the role of CEO that he took on an interim basis in 2000 with commitment and dedication. The appointment of a successor remained difficult to achieve during the protracted period of uncertainty about the future of the regulation of the auditing profession, but with the positive developments referred to earlier in this report, the Board has set in motion a recruitment process which is intended to achieve the appointment of a successor CEO during the first half of 2005.

ACKNOWLEDGEMENT OF CONTRIBUTION

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 effectively and efficiently in the fulfillment of its responsibilities.

I also 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. The PAAB could not function without the contribution of so many people who devote many hours to these activities on a voluntary basis, and for which the profession owes a huge debt of gratitude.

Ruth Benjamin-Swales

Chairperson

MEMBERS OF THE BOARD

for the year to 31 December 2005

MEMBERS OF THE BOARD

T C BARNES	– Sentinel
R E BENJAMIN-SWALES	– Ernst & Young
R P BRUSSOW	– Marais & Crowther
W P DU PLESSIS	– Strydom Du Plessis
C R EMSLIE	– Deloitte
S A FAKIE	– Auditor-General
PROF C KOORNHOF	– University of Pretoria
G J LE ROUX	– Charteris & Barnes
Y J MAYA	– CIPRO
NT MTOBA	– Deloitte
D D NAGAR	– Grant Thornton
S F NOMVALO	– National Treasury
C F REID	– Lowe & Co
J A ROCK	– South African Revenue Services
J VAN ROOYEN	– Financial Services Board
PROF D D VORSTER	– University of Johannesburg

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

	2004	2003	2002	2001	2000
ACTIVITY INDICATORS (NUMBERS)					
Registered Accountants & Auditors at year-end	4 253	4 197	4 193	4 164	4 258
Trainee accountants at year-end	9 276	8 814	8 452	8 361	8 134
Entrants to final qualifying examination (PPE)	2 419	2 370	2 298	2 113	1 809
Disciplinary matters					
– investigations initiated	141	130	101	97	91
– investigation committee matters disposed of	128	104	86	81	68
– disciplinary committee hearings	10	8	13	10	5
Practice reviews performed	634	635	605	570	404
Number of staff	38	36	34	32	30
FINANCIAL INDICATORS (R000'S)					
Income					
Registration fees	723	542	362	339	443
Annual fees	7 264	6 452	6 060	5 690	5 157
Training contracts and levies	2 491	2 294	2 099	1 852	1 686
Accreditation and monitoring fees	160	145	130	120	120
Examination fees	1 949	1 587	1 269	1 077	825
Practice review fees	6 318	4 095	3 705	3 184	1 775
Disciplinary expense contributions	253	864	–	–	–
Interest	303	282	300	206	206
Education and training recovery	–	–	–	–	465
Total	19 461	16 261	13 925	12 468	10 677
Expenditure					
General and administration	7 295	7 177	5 865	5 231	5 295
Disciplinary expenses, net of recoveries	601	1 576	1 629	1 013	986
Practice review	5 819	4 365	3 648	3 217	2 117
Examinations	2 008	1 863	1 450	1 463	1 203
Auditing standards	1 533	1 611	1 135	611	–
Interest on finance lease	–	–	–	(149)	176
Total	17 256	16 592	13 727	11 386	9 777
Surplus/(deficit)	2 205	(331)	198	1 082	900
Accumulated funds and reserves					
Accumulated funds	2 751	1 217	2 242	2 506	2 066
National Education fund	2 429	2 660	2 633	2 630	2 703
Disciplinary reserve	2 767	2 097	1 402	940	297
Total	7 947	5 974	6 277	6 076	5 066

AUDITING AND ASSURANCE STANDARDS BOARD



Prof. SP Kana (Chairperson)	– PricewaterhouseCoopers Inc
F Timmins (Vice-Chairperson)	– Grant Thornton
PSF Austin	– Deloitte
JM Conradie	– Office of the Auditor-General
GD Coppin	– Ernst & Young
WH de Jager	– Financial Services Board
MD Engelbrecht	– PricewaterhouseCoopers Inc
JP Grist	– Representing SAICA
DA Moir	– David Moir Consulting
EN Oelofse	– Oelofse Ouditeure
Prof. FE Prinsloo	– Nelson Mandela Metropolitan University
CR Qually	– Deloitte
VM Sekese	– Sizwe Ntsaluba VSP
EM Southey	– Webber Wentzel
DA Spavins	– KPMG Inc
SD van Esch	– KPMG Inc

INTRODUCTION

Moving beyond the corporate scandals that shook the business environment and auditing profession, there has been a renewed focus on strengthening corporate governance, high quality standards and sound regulatory frameworks to ensure economic development, growth and financial stability. It is also increasingly recognised that there are tremendous benefits in having commonly understood financial reporting and auditing standards. Accordingly, much of the activities and projects of the Auditing and Assurance Standards Board (AASB) have been set against the background of convergence with global auditing standards, quality in audit, and improved governance structures to protect the public interest.

LOCAL DEVELOPMENTS

Establishment of the AASB

During 2004, the Auditing Standards Board and its working committee, the Auditing Standards Committee, were subsumed into a single body, the AASB. The AASB is established in terms of the Public Accountants' and Auditors' Act to assist the Board in its functions arising from the Board's duties to maintain the integrity, enhance the status and maintain and improve the standards of professional qualifications and the competence of Registered Accountants and Auditors.

Adoption of International Auditing Standards

With effect from 1 January 2005 the AASB adopted the entire suite of auditing pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for use in South Africa. These pronouncements replace the existing South African Auditing Standards. Having been a member of the IAASB and its predecessor body, the International Auditing Practices Committee, for almost a decade, and having supported most of the international initiatives, South Africa was ideally positioned to converge its national standards with international standards. We believe that this decision will contribute to a large extent to the standardisation and value of an audit internationally and to restore public confidence in the auditing profession.

AUDITING AND ASSURANCE STANDARDS BOARD

continued

Consultation with Industry

Reflecting its commitment to better protect the public interest and to align South African standard-setting structures with international developments, the AASB established the Consultative Advisory Group (CAG).

While qualified auditors will continue to set the standards for the profession, the CAG was established to have more non-auditors involved in the standard-setting process and to provide the AASB with inputs on the impact of auditing standards on business.

The CAG represents different constituents affected by auditing standards and, by proactively identifying those matters which the AASB have to consider when setting standards, it enhances the transparency and accountability of the auditing standard-setting function.

Stakeholders currently represented on the CAG by senior individuals include the following:

REPRESENTATIVE	ORGANISATION
ST Baker	Regional Project Facilitator, Global Reporting Initiative
CS Benjamin	Corporate Executive, Office of the Auditor-General
A Bezuidenhout	Head of Financial Stability Department, South African Reserve Bank
RG Cottrell	Director of Companies
VE du Preez	Chief Executive Officer, Institute of Internal Auditors
T Dixon	Executive Director, Institute of Directors
S Handler	Actuarial Society of South Africa
Prof. SP Kana	Chairperson, Auditing and Assurance Standards Board
JR Reid	Executive Director, Investment Management Association of South Africa
MJ Singer	Chief Executive Officer, STRATE
PJ Sinnett	Chief Executive Officer, Institute for Public Finance and Auditing
WF Urmson	Director: Surveillance Division, JSE Securities Exchange South Africa
J van Rooyen	Executive Officer, Financial Services Board

Communication

The AASB recognises that improving the understanding of the general public around the role of auditing standards will enhance public confidence in auditing in South Africa.

The AASB embarked on an external communications campaign in the media to:

- Highlight that SA auditing standards are of the highest quality and in line with international best practice.
- Highlight the consultative processes in place to ensure SA auditing standards are the subject of extensive debate prior to adoption.

The AASB has maintained transparent communication by providing access to meeting agendas through the PAAB website and reporting to members of the profession through regular contributions in relevant publications.

AUDITING AND ASSURANCE STANDARDS BOARD

continued

Opportunities to communicate to a broader range of stakeholders will be pursued in the coming year as a result of the enhanced relationships developed through the creation of the CAG.

The AASB agreed to further enhance communication by publishing the first AASB Annual Report which will reflect its activities, achievements and work in progress.

PRONOUNCEMENTS ISSUED AND RESEARCH CONDUCTED

Pronouncements issued

The AASB approved the issue of the following pronouncements and revised pronouncements during the course of the year:

- Preface to the Standards on Quality Control, Auditing, Assurance and Related Services Adopted for Issue by the Auditing and Assurance Standards Board.
- South African Framework for Assurance Engagements/International Framework for Assurance Engagements.
- South African Assurance Engagement Standard (SAAES)/International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.
- South African Quality Control Standard (SAQCS)/International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.
- South African Auditing Standard (SAAS)/ International Standard on Auditing (ISA) 220 (Revised), Quality Control for Audits of Historical Financial Information.
- SAAS/ISA 240 (Revised), The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements.
- SAAS/ISA 300 (Revised), Planning an Audit of Financial Statements.

The AASB also approved the following guides and circulars for issue:

- Material Irregularities: A Guide for Registered Accountants and Auditors.
- Circular B.1/2004, Adoption of IAASB Standards by the Auditing and Assurance Standards Board.

Research conducted

During 2004 the AASB recognised the need to develop guidance for the auditor to use in implementing the new and revised quality control standards. Research was conducted with the assistance of the School of Accountancy at the University of the Witwatersrand. The resulting practice statement was exposed for comment in February 2005 with the aim of issuing a South African Practice Statement in June 2005, the effective date of the quality control standards.

APPRECIATION

I wish to thank the members of the AASB and their technical advisors, the members of CAG as well as the secretariat for their support and commitment in our ongoing efforts to best serve the public interest.

Suresh Kana
Chairperson

INVESTIGATION COMMITTEE



H Griffiths (Chairperson)	– PricewaterhouseCoopers Inc
AR De Valance	– G C Ford & Co Inc
IJ de Villiers	– De Villiers Myburgh
KN Kooverjee	– PricewaterhouseCoopers Inc
R Morar	– Roshan Morar & Assoc
CM Read	– KPMG Inc
M Sindane	– Ernst & Young
BW Smith	– Deloitte
TP van der Mescht	– Wolmarans Kruger
WFT van Schalkwyk	– Van Schalkwyk & Vennote

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 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 practitioner 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

During the course of the year **141** 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. 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:

- 14 concerning negligence in general terms
- 4 concerning the audit of an attorney’s trust account
- 5 concerning deceased estates
- 23 concerning tax

INVESTIGATION COMMITTEE *continued*

- 1 concerning the failure to report a material irregularity
- 3 concerning referrals from the GAAP Monitoring Panel
- 4 concerning overcharging
- 10 concerning failure to respond to communications
- 2 concerning refusal to resign/hand over documents
- 5 concerning alleged dishonesty of all kinds
- 9 concerning impaired independence/conflict
- 2 concerning 'poaching' clients
- 1 concerning the failure to contact the existing auditor
- 9 were trainee accountant related, including complaints lodged both by and against trainee accountants
- 3 other staff related
- 31 practice review related
- 5 arising out of a partnership dispute
- 1 concerning breach of confidentiality
- 3 concerning acting in a manner in association with a non qualified person such that the client believed the non qualified person was an auditor

The other **6** allegations were of a general nature as follows:

- 1 concerning a patronising manner
- 1 concerning conduct whilst Chairperson of a medical aid scheme
- 1 concerning the endorsement of a questionable prospectus
- 1 concerning auditing financial statements whilst not the appointed auditor
- 1 concerning rudeness
- 1 concerning conduct as a member of SAICA's fee dispute resolution panel

It must be remembered that the conduct alleged by a complainant is not always the conduct of which a practitioner might ultimately be found guilty.

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

Excluding matters where disciplinary hearings were held, **128** cases were disposed of during the year. Of these cases **33** were conciliated by the directorate (after opening a case file, but before the matter was tabled before the Committee); did not comply with the requirements for the formulation of a proper complaint; or were not proceeded with by the Investigation Committee for various reasons including an insufficiency of evidence, conciliation by the committee, pending concurrent litigation, withdrawal of the complaint or the death of the practitioner. The remaining **95** cases were disposed of as follows:

MATTERS DISCHARGED

- **29 in terms of Rule 3.9.1** [the Committee being satisfied that the practitioner had given an acceptable explanation regarding the alleged conduct]
 - ▼ 4 alleging negligence
 - ▼ 1 concerning administration of a deceased estate

INVESTIGATION COMMITTEE *continued*

- ▼ 2 alleging overcharging
- ▼ 3 alleging failure to respond to communications
- ▼ 1 alleging non timeous performance
- ▼ 1 alleging failure to contact the previous auditor
- ▼ 3 alleging impaired independence/conflict
- ▼ 1 was trainee accountant related
- ▼ 8 were referrals from the GAAP Monitoring Panel
- ▼ 2 were accounting treatment related
- ▼ 3 were tax related
- 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 was tax related
 - ▼ 1 concerning administration of a deceased estate
 - ▼ 2 were trainee accountant related
 - ▼ 2 alleging impaired independence/conflict
 - ▼ 1 alleging failure to pay agreed witness fees
- 12 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]
 - ▼ 5 alleging negligence
 - ▼ 2 concerning tax
 - ▼ 2 concerning partnership disputes
 - ▼ 2 alleging dishonesty
 - ▼ 1 alleging impaired independence/conflict

PRACTITIONERS FOUND GUILTY

- 4 practitioners were **cautioned**, by consent. Of these matters
 - ▼ 2 were tax related
 - ▼ 1 concerned operating a ‘trust’ account
 - ▼ 1 concerned unjustified public criticism of colleagues
- 2 practitioners were **reprimanded** by consent. Of these matters
 - ▼ 1 concerned negligence
 - ▼ 1 concerned failure to respond to communications
- 40 practitioners were **fined** by consent. Of these matters
 - ▼ 5 related to negligence (the fines were R20 000; R10 000, of which R5 000 was suspended on conditions; R10 000; R3 000; R5 000; respectively)
 - ▼ 7 related to the audit of an attorney’s trust account (the fines were R20 000, in three cases; R52 500 of which R25 000 was suspended on conditions; R10 000; R10 000 – of which R5 000 was suspended on conditions; R25 000 respectively)

INVESTIGATION COMMITTEE *continued*

- ▼ 4 related to tax (the fines were R10 000; R5 000; R5 000; R5 000, of which R2 500 was suspended on conditions, respectively)
- ▼ 3 related to the GAAP Monitoring Panel (the fines were R75 000 of which R37 500 was suspended on conditions; R50 000 of which R40 000 was suspended on conditions; R20 000, of which R10 000 was suspended on conditions, respectively.)
- ▼ 2 related to a conflict of interest (the fines were R50 000 and R30 000 respectively.)
- ▼ 2 concerning acting in a manner in association with a non qualified person such that the client believed the non qualified person was an auditor (the fines were R25 000 and R20 000 respectively.)
- ▼ 1 related to operating a 'trust account' (fined R10 000 of which R5 000 was suspended on conditions)
- 16 arose out of practice review:
 - ▼ 1st cycle 3rd review: 1 matter (fined R15 000 suspended on conditions;)
 - ▼ 2nd cycle 2nd review: 9 matters (four fined R30 000, of which R15 000 was suspended on conditions; four fined R20 000, of which R10 000 was suspended on conditions; and one fined R10 000, of which R5 000 was suspended on conditions)
 - ▼ 2nd cycle 3rd review: 6 matters (two fined R30 000, of which R15 000 was suspended on conditions; one fined R30 000, of which R15 000 was suspended on conditions, as well as a prior suspended fine of R10 000 being imposed; one fined R20 000 of which R15 000 was suspended on conditions one fined R20 000 of which R10 000 was suspended on conditions and one fined R10 000 suspended on conditions, for failing to produce his files for review).

MATTERS REFERRED TO THE DISCIPLINARY COMMITTEE

Various other matters were referred to the Disciplinary Committee and these are reported in the Disciplinary Committee Chairperson's report.

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. It was not necessary for the Committee to make any such recommendations this year.

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 amongst themselves, in between meetings. Because of the increase in the time commitment from committee members, the PAAB is appointing a dedicated investigator for the legal department, who will assist the committee.

Thank you to all the Committee members for their commitment and especially their willingness to contribute many 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, and look forward to the added value from the investigator, once appointed.

Horton Griffiths
Chairperson

DISCIPLINARY COMMITTEE



PANEL OF CHAIRMEN

The Hon. G Friedman

The Hon. C Plewman

Adv WHG van der Linde SC

Adv JPV McNally

Adv AC Dodson

Mr DCM Gihwala

S J van Maaren (Chairperson) – S J van Maaren

BE 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 – Geysers & Du Plessis

W P du Plessis – Strydom Du Plessis

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

J Rhynes – Deloitte

H C Staple – PricewaterhouseCoopers Inc

In terms of the Public Accountants' and Auditors' Act 80 of 1991, it is the function of the Disciplinary Committee to hear cases of improper conduct alleged to have been perpetrated by registered 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 Chairperson of the committee, I do not chair hearings. In addition to the committee 'pool' of RAAs, there is a further panel of six Chairmen, any one of whom can be called upon to chair a hearing. This is a new development which was instituted in 2003, 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 at least 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 10 matters during the year, as set out below. As detailed reports of cases heard are published in the PAAB's publication 'Maneo', which is widely distributed and publicly available on our website, only the following summary is published in this report:

CASE ONE:

This case arose out of a referral from a commissioner of a section 417 and 418 enquiry and related to negligence. The practitioner was found guilty on two charges and sentenced to a fine. Partial publication in Maneo was ordered as well as a contribution towards costs.

CASE TWO:

This case arose out of practice review. The practitioner was found guilty on two charges and sentenced to removal from the register, suspended on certain conditions. Partial publication in Maneo was ordered as well as a contribution towards costs. A previous suspended sentence of a fine, imposed by the Investigation Committee, was brought into force.

CASE THREE

This case arose out of various complaints of failing to perform adequately, and failure to respond to communications. The practitioner was found guilty on eight charges and sentenced to a fine, suspended on certain conditions. Partial publication in Maneo was ordered.

CASE FOUR:

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

CASE FIVE

This matter arose out of practice review. The practitioner was found guilty on three charges and sentenced to a fine, a portion of which was suspended on conditions. Partial publication in Maneo was ordered as well as a contribution towards costs.

CASE SIX

This matter arose out of practice review. The practitioner was found guilty on two charges and sentenced to a fine, a portion of which was suspended on conditions. Partial publication in Maneo was ordered as well as a contribution towards costs.

CASE SEVEN

This matter arose out of practice review. The practitioner was found guilty on three charges and sentenced to a fine, a portion of which was suspended on conditions. Partial publication in Maneo was ordered.

CASE EIGHT

This matter arose out of practice review. The practitioner was found guilty on two charges and sentenced to permanent disqualification from applying for registration or re-registration. Full publication in Maneo was ordered.

DISCIPLINARY COMMITTEE *continued*

CASE NINE

This matter arose out of a complaint by a client and concerned the failure to identify provisional statements as such, as well as compromised independence. The practitioner was found guilty on three charges and sentenced to suspension from practice for five years, which suspension was in turn suspended on conditions, as well as to a fine. Partial publication in *Maneo* was ordered as well as a contribution towards costs.

CASE TEN:

This matter arose out of a complaint by the practitioner's employer and concerned the receiving of a secret commission. The practitioner was found guilty on one charge and sentenced to suspension from practice for five years, which suspension was in turn suspended on conditions. Partial 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.

Disciplinary procedures 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 clearly 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 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.

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.

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

Chairperson

EDUCATION COMMITTEE



Prof JE Rowlands (Chairperson)	– Nelson Mandela Metropolitan University
MD Engelbrecht (vice-Chairperson)	– PricewaterhouseCoopers Inc
SG Ball	– PricewaterhouseCoopers Inc
Prof D Forsyth	– Nelson Mandela Metropolitan University
SE Lehapa	– Deloitte
JS Mthimunye	– AloeCap (Pty) Ltd
JJ Njeke	– Kagiso Trust Investments
ACB O'Flaherty	– PAAB
Prof LJ Stainbank	– University of KwaZulu-Natal
GE Teare	– KPMG Inc
LIN Tomlinson	– Ernst & Young
F Tonelli	– PricewaterhouseCoopers Inc
SD van Esch	– KPMG Inc
AL Vest Louw	– PAAB
R Wadsworth	– Deloitte
H Wessels	– PricewaterhouseCoopers Inc
TS Zakuza	– TS Zakuza & Company

The year under review proved to be successful 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.

THE MONITORING COMMITTEE

The Monitoring Committee (MCOM) issued the final monitoring reports with respect to the 2003 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 discussed 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) was accordingly confirmed.

EXAMINATIONS

A record number of 2 408 (2003: 2370) candidates wrote the Public Practice Examination (PPE) set by the PAAB in November 2004. Of these 1675 (2003: 1452) passed, representing a pass rate of 70% (2003: 61%). The pass rate for candidates who wrote for the first time was 78% (2003: 70%). Two candidates were awarded honours for achieving a pass mark of over 75%.

The 2004 PPE was written under open book conditions for the first time and 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, was introduced in 2003 and due to its success was adopted again in 2004. This process is intended to provide an independent assessment of the PPE with a view to ongoing improvement. The Chairperson of the examination sub-committee, Mr Herman Wessels, and his committee are commended for their efforts in preparing and marking the 2004 PPE.

EDUCATION COMMITTEE *continued*

TRANSFORMATION OF THE PROFESSION

Increasing the number of black accountants and auditors is a national imperative and the PAAB, SAICA, the universities and the professional firms are working aggressively to address this matter. The PAAB's National Education Fund provided funding for a Black Support Programme for those black candidates (including African Black, Coloured and Indian) who have been unsuccessful in previous attempts at the PPE. The National School of Accounting provided contact sessions and tuition for the candidates and the candidates were given the opportunity to attend the Cape Town/Johannesburg Joint Venture Board Course. The course was demanding, as candidates were expected to attend seven contact sessions and submit work every two weeks. Candidates who did not demonstrate commitment to the programme through work submission and attendance were expelled from the programme. Of the 150 candidates who initially entered the programme, 117 completed the programme and of those who wrote the PPE in November 2004, 71 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 one's 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.

The responsibility ultimately lies with the candidate to effectively prepare his/her understanding of the data in order to find it quickly and use it productively. Knowledge management refers to an individual's ability to effectively access data, transform it into meaningful information and use it productively. This places 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 open book format adopted for the 2004 PPE proved to be most 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.

EDUCATION COMMITTEE *continued*

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 chaired by Mr Tom Wixley.

An Independent Review Panel was briefed and appointed in 2004 to review the ACCA examinations against the standards required by the PAAB for recognition. Reviewers will submit their reports to the PAAB by April 2005.

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.

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 Rodger Wadsworth resigned from both the Education (EDCOM) and Monitoring (MCOM) committees. He has accepted a position in the United Kingdom. His position on the committee has been filled by Mr Mike Olver from Deloitte.

Ms Mandi Olivier resigned from the MCOM due to her accepting a position at SAICA. Her position has been filled by Ms Neo Hani.

Mr Ilan Gamliel and Mr Kariem Hoosain are welcomed onto the committee as new members.

THANKS

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 thank the staff of the Education and Training Department for their dedication and commitment.

My particular thanks to Ms Angela Vest Louw who has resigned her position as Director: Education and Training from 31 March 2005. Ms Vest Louw has held this position since 1998 and has made an invaluable contribution to education and training in the profession through strong leadership and deep insight into accounting education. The achievements of my committee in the past seven years have been in no small part due to her vision and effort.

Professor Jeff Rowlands
Chairperson

PRACTICE REVIEW COMMITTEE



F Timmins (Chairperson)	– Grant Thornton
P J Brink	– KPMG Inc
P J Cottrell	– Morrison Murray
K M Dowling	– Ernst & Young
J Kelly	– PricewaterhouseCoopers Inc
S Naidoo	– Ngubane & Co
G J Oberholster	– Enslins
C R Qually	– Deloitte

The primary objective of the practice review process continues to be monitoring the compliance by RAAs with appropriate levels of professional standards in the performance of the attest function.

During 2004 a total of 634 reviews were performed. As at 31 December 2004 a total of 2610 second cycle reviews had been completed of which 637 were repeat reviews. During the year a further 27 practitioners were referred to the Investigation Committee bringing the total number of such referrals, since inception of the practice review process, to 178.

The more common critical areas of non-compliance with standards during 2004 were as follows:

1. Income statement verification, particularly in the areas of completeness of income testing and validity of expense testing.
2. Construction contract verification, particularly in respect of verification of contract prices, cost to date, estimated total cost, percentage of completion and amounts due to/from customers in terms of AC 109.
3. Accounts payable verification, including search for unrecorded liabilities.
4. Inventory verification, including testing of all categories, verification of obsolescence provision, and resolution of the differences in quantity tests.
5. Investment property verification and accounting in terms of AC135.
6. Planning risk identification, including failure to address all material account balances and classes of transactions at the assertion level.
7. Debit loans verification, including validity and recoverability assessments.
8. Accounts receivable verification, including existence and doubtful debt provision considerations.
9. Audit reports including documentation of support for qualifications.
10. Going concern considerations and particularly further verification where uncertainties exist.
11. Subsequent event considerations and documentation of procedures performed to arrive at the conclusion on subsequent events.
12. Analytical review including corroboration of the explanations obtained for fluctuations, verification of the base used for predictions and follow up of differences between predictions and actuals.

PRACTICE REVIEW COMMITTEE *continued*

13. Intangible asset verification including ownership and documentation of an assessment of the carrying value.
14. Plant and equipment verification, including existence, ownership and assessment of carrying value.
15. Verification of owner-occupied property and failure to depreciate buildings as required by AC123.

The third review cycle which will commence during 2005 introduces significant changes to the practice review process. The 5 year cycle is replaced with a 3 year cycle for practitioners involved in “public interest” attest assignments. Other practitioners will be reviewed every 6 years. Public interest entities include listed companies, parastatals, public sector audits, financial institutions, medical schemes and retirement funds.

The third review cycle will include two processes. Firstly, there will be a new process (referred to as the top down review process) to review the overall systems of quality control in place for firms whose audit clients include public interest entities. In this context a firm includes any sole practitioner or partnership where a public interest entity audit client is involved. The top down review process will run on a 3 year basis. Secondly, the traditional assignment review for each attest practitioner will be retained.

The IFAC and South African statement ISQC1 “Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements” will be incorporated into the top down review process. The IFAC and South African statement SAS 220 “Quality control for audits of Historical Financial Information” (revised) will be included in the assignment review process.

For the third review cycle the review by the Practice Review Department of a practitioner’s assignments will be carried out independently from the firms’ internal reviews. The top down review process will require selective attendance at the firms’ internal reviews to validate the effectiveness thereof.

I record my thanks to the Practice Review staff that have performed diligently and consistently throughout 2004. I also thank my committee members for their time and dedication to the practice review process.

Frank Timmins
Chairperson

CORPORATE GOVERNANCE STATEMENT

for the year ended 31 December 2004

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 40 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 and Assurance 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.

CORPORATE GOVERNANCE STATEMENT

for the year ended 31 December 2004 continued

AUDIT COMMITTEE

The Board has a two-member Audit Committee comprising a suitably qualified independent person and a Board member. 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board and its Chief Executive Officer assume responsibility for the overall risk management, including effective systems of internal control.

The PAAB employs professional Directors who possess the appropriate level of knowledge and experience to manage the risks within their departments and to contribute to the overall risk management.

The PAAB is too small to warrant a separate internal audit function; in lieu thereof, the external auditors perform an interim review of the operations of the systems 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 2004

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 27 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 26.

The annual financial statements of the Public Accountants' and Auditors' Board were approved by the Board on 15 March 2005 and are signed on its behalf by:

Ruth Benjamin-Swales

Chairperson

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 27 to 36 for the year ended 31 December 2004. 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.

We conducted our audit in accordance with statements of International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Board at 31 December 2004 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.)

Johannesburg

15 March 2005

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

BALANCE SHEET

at 31 December 2004

	Note	2004 R	2003 R
ASSETS			
Non-current assets		4 381 302	4 674 352
Property	2.1	4 118 485	4 264 972
Furniture, equipment and motor vehicle	2.2	262 817	409 380
Current assets		4 824 246	2 675 154
Accounts receivable and prepayments		1 714 877	1 428 282
Cash and cash equivalents		3 109 369	1 246 872
		9 205 548	7 349 506
National Education Fund investment	3	2 428 560	2 659 873
TOTAL ASSETS		11 634 108	10 009 379
RESERVES AND LIABILITIES			
Reserves			
Board		5 518 978	3 313 680
Accumulated funds		2 751 398	1 216 600
Disciplinary reserve fund		2 767 580	2 097 080
National Education Fund			
Accumulated funds		2 428 560	2 659 873
		7 947 538	5 973 553
Current liabilities		3 686 570	4 035 826
Accounts payable		1 829 712	1 588 161
Fees in advance		128 517	447 665
National Education Fund		1 728 341	2 000 000
TOTAL RESERVES AND LIABILITIES		11 634 108	10 009 379

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

INCOME STATEMENT

for the year ended 31 December 2004

	Note	2004 R	2003 R
REVENUE			
Fees	8	10 639 192	9 433 245
Registrations		723 435	542 175
Annual		7 264 415	6 451 951
Training contracts and levies		2 491 342	2 294 119
Monitoring fee		160 000	145 000
Disciplinary expense contribution		252 667	864 000
Interest		302 420	281 651
		11 194 279	10 578 896
EXPENDITURE			
General and administration		7 294 964	7 176 813
Administration expenses	4	6 025 393	6 065 464
Board and committee expenses	6	372 174	376 809
Legal expenses		35 292	95 301
Local secretaries' expenses		129 093	122 636
Public relations		403 440	121 823
Publications		329 572	394 780
Disciplinary expenses		601 135	1 576 435
Committee expenses		380 058	375 733
Legal and other expenses		1 046 359	2 459 476
Cost awards		(154 782)	(423 051)
Disciplinary fines		(670 500)	(695 000)
Income from workshops		–	(140 723)
Practice review		(499 290)	270 404
Practice review fee income		(6 318 328)	(4 094 669)
Salaries and direct expenses		5 083 038	3 634 073
Allocated expenses	4	736 000	731 000
Auditing standards		1 532 813	1 610 887
Salaries, travel and other direct expenses		1 328 813	1 510 887
Allocated expenses	4	204 000	100 000
Examinations		59 359	275 229
Entrance fees and other income		(1 948 721)	(1 587 247)
Expenses	7	2 008 080	1 862 476
		8 988 981	10 909 768
SURPLUS/(DEFICIT) FOR THE YEAR		2 205 298	(330 872)

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

STATEMENT OF CHANGES IN FUNDS

for the year ended 31 December 2004

	National Education Fund R	Accumulated Funds R	Disciplinary Reserve Fund R	Total R
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
Balance at 1 January 2004	2 659 873	1 216 600	2 097 080	5 973 553
Surplus/(deficit) for the year	(231 313)	2 205 298	–	1 973 985
Transfer to/(from) reserve				
– disciplinary fines	–	(670 500)	670 500	–
Balance at 31 December 2004	2 428 560	2 751 398	2 767 580	7 947 538

PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD

CASH FLOW STATEMENT

for the year ended 31 December 2004

	Note	2004 R	2003 R
Cash flows generated from (applied to) operating activities			
Net surplus/(deficit) for the year		1 973 985	(303 713)
Board		2 205 298	(330 872)
National Education Fund		(231 313)	27 159
<i>Adjustment for:</i>			
– depreciation	4	382 976	369 502
– interest income		(342 766)	(342 031)
Operating income (deficit) before working capital changes		2 014 195	(276 242)
<i>Working capital changes</i>			
– increase in accounts receivable		(286 595)	(362 015)
– decrease in accounts payable and fees in advance		(77 597)	(208 276)
Cash flows generated by (utilised from) operations		1 650 003	(846 533)
Interest income		342 766	342 031
Net cash inflow (outflow) from operating activities		1 992 769	(504 502)
<i>Cash outflow on investing activities</i>			
– additions to equipment	2.2	(89 926)	(69 748)
Net increase/(decrease) in cash and cash equivalents		1 902 843	(574 250)
Cash and cash equivalents at beginning of year		1 906 745	2 480 995
Cash and cash equivalents at end of year		3 809 588	1 906 745
<i>Comprising:</i>			
National Education Fund			
Bank deposit	3	700 219	659 873
Public Accountants' and Auditors' Board			
Cash and cash equivalents		3 109 369	1 246 872
		3 809 588	1 906 745

NATIONAL EDUCATION FUND

INCOME STATEMENT

for the year ended 31 December 2004

	<i>Note</i>	2004 R	2003 R
REVENUE			
Bridging programme funding		300 000	681 900
<i>Interest</i>			
– Board		160 000	250 000
– Bank		40 346	60 380
		500 346	992 280
EXPENDITURE			
Portion of Board's education and administration expenses	4	30 000	30 000
Grants		54 570	230 000
CAs' Eden Trust: Contribution to expenses		–	160 000
Bursary awards		54 570	70 000
Examination bridging programme		635 066	681 900
Meetings and other expenses		4 500	6 872
Publications – SA Journal of Accounting Research		7 523	16 349
		731 659	965 121
(DEFICIT)/SURPLUS FOR THE YEAR		(231 313)	27 159

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

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 Revenue from fees and other sources is recognised when the service is rendered. Interest income is recognised as it accrues.
- 1.6 Financial instruments carried in the balance sheet are measured as follows:
 - 1.6.1 Bank deposits and cash, accounts receivable at fair value.
 - 1.6.2 Accounts payable and fees in advance at the cost of the legal or constructive obligations. In all cases cost represents fair value.

2. NON-CURRENT ASSETS

	2004 R	2003 R
2.1 Property	4 118 485	4 264 972
Cost	5 389 020	5 389 020
At beginning of year	5 389 020	5 389 020
Accumulated depreciation	1 270 535	1 124 048
At beginning of year	1 124 048	977 561
Charge for the year	146 487	146 487

The property, comprising land and buildings is situated at Erf 201 Bruma Township. The property is valued every 4-5 years on the net existing use basis by independent valuers. As at 31 December 2004, the value was R5 770 000 (2000 – R4 705 000).

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2004 (continued)*

	2004 R	2003 R
2.2 Furniture, computers, equipment and motor vehicle	262 817	409 380
2.2.1 Furniture, computers and equipment	250 817	397 380
Cost	2 285 145	2 242 039
At beginning of year	2 242 039	2 172 291
Additions	89 926	69 748
Disposals	(46 820)	-
Accumulated depreciation	2 034 328	1 844 659
At beginning of year	1 844 659	1 621 644
Charge for the year	236 489	223 015
Disposals	(46 820)	-
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	4 381 302	4 674 352
3. NATIONAL EDUCATION FUND INVESTMENT		
Bank deposits	700 219	659 873
Owing by the Board	1 728 341	2 000 000
	2 428 560	2 659 873
Amount owing by the Board carries interest at the bank deposit rate		

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2004 (continued)*

	2004 R	2003 R
4. ADMINISTRATION EXPENSES		
Audit fees (Note 5)	101 750	70 000
Building maintenance	213 257	157 998
Computer expenses	451 039	700 202
Depreciation	382 976	369 502
General office expenses	528 990	391 576
Interest – National Education Fund	160 000	250 000
Insurance	73 386	86 209
Motor vehicle expenses	44 829	70 437
Overseas travel	28 670	67 329
Printing and stationery	534 850	517 735
Pension fund-ex gratia contribution	–	218 000
Salaries and benefits	4 788 889	4 260 049
Telephone and postages	326 530	363 111
Water, electricity and property levy	210 227	174 316
	7 845 393	7 696 464
Less Apportioned to	1 820 000	1 631 000
Examinations	850 000	770 000
National Education Fund	30 000	30 000
Practice Review	736 000	731 000
Auditing Standards	204 000	100 000
	6 025 393	6 065 464
5. AUDIT FEES		
Current year	91 750	75 000
Under/(over) provision previous year	10 000	(5 000)
	101 750	70 000

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2004 (continued)*

	2004 R	2003 R
6. BOARD AND COMMITTEE EXPENSES		
Board and Executive Committees	137 930	127 359
Accounting Practices Board	13 600	13 600
Education Committees	220 644	235 850
Investigation and Disciplinary Committees	380 058	375 733
	<u>752 232</u>	<u>752 542</u>
Less transfer to disciplinary expenditure	380 058	375 733
	<u>372 174</u>	<u>376 809</u>
7. EXAMINATION EXPENSES		
Administration expenses (note 4)	850 000	700 000
Invigilators' fees and hire of halls and equipment	88 938	76 848
Outsourced salary costs	56 100	55 000
Postage and miscellaneous expenses	96 360	88 659
Printing and stationery	213 854	194 490
Question composers' panel	50 000	50 000
Sundries	66 828	29 200
Umpires' and markers' fees	586 000	598 279
	<u>2 008 080</u>	<u>1 862 476</u>
8. GROSS REVENUE		
Revenue per income statement	11 194 279	10 578 896
Practice review fee income	6 318 328	4 094 669
Examination fees and other income	1 948 721	1 587 247
	<u>19 461 328</u>	<u>16 260 812</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004 (continued)

	2004 R	2003 R
9. GROSS REMUNERATION OF CEO		
Package inclusive of salary and pension fund contributions	950 000	880 000

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 therefore 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.

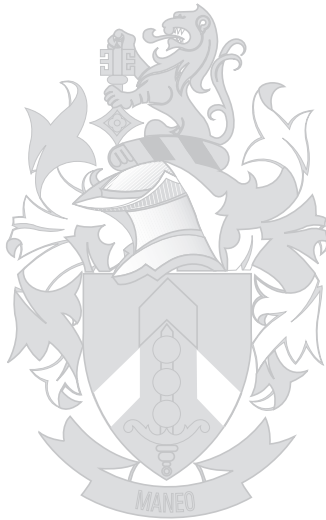
13. SUBSEQUENT EVENT

Subsequent to the year end, an accounting body served a High Court summons on the PAAB seeking a declaratory order in support of their use of a particular name in response to a criminal action instituted against them by the PAAB in August 2004.

The PAAB is confident of a successful outcome to the matter, but legal costs estimated to be in the range of R500 000 to R800 000 may eventuate.

14. 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 4484, Cape Town 8000

The Local Secretary, PO Box 1098, Westville 3630

The Local Secretary, PO Box 408, Bloemfontein 9300

THE STAFF OF THE BOARD

