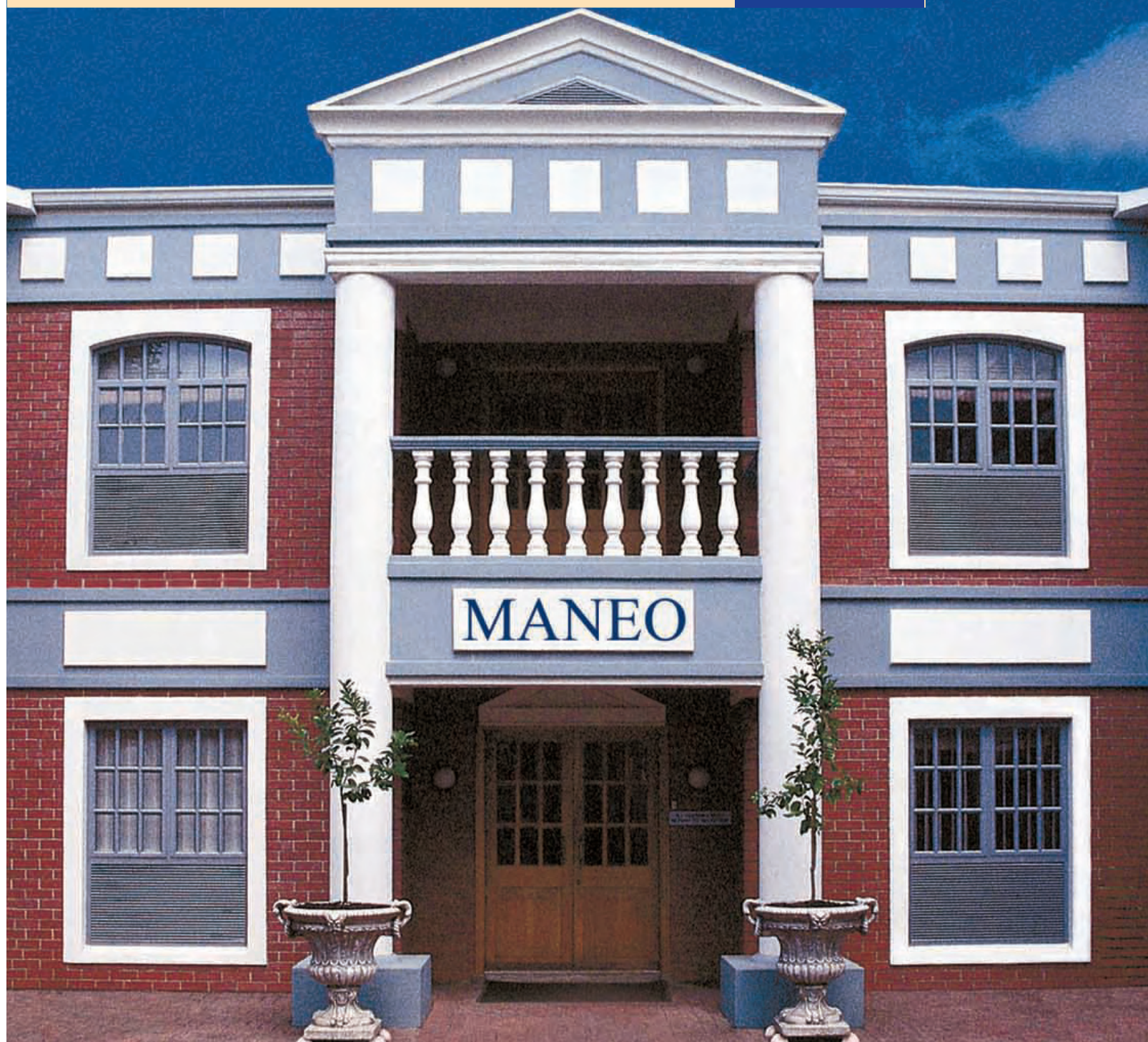


# Public Accountants' and Auditors' Board

Annual report 2005/2006



## **PUBLIC ACCOUNTANTS' AND AUDITORS' BOARD 55th ANNUAL REPORT – 31 MARCH 2006**

For submission to the Minister of Finance in terms of section 9(1) of the Public Accountants' and Auditors' Act, 1991 (Act No 80 of 1991), as amended.

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## ***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 No 80 of 1991) (previously Act No 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.

With effect from 1 April 2006 the PAAB is superseded by the new Independent Regulatory Board for Auditors (IRBA), in terms of the Auditing Profession Act, 2005 (Act No 26 of 2005).



## *Members and Secretariat of the Public Accountants' and Auditors' Board – 2005*



*Back (L-R):*

Mr C F Reid (Vice-chairperson); Mr W P du Plessis; Mr G J le Roux

*Third row (L-R):*

Mr R Voller (CIPRO); Mr R P Brussow; Mr S A Fakie (Auditor-General); Mr T C Barnes

*Second row (L-R):*

Mr B P Agulhas (Director: Auditing Standards); Ms C M Garbutt (Company Secretary); Mr A K Hoosain (CEO);  
Ms N F Mtoba; Mr D D Nagar; Ms J Bailey (Director: Practice Review); Ms C R Emslie

*Front (L-R):*

Mr J A Rock (SARS); Ms P J O'Connor (Director: Legal); Ms R E Benjamin-Swales (Chairperson);  
Prof D D Vorster; Mr S F Nomvalo (Accountant-General); Prof C Koornhof

*Absent:*

Mr R J G Barrow (FSB)



## Joint Report of the Chairpersons

Report for the 15 months to 31 March 2006



*Ruth Benjamin-Swales (2005)*



*Deepak Nagar (2006)*

It is with a feeling of accomplishment that we present the final annual report of the Public Accountants' and Auditors' Board (PAAB). We find ourselves in this scenario because of the long-awaited implementation of the new legislation.

The long and painful path towards legislative reform has now finally ended with the promulgation of the Auditing Profession Act, 2005 (Act No 26 of 2005), which came into effect on 1 April 2006. This necessitated that we extend the reporting period for the PAAB to 15 months, ended 31 March 2006 and also resulted in a reporting period which included two chairpersons.

The PAAB has come a long way and has provided the profession with exceptional service for the last 55 years. Join us in celebrating and reminiscing "The End of an Era" in our special report included in this annual report, in which we have attempted to summarise its history, highlights and achievements.

### Strategic initiatives

Despite the initial uncertainty regarding the final promulgation and implementation date of the new legislation, the PAAB continued to focus on carrying out its statutory functions effectively and efficiently. Some of these activities included the preparation of an organisational risk assessment and risk management action plan, an updated strategic plan and the roll-out of the third review cycle as part of the PAAB's practice review process. In this regard we also researched the firm review process which was implemented in February 2006.

A new Continuing Professional Development (CPD) policy was developed and approved for implementation in the latter part of 2006 and substantial progress has been made in respect of an Accreditation model which will facilitate greater entry into the auditing profession. We also continued to enjoy substantial positive media coverage, thanks to

our proactive media strategy. The more important press coverage during the period included the PAAB's messages regarding the new legislation, the increased powers of the new Independent Regulatory Board for Auditors (IRBA) the changes in CPD and reporting of reportable irregularities.

### Examination results

We once again celebrate the success of our Public Practice Examination (PPE). Even though the pass rate is a bit lower than the record achieved last year, it is well within the expected range for a final test of professional competence. Of the 2 331 candidates who sat for the November 2005 PPE, 1 475 candidates passed. This represents a pass rate of 63% (2004: 70%). The pass rate for candidates who wrote for the first time was 72% (2004: 78%). Three candidates were awarded honours for achieving a mark over 75%. In our continuous bid to improve the quality of the exam we have also considered and approved a new reading time policy for the 2006 PPE.

### Equity development

The PAAB participated actively in the SAICA BEE Charter negotiation process and is satisfied with the progress made to date. We are confident that the final outcome of this process will be a well-considered, rational and achievable BEE Charter for the profession.

The PAAB also continued to participate in the Thuthuka programme through its National Education Fund (NEF). The NEF continued to run the Support Programme for black

## *Joint Report of the Chairpersons continued*

repeat candidates of the PPE. Of the 117 black candidates that participated this year, 58 passed. This represents a 50% pass rate, which is 8% higher than the pass rate for black repeat candidates who do not participate in the Support Programme. The net cost to the NEF for its various activities was R72 835.

### **Financial position**

The annual financial statements included in this report set out the financial position and results of activities for the 15 months ended 31 March 2006. The net deficit for the period of R1 236 082 as compared to the previous year's surplus of R2 205 298 is mainly driven by a net loss on practice review activities of R1 409 049. This was caused by unplanned vacancies as well as research and preparation time for the implementation of the third cycle review process.

### **Transitional provisions**

In terms of the Auditing Profession Act, all assets, liabilities and operations of the PAAB transferred to the IRBA with effect from 1 April 2006.

### **Board changes**

It has been an honour to have served the PAAB as chairpersons in its last term of operation and we express our sincere appreciation to the Board that has elected us for our respective terms. We would also like to congratulate Wynand du Plessis on his election as the last Vice-chair of the PAAB.

It is with sadness, however, that we report that a few long-serving members have either retired or resigned from the Board during this period. Our sincere appreciation goes to Professor Desire Vorster, Jeff van Rooyen and Charles Reid for their invaluable contributions over the years. In particular we want to acknowledge Jeff van Rooyen who served as chairperson in 1995 as well as Charles Reid who served as vice-chairperson in 2005.

### **Directorate and secretariat**

On 1 September 2005, the Board welcomed the new CEO, Kariem Hoosain, who took over from Claude O'Flaherty when he went on well-deserved retirement as from 1 October 2005. In March 2006 the Directorate also welcomed Riyadh Ally as a new Director: Operations, as well as Ugandra Naidoo who replaced Angela Vest Louw as Director: Education and Training.

### **Acknowledgement of contributions**

The Board acknowledges with gratitude the contribution made individually and as a team: the previous CEO, Claude O'Flaherty, the new CEO, Kariem Hoosain, the directors Bernard Agulhas, Jillian Bailey, Jane O'Connor and all staff, who have ensured that the PAAB has operated effectively and efficiently in the fulfilment of its responsibilities. It also wishes to express its appreciation to Professor Jeff Rowlands for his assistance to the Education and Training Department, in the absence of a permanent director, and to Laine Katzin, who acted as director during the interim period.

We would like to thank our fellow Board members and the Executive Committee for their dedicated support and contribution during the past 15 months. We further thank all the members of the various committees and task forces for their efforts and contribution during this period. The PAAB could not function without the contribution of so many people who devote many hours to these activities on a voluntary basis, and to whom the profession owes a huge debt of gratitude.

### **Deepak Nagar**

*Chairperson (1 January 2006 to 31 March 2006)*

### **Ruth Benjamin-Swales**

*Chairperson (1 January 2005 to 31 December 2005)*



## ***Members and Secretariat of the Public Accountants' and Auditors' Board – 2006***

### ***Members***

Mr T C Barnes	Sentinel
Mr R J G Barrow	Financial Services Board
Ms R E Benjamin-Swales	Ernst & Young
Mr R P Brussow	Marais & Crowther
Mr W P du Plessis	Strydom Du Plessis
Ms C R Emslie	Deloitte.
Mr S A Fakie	Auditor-General
Prof C Koornhof	University of Pretoria
Mr K N Kooverjee	PricewaterhouseCoopers Inc
Mr G J le Roux	Charteris & Barnes
Ms F Mtoba	Deloitte.
Mr D D Nagar	Grant Thornton
Mr S F Nomvalo	National Treasury
Mr J A Rock	South African Revenue Services
Adv R W Voller	CIPRO
Prof D D Vorster (resigned)	University of Johannesburg

### ***Secretariat***

Mr A K Hoosain	Chief Executive Officer	(1 September 2005 to 31 March 2006)
Mr C O'Flaherty	Chief Executive Officer	(1 January 2005 to 31 August 2005)
Mr B P Agulhas	Director: Auditing Standards	
Ms J Bailey	Director: Practice Review	
Ms P J O'Connor	Director: Legal	
Mr U I Naidoo	Director: Education, Development and Training	(Appointed 1 March 2006)
Mr R Ally	Director: Operations	(Appointed 1 March 2006)

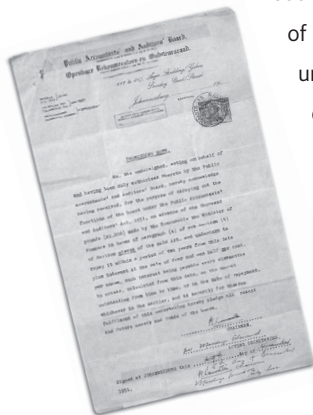
## Special Report – The End of an Era

This is the last annual report that will be issued under the identity of the Public Accountants' and Auditors' Board and presents an opportunity to reflect on the past and to note how the Board and the profession have developed and changed over the past 55 years.

### In the beginning

The Public Accountants' and Auditors' Act, 1951 (Act No 50 of 1951) provided for the establishment of a register of public accountants and auditors who were entitled to engage in public practice and to describe themselves as Registered Accountants and Auditors. The Act also provided for the establishment of the Public Accountants' and Auditors' Board, with disciplinary powers for the control of the profession, the registration and control of articled clerks and for the conduct of examinations. Candidates who passed the Qualifying Examination were eligible for admission to one of the provincial societies of Chartered Accountants, and the right to use the designation "Chartered Accountant (South Africa) – CA(SA)".

The Board consisted of 17 members, of whom seven were representatives of the provincial societies, four represented other bodies of accountants, two represented the universities and four were full-time employees of the State.



The first meeting of the Board was held at the Union Buildings in Pretoria on 24 October 1951, and Mr K Lamont Smith was appointed its first chairman.

### Accommodation

At the end of October 1980, the Board moved into Burlington House, on Rissik Street, Johannesburg. The South African Institute of Chartered Accountants (SAICA) and the Transvaal Society of Chartered Accountants moved into the same building.

Ten years later the Board moved into SAICA's new premises at Bruma Lake, before moving into its own building, Maneo, in 1996.

### Proposed unification with SAICA

In January 1980, the Loubser Commission published a report that recommended that "following the formation of the proposed National Institute, the Institute and the PAAB should set up a joint committee for the purpose of considering their unification".

SAICA was established with effect from 1 January 1980. The main purpose was to promote the long-term interests of its members in South Africa. In 1987 a working committee was formed to examine the structure and overall cost-efficiency of the two professional bodies, and to make recommendations thereon.

In September 1992, the subject of unification was finally laid to rest when the Board rejected the concept of enforced commonality.







## New legislation

A new Public Accountants' and Auditors' Act, 1991 (Act No 80 of 1991) came into effect on 21 June 1991. Essentially it was introduced to bring the auditing terminology up to date, and to consolidate all the amendments that had been made to the previous Act over a period of nearly 40 years. Among other things, the new Act created the facility for the incorporation of audit practices. An amendment to the Act in 1993 allowed for a system of evaluating practices (practice review) as a means of maintaining standards.

## Education and training

In 1998, the Board committed itself to the regulation of education, training and assessment through the recognition and monitoring of programmes of professional institutes and other bodies that enabled candidates to enter the prescribed examination for registration as a Registered Accountant and Auditor. From 1 January 1999 the Board recognised the academic, education, training and Part 1 assessment programmes of SAICA. The recognition and monitoring role required cooperation between both the Board and the professional institute towards meeting the common objective of a constant striving towards the enhancement of standards.

During 1989, a new Trainee Accountant system was introduced to replace Articles of Clerkship and Articled Clerks. The system represented a new approach to the practical training of accountants.

From the outset the Board has maintained a close relationship with the universities that participated in its

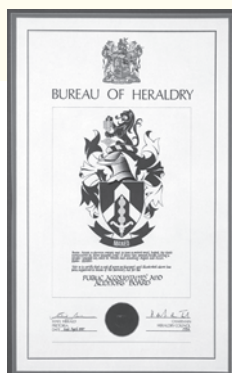
education scheme. The composition of the Board itself always included two university professors of accounting, and although the relationships with individual universities were sometimes tense, these very tensions contributed to the high quality of education that the system achieved.

A National Education Fund was established in 1981 in an effort to provide a worthwhile subvention for university lecturers, who had been receiving nominal subventions from the profession since 1962. Revenue for the fund was derived by means of levies on Registered Accountants and Auditors for each clerk that was registered to train with them. By 1987 over R4,5 million had been contributed to the universities to subvent the salaries of accountancy academics, and the increased need for funding resulted in the formation of The Chartered Accountants' Education Endowment Trust (CAs' Eden Trust) in 1988. The trust was also able to award bursaries to economically disadvantaged students. In recent years the trust has been transformed into the Thuthuka Bursary Fund, and is administered by SAICA.

## Examinations

The broader accountancy profession in South Africa currently consists of some 15 independent institutes and associations, of which the Board and SAICA are the pre-eminent bodies. They have a common membership of approximately 4 400, and SAICA has a total membership of approximately 25 000. Members enjoy the designations of Registered Accountant and Auditor (RAA) awarded by the Board and Chartered Accountant (South Africa) (CA(SA)) awarded by SAICA. The two bodies have always performed complementary roles, particularly in maintaining standards where it affected the attest function.

## Special Report – The End of an Era *continued*



*Heraldry Award HR*

Since 1956 the Board had set the Qualifying Examination (QE) which was a prerequisite for anyone wishing to become an RAA. Until 1998 the QE was also a requirement for those wishing to be recognised as a CA(SA). SAICA then applied to the Board for the accreditation of its own Qualifying Examination and education and training programme. From 1999 the Board continued to prescribe its own examination equivalent to the old Part II, which became known as the Public Practice Examination (PPE). SAICA and other recognised institutes would set and administer the Part I examination prescribed by the Board.

The Board continued to register the training contracts of accountants wishing to qualify as RAAs, and to register RAAs as training officers. Recognised institutes setting the Part I examination now administer those training contracts.

### Disciplinary and legal procedures

One of the major tasks undertaken by the Board in its first year of operation in 1952 was the preparation of regulations prescribing what constituted unprofessional conduct, the punishments to be imposed and the procedures to be followed in administering the hearings. A Disciplinary Committee was appointed to administer the powers delegated to the Board and a Manual of Information for the guidance of registered accountants and auditors was issued in July 1953. The Code of Professional Etiquette contained in the Manual was just over one A5 page in length. Today's Code has close to 28 pages.

In 1961, an Investigation Committee was established to deal with allegations of improper conduct received by the Board. Both committees have dealt with thousands of cases since they were established, and are still kept very busy today.

### Practice review and maintenance of standards

The term "practice review" refers to the system whereby employees of a professional body review the standards of practising members of the body on a periodic basis. An amendment to the Public Accountants' and Auditors' Act in June 1993 provided for the establishment of practice review in the auditing profession. The administration of this function was initially outsourced to SAICA, but became a fully fledged PAAB function from January 1999.

The primary objective is to monitor compliance with professional standards in the performance of the attest function. The secondary objective is to provide guidance to practitioners to assist them to improve their standards. The results of practice reviews are reported to the Practice Review Committee of the Board.

### Auditing standards

Up to 2001, the audit standard-setting function was the responsibility of SAICA. Following some major global developments in auditing and accountancy, the function was transferred to the PAAB, which currently issues all auditing pronouncements.

### Staff

Reginald Rufus Webber was appointed as the first full-time Secretary of the Board with effect from January 1953. He was succeeded in 1968 by Ernest Niewoudt, who had a legal background. Upon Mr Niewoudt's retirement in 1983 Piet Pentz was



*Lucas van Vuuren*



appointed Acting Secretary for a short while before being appointed Secretary Legal in 1984.

In 1981, the Board appointed Professor Lucas van Vuuren as full-time Education Officer, and he was offered the post of Director of the Board in 1984. Lucas retired in 1998 and was replaced by Yaswant Gordhan, an academic from Natal. Claude O'Flaherty replaced Yaswant as the CEO in 2000 and on his retirement in September 2005 he was succeeded by the current CEO, Kariem Hoosain.

In 1999, the Board and SAICA were restructured and a number of PAAB employees transferred to SAICA to carry out education and training functions for SAICA, while the Practice Review staff were transferred to PAAB from SAICA.

The staff complement of the Board has grown to 45 employees over the years.

### Transformation of the profession

Globalisation of accounting and auditing standards, as well as the increased interdependence of economies and individual businesses, necessitated that the Board start taking a new approach to its function from the 1990s onwards. The next 10 years were to see some of the most dramatic changes in the Board's history.

In 1990 the Board, in close co-operation with SAICA, initiated a project to investigate the range of accounting expertise needed by the country and the education and training to deliver it. The project was known as FAESA – The Future of Accounting Education in South Africa, and it was chaired by Professor P de V Booyesen.

An Interim Representative Council of Accountants (IRCA) was formed, comprising representatives of all South African accounting bodies as well as other stakeholders in the private and public sector. The IRCA drafted a new proposed Act, the Accountancy Profession Bill, in 1997, which was later superseded by a draft prepared by the National Accountancy Consultative Forum (NACF) in 1998. The draft Bill envisaged a structure that would include two main bodies – a representative council of accountants (RCA) and a regulatory board for Auditors (RBA). At the time of the Board's 50th anniversary celebrations in 2001 it was hoped that the

restructuring of the profession would be completed by 2002.

### The way forward

The new legislation was eventually

passed late in 2005, and resulted in the Auditing Profession Act, 2005 (Act No 26 of 2005) being promulgated in January 2006. The Public Accountants' and Auditors' Board became the Independent Regulatory Board for Auditors (IRBA) with effect from 1 April 2006.



*Claude O'Flaherty retires, 2005*



*Chris Stals at the opening of the Board's premises, Maneo, in 1996*

# Significant Features Summary

Report for the 15 months to 31 March 2006

	31 March 2006 (15 months)	31 December 2004	31 December 2003	31 December 2002	31 December 2001
<b>Activity indicators (numbers)</b>					
Registered Accountants and Auditors at end of period	4 398	4 253	4 197	4 193	4 164
Trainee accountants at end of period	9 780	9 276	8 814	8 452	8 361
Entrants to final qualifying examination (PPE)	2 331	2 419	2 370	2 298	2 113
Disciplinary matters					
– Investigations initiated	153	141	130	101	97
– Investigation Committee matters disposed of	159	128	104	86	81
– Disciplinary Committee hearings	13	10	8	13	10
Practice reviews performed	743	634	635	605	570
Number of staff	43	38	36	34	32
<b>Financial indicators (R000's)</b>					
<b>Income</b>					
Registration fees	1 176	723	542	362	339
Annual fees	9 887	7 264	6 452	6 060	5 690
Training contracts and levies	3 688	2 491	2 294	2 099	1 852
Accreditation and monitoring fees	175	160	145	130	120
Examination fees	2 014	1 949	1 587	1 269	1 077
Practice review fees	7 436	6 318	4 095	3 705	3 184
Recoveries of independent review costs	195				
Interest	383	303	282	300	206
<b>Total</b>	<b>24 954</b>	<b>19 208</b>	<b>15 397</b>	<b>13 925</b>	<b>12 468</b>
<b>Expenditure</b>					
General and administration	12 416	7 295	7 177	5 865	5 231
Disciplinary expenses, net of recoveries	1 580	601	1 576	1 629	1 013
Disciplinary expense contributions	(1 096)	(253)	(864)	—	—
Practice review	8 845	5 819	4 365	3 648	3 217
Examinations	2 037	2 008	1 863	1 450	1 463
Auditing standards	2 408	1 533	1 611	1 135	611
Interest on finance lease	—	—	—	—	(149)
<b>Total</b>	<b>26 190</b>	<b>17 003</b>	<b>15 728</b>	<b>13 727</b>	<b>11 386</b>
Surplus/(deficit)	(1 236)	2 205	(331)	198	1 082
<b>Accumulated funds and reserves</b>					
Accumulated funds	798	2 751	1 217	2 242	2 506
National Education Fund	2 356	2 429	2 660	2 633	2 630
Disciplinary reserve	3 485	2 767	2 097	1 402	940
<b>Total</b>	<b>6 639</b>	<b>7 947</b>	<b>5 974</b>	<b>6 277</b>	<b>6 076</b>





# Auditing and Assurance Standards Board

Report for the 15 months to 31 March 2006



Suresh Kana

Members		Meetings attended
S Kana (Chairperson)	PricewaterhouseCoopers Inc	5/5
F Timmins (Vice-chairperson)	Grant Thornton	4/5
P Austin	Deloitte.	5/5
G Coppin	Ernst & Young	5/5
W de Jager	Financial Services Board	5/5
M Engelbrecht	PricewaterhouseCoopers Inc	4/5
J P Grist	SAICA	4/5
N Oelofse	Oelofse Ouditeure (resigned)	1/2
F Prinsloo	Nelson Mandela Metropolitan University	4/5
C Qually	Deloitte.	5/5
V Sekese	Sizwe Ntsaluba VSP (resigned)	0/4
E Southey	Webber Wentzel	5/5
D Spavins	KPMG Inc	5/5
S van Esch	University of the Witwatersrand/KPMG Inc	5/5
J Conradie/J van Schalkwyk	Office of the Auditor-General	2/5

## The history of audit standard-setting in SA

The Auditing and Assurance Standards Board (AASB) was established in 2005 in anticipation of the provisions of the new audit legislation. Prior to 2005, the auditing standard-setter of the Public Accountants' and Auditors' Board (PAAB) comprised of the Auditing Standards Committee (ASC) and the Auditing Standards Board (ASB). The ASB was primarily responsible for approving all auditing pronouncements, while the ASC served as its working committee.

Shortly before the restructuring of the auditing committees at the PAAB, the setting of auditing standards was the responsibility of the South African Institute of Chartered Accountants (SAICA). In 2001, the function and responsibility was transferred to the PAAB as a result of some major global developments in the accounting and auditing environment. These developments included the various business and audit failures, international and local, and the consequential loss of confidence by the public in the auditing

## ***Auditing and Assurance Standards Board*** *continued*

profession. Governments and other authoritative bodies responded on a global scale by increasing oversight over the profession and strengthening the independence of auditors. These actions were evidenced in changes to professional codes of conduct as well as in legislation. Changes also occurred through improvements to auditing standards. These improvements were effected by strengthening audit procedures in the areas of risk identification, fraud and quality control, as well as through the international clarity project which is aimed at clarifying audit requirements for auditors.

South Africa has always been aware of global developments and proactive in responding to the changing needs of its stakeholders. Having served on the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for almost a decade, it not only remained up to date with developments in respect of auditing standards, but was also able to influence its direction. During the early nineties, in anticipation of the imminent internationalisation of standards, South Africa harmonised its local auditing standards with the international auditing standards. When the AASB approved the adoption of international standards on auditing with effect from 1 January 2005, there was therefore no major disruption in the way audits were performed locally. The adoption demonstrated South Africa's commitment to aligning with global best practices as well as its recognition of the need for the rest of the international community to understand that South African auditing practice was in uniformity with other first-world countries. This inevitably increased confidence in the integrity of the South African financial markets, which in turn has a positive impact on investment in South Africa. This need was also reflected in the provisions of the Auditing Profession Act, which requires local auditing standards to be aligned with international standards.

Against the backdrop of the changes in the auditing profession, it became paramount that the standard-setter strengthened its independence from the profession. This was demonstrated by the transfer of the audit standard-setting function to the regulator and the establishment of a Consultative Advisory Group (CAG) in 2005, which has as one of its functions the enhancement of the transparency and accountability of the standard-setting function.

The AASB had an ambitious work programme for 2005. Its main activities, as determined by its Steering Committee, are summarised below.

### **New projects commenced by the AASB in 2005**

Reporting on internal control  
Reporting by auditors of service organisations  
Reporting on donor funding  
Providing second opinions  
Access to audit working papers

### **Auditing pronouncements issued by the AASB in 2005**

#### **Revised Audit Standard on Reporting**

The revised standard on reporting was issued to establish standards and provide guidance on the independent auditor's report issued as a result of an audit of a complete set of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation. During 2005, the IAASB released two new exposure drafts, not yet issued as final pronouncements, which will provide guidance on the modifications to the audit opinion as well as any emphasis of matter or other matters to be reported by the auditor.



The new form of the report is to be applied for auditors' reports dated on or after 31 December 2006. The standard does not allow for the early application of the new form of the report in order to prevent confusion that might arise if both the old and new forms of report were being used at the same time.

#### **Revised Audit Standard on Documentation**

The revised standard recognises the importance of audit evidence being appropriately and adequately documented and establishes stricter requirements regarding the content and timelines for completion of audit working papers and assembly of the audit file.

#### **Practice statements**

During 2005, the AASB approved the issue of four South African Auditing Practice Statements. These practice statements do not establish new standards or principles of auditing, but rather are intended to provide auditors with additional practical guidance on the application of the auditing standards. The four practice statements issued provide guidance in the following areas:

##### ***Quality control***

The practice statement provides practical assistance to auditors and promotes best practice in applying the two standards on quality control in the audits or reviews of historical financial statements.

##### ***Financial reporting frameworks and audit opinions***

The practice statement provides clarity to auditors concerning the effect that the financial reporting framework or basis of accounting has on the auditor's report and takes into account recent developments in the auditing standards in this regard.

##### ***Illustrative auditors' reports on financial statements***

With the alignment of the Statements of South African Auditing Standards with international standards, additional guidance pertaining to specific circumstances in South

Africa, for example, additional illustrations of modified audit reports, was no longer provided. The issue of this practice statement provides additional examples of illustrative audit reports to be used by auditors in conjunction with the relevant international standards.

#### ***Enquiries regarding litigation and claims***

The guidance contained in this practice statement was taken directly from the guidance contained in the Statements of South African Auditing Standards.

#### **Meetings and Task Force Meetings**

During the period under review, the AASB met five times and had 50 task force meetings.

#### **Comment letters**

Ten comment letters were issued during the period under review.

#### **The way forward**

The new audit legislation establishes a Committee for Auditing Standards (CFAS), which composition is determined by legislation. The CFAS has as its primary function the setting of auditing pronouncements and will continue with the work of the AASB.

#### **Appreciation**

I wish to thank the members of the AASB for their unfailing commitment through their participation in the various technical task forces, the secretariat for their support to the AASB and Chairman, and the PAAB for its support for the activities and decisions of the AASB.

**Suresh Kana**

*Chairperson*

# Investigation Committee

Report for the 15 months to 31 March 2006



*Horton Griffiths*

Members		Meetings attended
H Griffiths (Chairman)	PricewaterhouseCoopers Inc	9/9
A De Valance	G C Ford & Co Inc	9/9
I J de Villiers	De Villiers Myburgh	9/9
I Khan	Ernst & Young	6/7
K Kooverjee	PricewaterhouseCoopers Inc	8/9
R Morar	Roshan Morar & Assoc	7/9
C M Read	KPMG Inc	7/9
M Sindane	Ernst & Young	6/9
B Smith	Deloitte.	8/9
T P van der Mescht	Wolmarans Kruger	9/9
W F T van Schalkwyk	Van Schalkwyk & Vennote (resigned)	8/9

## Introduction

During the 15 months ended 31 March 2006 the Investigation Committee had to deal with an ever-increasing number of disciplinary complaints against registered accountants and auditors. This increase is indicative of the growth in awareness regarding the disciplinary processes amongst users of services provided by registered accountants and auditors. Furthermore, it is an indication of trust in the ability of the Board to effectively discipline its members. I have no doubt that this trend will continue.

## Procedure

All complaints received are initially perused by the directorate. If complaints cannot be conciliated by the directorate itself, these are referred to the Investigation Committee. The Investigation Committee is regularly informed regarding all complaints that have not been finally dealt with as well as the reasons for any delays. 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 committee has the power (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 elects 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 must also be referred to the Disciplinary Committee because the practitioner simply does not respond to the Investigation Committee’s communications, and only the Disciplinary Committee is empowered to handle a matter in the absence of the accused.

With regard to the process followed, the most significant enhancement during the period was certainly the appointment of a dedicated investigator to assist the PAAB’s Legal Department. The contribution made by the investigator to expedite investigations and to assist in formulating charge sheets for referrals to the Disciplinary Committee, is much appreciated.

## Period under review

During the course of the 15 months, 151 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:

- 19 alleging negligence in general terms
- 10 concerning the audit of an attorney’s trust account
- 10 concerning deceased estates
- 21 concerning tax
- 3 concerning the audit of a body corporate
- 3 alleging failing to perform timeously or at all
- 3 alleging overcharging
- 10 alleging failure to respond to communications
- 6 alleging dishonesty of some sort
- 11 alleging impaired independence or conflict of interest
- 1 alleging failure to contact the existing auditor
- 3 were trainee accountant related
- 40 arising out of practice review
- 2 alleging acting in a manner in association with a non-qualified person such that the client believed the non-qualified person was an auditor

## Investigation Committee *continued*

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

- 2 alleging irregular appointments
- 1 alleging breach of duty of care as a trustee
- 1 alleging adulterous behaviour
- 1 alleging discrimination
- 1 alleging inappropriate reaction to anonymous allegations
- 1 alleging refusal to release trust funds
- 1 alleging infringement of a trade mark
- 1 alleging holding out as a CA

It must be remembered that the conduct alleged by a complainant is not always the conduct of which a practitioner is ultimately found guilty, if this happens. This is because the Investigation Committee, once made aware of inappropriate conduct, could reach a finding on any element of such conduct once it has completed its investigation.

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

Excluding matters where disciplinary hearings were held, 154 cases were disposed of during the period. Of these cases, 39 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 115 cases were disposed of as follows:

### Matters discharged

- 28 in terms of Rule 3.9.1 (the committee being satisfied that the practitioner had given an acceptable explanation regarding the alleged conduct):
  - 9 alleging negligence
  - 2 concerning administration of a deceased estate
  - 1 alleging overcharging
  - 2 alleging failure to respond to communications
  - 1 alleging inappropriate reaction to anonymous allegations
  - 2 concerning the audit of a body corporate
  - 2 alleging impaired independence or conflict of interest
  - 1 concerning the audit of an attorney's trust account
  - 1 was a referral from the GAAP monitoring panel
  - 2 alleging dishonesty (misappropriation of funds/ unauthorised deduction of fees)
  - 5 were tax related
- 12 in terms of Rule 3.9.2 (the committee being satisfied that the alleged conduct – even if proved – would not constitute improper conduct):
  - 3 alleging negligence
  - 1 partnership dispute
  - 1 alleging failure to respond to communications
  - 1 was trainee accountant related
  - 2 alleging impaired independence or conflict of interest
  - 1 alleging adulterous behaviour
  - 1 alleging discrimination
  - 1 alleging failure to report a material irregularity
  - 1 alleging impaired independence or conflict of interest



- 15 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):
  - 2 alleging negligence
  - 2 concerning tax
  - 4 were trainee accountant related
  - 1 alleging breach of confidence
  - 2 alleging impaired independence or conflict of interest
  - 1 alleging failure to comply with mandate
  - 2 alleging overcharging
  - 1 alleging poaching clients

### Practitioners found guilty

- 5 practitioners were cautioned, by consent. Of these matters:
  - 3 were tax related
  - 1 concerned a deceased estate
  - 1 concerned refusal to resign or hand over documentation
- 1 practitioner was reprimanded by consent. The matter concerned negligence
- 54 practitioners were fined by consent. Of these matters:
  - 1 related to negligence (R100 000)
  - 2 related to the audit of an attorney's trust account (R2 500, and R5 000 suspended on conditions, respectively)
  - 1 related to tax (R10 000, of which R5 000 was suspended on conditions)
  - 2 related to trainee accountants (R5 000 and R10 000 of which R5 000 was suspended on conditions, respectively)

- 1 related to performing the attest function whilst on record as non-attest (R30 000 of which R15 000 was suspended on conditions)
- 1 concerned acting in a manner in association with a non-qualified person such that the client believed the non-qualified person was an auditor (R10 000)
- 1 failing to contact the previous auditor (R5 000)
- 45 arose out of practice review:
  - 1st cycle 3rd review: 1 matter (R10 000 suspended on conditions)
  - 2nd cycle 1st review: 7 matters (R30 000 of which R15 000 was suspended on conditions)
  - 2nd cycle 2nd review: 29 matters (23 fined R30 000, of which R15 000 was suspended on conditions; four fined R20 000, of which R10 000 was suspended on conditions; and two fined R10 000, of which R5 000 was suspended on conditions)
  - 2nd cycle 3rd review: 8 matters (fined R30 000, of which R15 000 was suspended on conditions)

### Matters referred to the Disciplinary Committee

Matters referred to the Disciplinary Committee are reported on elsewhere in this 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. The committee is presently considering such an application.

## ***Investigation Committee*** *continued*

### **The way forward**

In terms of the Auditing Profession Act 26 of 2005, which came into effect on 1 April 2006, the composition, powers and manner of operation of the Investigation Committee (to continue to be known in future as the Investigating Committee) will change considerably. Having served as chairman of this committee for five years, I feel that it is an opportune time for me to step down as chairman of the committee, although I will remain an ordinary member to assist the committee during the implementation of the new legislation.

### **Appreciation**

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, between meetings. Thank you to all the committee members for their commitment and especially their willingness to contribute hours and hours of preparation before each meeting.

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

**Horton Griffiths**

*Chairperson*





## Disciplinary Committee

Report for the 15 months to 31 March 2006



Sander van Maaren

Members	Hearings attended	Panel of chairmen	Hearings attended
S J van Maaren (Chairman) – S J van Maaren	5	The Hon G Friedman	3
B E Abrahams – Brian Ellis Abrahams	1	The Hon C Plewman	1
D I Boake – Boake Inc	2	Adv W H G van der Linde SC	1
F M Bruce-Brand – Moore Stephens MWM Inc	4	Adv J P V McNally	1
J S W Clulow – Alan H English & Co	1	Adv A C Dodson	1
J H du Plessis – Geyser & Du Plessis	1	Mr D C M Gihwala	3
W P du Plessis – Strydom Du Plessis	2		
B J Eaton – RSM Betty & Dickson	3		
A Jagga – Deane & Thresher	3		
G A Noble – RSM Hills Howard	5		
I D Patel – Gcabashe Inc	4		
C R Qually – Deloitte.	1		
C F Reid – Lowe & Co (CA) SA Inc	4		
J Rhynes – Deloitte.	1		
H C Staple – PricewaterhouseCoopers Inc	2		
N Gerber – Morrison Murray (resigned)	5		

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.

## Disciplinary Committee *continued*

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 six chairmen, any one of whom can be called upon to chair a hearing.

As from 1 April 2006, the new Auditing Profession Act was put in place, and the disciplinary procedure, as well as the composition of the Disciplinary Committee, will change. This is accordingly the last chairman's report that I will be submitting.

It seems an appropriate time, in the history of our profession, to look back to 1951 when Act 51 of 1951 came into being and consider how the Disciplinary Committee commenced its operations and how it developed its procedures over the years.

In the early 1950s, the Disciplinary Committee was responsible for handling the initial enquiry, conducting the investigation and holding the disciplinary hearing.

The committee's first meeting took place on 18 and 19 June 1953, and was conducted by four members, the apology of the fifth member being noted. It is interesting to note the main issue was whether:

- (a) the expression "professional work" would cover any work such as the administration of estates, liquidations,

etc, which a person holding himself out as a Registered Accountant & Auditor undertook; and

- (b) if not, whether the use by such person of a letterhead, on which he described himself as an RA&A, would make such types that of professional work.

Legal opinion was obtained, which was that the practitioner should use separate letterheads for this type of work other than accounting and audit work. However, it was also the legal opinion that the committee did not have a very good case as the liquidation and the work of administration did not appear to constitute "professional work". The latter expression included only work performed as an accountant or auditor.

It was suggested that there be an amendment to Rule 2(1) of the Rules of Professional Conduct so as to cover all work which might be undertaken by a registered accountant and auditor.

The second meeting of the Disciplinary Committee took place on 19 June 1954 and dealt with a complaint arising from an advertisement which appeared in the *Cape Argus*, and for soliciting professional work by way of circulars.

Thereafter a number of complaints were received from the JSE, all relating to the issuing of incorrect certificates.

The 1951 Act and the Rules were new and required refining and amending, particularly as there was no precedent regarding definitions and interpretations. Much time was spent in the early days in consulting and obtaining legal interpretations and opinions from the Board's legal advisors – not that different a process, I suspect, as I envisage the new committee will need to undertake with the new Act.



The number of hearings increased in 1958 through to 1961 and the committee often spent a week at a time dealing with the enquiries, investigations and hearings, most in unchartered waters. As far as it has been recorded in the minutes, the first time that the full details of a hearing were published (in *The South African Accountant*) was in late 1958, but surprisingly the committee decided that the amount of the fine was not to be disclosed.

In 1960 the procedures to be followed in a hearing were formally discussed and drafted, and it was at this time that there was talk of the necessity of having two committees functioning, broadly, as a "lower and a higher court". The "lower court" would have limited powers and would deal with cases in a much less formal way (there would be no legal representation on either side). This would save considerable time and costs. This was then the Investigation Committee which would have powers to impose penalties. The accused would be given an option to accept the committee's finding and sentence without a right of appeal. If the accused rejected an offer, the case would go through to a hearing by the Disciplinary Committee. This is to a large extent the procedure followed up until now, with the proviso that if the matter is regarded as serious or involves fraud in its broadest meaning, the matter would proceed direct to the Disciplinary Committee.

In December 1961, for the first time, a hearing proceeded for a full week, at which hearing the accused was found guilty of five of the 13 charges against him. In this particular case a legal advisor had been appointed to advise the committee. Such procedure was unusual at that time. Only from about 1985 did the Board, as a matter of course, appoint a legal advisor to assist the committee and advise on matters of evidence and procedure. In 2003 the procedures changed

further in that a lawyer was appointed to serve as chairman at all hearings.

To have hearings which proceed for a week is unusual, but has happened from time to time. However, the normal duration of a hearing is a day or two.

The level of fines back in the 1950s was in the region of £50 but within a few years increased to £100 where it remained at for a number of years. The level of fines, per offence, increased in 1988 from R5 000 to R10 000, to R50 000 in 1992, to R100 000 in 1999 and in 2001 to R150 000. These increases had little to do with inflation but more with the committee being able to impose a fine at the appropriate level to fit the offence.

It is customary for the punishment to include an award of costs and this was also done from the early 1950s.

The types of offence have varied over the years, and there is no pattern except to say that we no longer have complaints about advertising. In the 1980s to mid-1990s there were a number of attorney trust audit complaints, and in 2002 to 2005 there were a number of charges relating to practice reviews, which had started a few years earlier.

It is safe to say that each case is different and in a way unique and relies on the charge and the evidence produced by the pro forma complainant, defence counsel and witnesses.

The disciplinary procedures adopted by the PAAB have stood the test of time. These have been challenged three times on review in the High Court (and in one instance the finding of the judge hearing the review, taken on appeal).

## Disciplinary Committee *continued*

On each occasion the court ruled in favour of the PAAB with costs. In the case heard in 2001, the costs were R215 000.

### Period under review

The Disciplinary Committee was called on to hear 10 matters, involving 12 practitioners, during the period under review.

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 concerned an auditor who entered premises and removed data (electronic and hard copies) without the permission of the owner. The practitioner was found guilty of one charge and fined. Partial publication was ordered in *Maneo* as well as a contribution to costs.

### Case two

This case arose out of a complaint by a business partner. The practitioner was found guilty of three charges and suspended from practice for a period of five years. The sentence was suspended on conditions. Partial publication was ordered in *Maneo* as well as a contribution to costs.

### Case three

This case arose out of a practice review. The practitioner was found guilty of two charges and sentenced to permanent disqualification from registration. Full publication was ordered in *Maneo* as well as a contribution to costs.

### Case four

The matter arose out of a complaint by another practitioner as well as by the Law Society. At the first sitting the matter was postponed *sine die* to enable the practitioner to obtain legal representation. The matter proceeded at a later date and judgement was reserved. The finding was ultimately handed down on 12 May 2006. The practitioner was found guilty of seven charges, and fined. Partial publication was ordered in *Maneo* as well as a contribution to costs.

### Case five

The committee sat to hear a matter which was not concluded in the three days set aside for it. The matter resumed at a later date in August 2005. The practitioner was found guilty of contravention of paragraph 6.2 of the code of conduct (disclosure of potential conflict) and fined. Partial publication was ordered in *Maneo* as well as a contribution to costs.

### Case six

The case arose out of a failure by the practitioner to remunerate a staff member for services rendered. The practitioner was found guilty in absentia and fined. Partial publication was ordered in *Maneo* as well as a contribution to costs.

### Case seven

This case concerned the audit of an attorney's trust account. Both partners involved were found guilty of two charges and fined. Partial publication was ordered in *Maneo* as well as a contribution to costs.



### Case eight

This matter concerned the audit of Regal Bank for the 2000 and 2001 financial years. The practitioners were acquitted. Full publication of the matter took place in *Maneo*.

### Case nine

The case arose out of various complaints from clients. The practitioner was found guilty of nine of the 12 charges against him and sentenced to suspension from practice for one year. The sentence was suspended on conditions. Partial publication was ordered in *Maneo* as well as a contribution to costs.

### Case ten

The case arose out of a complaint received by a fellow professional regarding the administration of a deceased estate. The practitioner was found guilty on two of four charges and sentenced to suspension from practice for three years. The sentence was suspended on conditions. Partial publication was ordered in *Maneo* as well as a contribution to costs.

### General

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

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.

### Appreciation

To all the members who have served on the Disciplinary Committee, past and present over the 55 years, our sincere thanks for their willingness to serve and give up their valuable time.

To the staff of the legal secretariat, thank you for your efforts and diligent work and for making the disciplinary function work so efficiently.

I wish the new committee all the very best in carrying this crucial function forward.

**Sander van Maaren**

*Chairperson*



## Education Committee

Report for the 15 months to 31 March 2006



*Jeff Rowlands*

Members		Meetings attended
Prof J E Rowlands (Chairperson)	Nelson Mandela Metropolitan University	6/6
Mr M Engelbrecht (Vice-chairperson)	PricewaterhouseCoopers Inc	6/6
Mr S G Ball	PricewaterhouseCoopers Inc (resigned)	4/6
Mr I Gamliel	Moore Stephens MWM	6/6
Mr J Grist	Jeremy Grist & Associates (Pty) Limited	0/6
Mr A K Hoosain	Office of the Auditor-General (resigned)	2/6
Prof D Forsyth	Nelson Mandela Metropolitan University	6/6
Mr E Lehapa	Deloitte.	4/6
Mr J Mthimunya	AloeCap (Pty) Limited	6/6
Mr J J Njeke	Kagiso Trust Investments	2/6
Mr M Olver	Deloitte.	5/6
Prof L Stainbank	University of KwaZulu-Natal	5/6
Mr G Teare	KPMG Inc	4/6
Mr L Tomlinson	Ernst & Young	4/6
Mrs S van Esch	KPMG Inc	6/6
Mr H Wessels	PricewaterhouseCoopers Inc	5/6
Mr T Zakuza	T S Zakuza & Company	6/6
Ms Z Silwa	Nkonki	1/2
Mr Y Ismail	Datay Mohamed Ismail Chartered Accountants	2/3
Mr F Tonelli	PricewaterhouseCoopers Inc (resigned)	1/6



The period under review proved to be one of the most challenging in recent history, mainly due to the promulgation of the Auditing Profession Act in December 2005 and the need to anticipate and respond to it. I am pleased to report that the Education Committee (EDCOM) rose to this challenge in addition to carrying out its other duties, particularly those relating to the Public Practice Examination, its monitoring role and the transformation of the profession.

### The Accreditation Model

The Accounting Profession Act (APA) was signed into law by the President on 12 January 2006 and became effective on 1 April 2006. The APA has significant implications for education and training, however, EDCOM has had the opportunity to study numerous drafts of the legislation over some years and to make significant contributions to submissions to the Minister prior to the legislation being finalised. This allowed the EDCOM to prepare for implementation of the APA enabling a seamless transition from exercising its duties under the previous legislation (Public Accountants' and Auditors' Act, 1991) to fulfilling its functions under the APA.

The education and training provisions of the APA are based upon the accreditation of professional bodies. Accreditation or partial accreditation enables a professional body to carry out some or all of the education, training and assessment programmes required for admission to the Public Practice Examination (PPE) of the Independent Regulatory Board for Auditors (IRBA). It is particularly noteworthy that the legislation allows for recognition of education, training and assessment programmes at the discretion of the IRBA. The IRBA took the decision to continue to recognise the education, training and assessment programmes of The

South African Institute of Chartered Accountants (SAICA) that have been recognised in the past, subject to ongoing review. An important implication of this decision is that the PPE will remain the responsibility of the IRBA.

The EDCOM will finalise and approve accreditation criteria (Accreditation Model) by mid-2006. This model, which will be used from 2007, will enable the EDCOM to evaluate applications from professional bodies for full or partial accreditation. The Accreditation Model will incorporate the Recognition Model which has been in place for some years and was used under the previous legislation for the monitoring of education, training and assessment programmes of professional bodies. It is intended that, before final adoption of the Accreditation Model, there be opportunity for interested parties to provide comment and suggestions.

### The Public Practice Examination

Of the 2 331 candidates who sat for the November 2005 Public Practice Examination (PPE), set by the Public Accountants' and Auditors' Board (PAAB), the predecessor to the IRBA, 1 475 candidates passed. This represents a pass rate of 63% (2004: 70%). The pass rate for candidates who wrote for the first time was 72% (2004: 78%). Three candidates were awarded honours for achieving a mark over 75%.

The 2005 PPE was written under open-book conditions for the second time, and as for 2004, the response to the open-book policy was positive. An independent review of the 2005 PPE was carried out with the results of the review confirming the high quality of the assessment. Independent review of the PPE was first initiated by the EDCOM in 2003.

## **Education Committee** *continued*

The Chairman of the Examination Subcommittee, Mr Herman Wessels, his committee and the question-composing team are commended for their efforts in preparing and marking the 2005 PPE.

The format of the 2006 PPE due to be written in November of this year has been changed to accommodate the introduction of reading time. The examination will take the form of two papers written on the same day, each of two and a half hours duration. Candidates will be afforded an additional half hour reading time for each paper. The introduction of reading time was extremely well researched, with the views of all interested parties being thoroughly canvassed. I consider this to be a significant improvement in the ability of the PPE to assess the professional competence of candidates.

### **Monitoring of recognised programmes**

The Monitoring Committee (MCOM) issued the final monitoring reports with respect to the 2004 recognised programmes of SAICA. The monitoring process is designed to conduct an objective assessment of the recognised programmes against the recognition standards defined 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 PPE was accordingly confirmed.

The monitoring of programmes of professional bodies will in future be carried out in accordance with the provisions of the APA as embodied in the Accreditation Model referred to above.

### **Transformation of the profession**

Increasing the number of black accountants and auditors is a national imperative, and the IRBA, SAICA, the universities and the professional firms are working aggressively to address this matter. In 2005, the PAAB's National Education Fund provided funding for a Black Support Programme for those black candidates (including African, Coloured and Indian) who had 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/Durban 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 117 candidates who participated in and completed the Support Programme, 58 passed the PPE, representing a pass rate of 50%. The pass rate for repeat black candidates who did not attend the programme was 42%.

### **Continuing Professional Development**

In anticipation of the APA the EDCOM developed a policy for Continuing Professional Development (CPD). Not only is CPD a requirement of the APA, it is also a condition for membership of most professional bodies. The IRBA has a duty to ensure that all auditors engage in CPD activities, which develop and maintain the competence demonstrated in the PPE on entering the profession.

The view of the EDCOM is that a CPD policy will formalise the professional approach of most auditors, which is to continually develop competence related to their professional



practice. The EDCOM researched this matter fully and the policy, which has been developed is in accordance with international practice, and is also intended to complement the CPD policies of accredited professional bodies. In the latter regard the EDCOM ensured that its CPD policy complements the recently introduced CPD policy of SAICA. Careful planning of CPD activities will ensure that registered auditors will involve themselves in CPD, which will simultaneously satisfy the requirements of the IRBA and SAICA.

### Membership of the Education Committee

Mr Fulvio Tonelli and Mr Steve Ball, both representatives of the SAICA Education Committee and both members of the EDCOM and EXAMCOM, and Mr Jeremy Grist, also a SAICA representative on the EDCOM, all resigned during the year. Their positions have been filled by J J Njeke, S Zilwa and Phillip Austin, all representing the SAICA Education Committee.

Mr Y Ismail joined the EDCOM during the year. Ms Mandi Olivier, the Project Director: Education of SAICA, was invited to attend EDCOM meetings as an observer.

### Appreciation

My sincere gratitude is extended to the committee members who unselfishly gave their time and expertise during the period. 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 Fulvio Tonelli and Steve Ball, both of whom made a very significant contribution over many years to the deliberations of the EDCOM and particularly to the setting and marking of the PPE.

My particular thanks to Laine Katzin who has resigned her position as Educationist in the Education and Training Department. Her deep understanding of education and the experience which she has brought to the EDCOM has been invaluable. The development of the EDCOM policy over recent years has relied heavily on her expertise and insight.

**Professor Jeff Rowlands**

*Chairperson*

## Practice Review Committee

Report for the 15 months to 31 March 2006



Danny Naidoo

Members		Meetings attended
S Naidoo (Chairman)	Grant Thornton	4/5
P J Brink	KPMG Inc	5/5
D D Nagar	Grant Thornton	5/5
J G Beaumont	Deloitte.	5/5
R P Brussow	Marais & Crowther	4/5
C N Mbili	Simama Chartered Accountants	1/1
F F Scheepers	Ernst & Young	New member
B J Olivier	PricewaterhouseCoopers Inc	New member

The Public Accountants' and Auditors' Act was amended in June 1993 when sections 13(p) and 22A, pertaining to Practice Review, were promulgated. The term Practice Review refers to the system whereby employees of a professional body review the standards of practising members of the professional body on a periodic basis. All practitioners registered with the PAAB who perform the attest function are subject to the practice review process. A practitioner must be found satisfactory in a review cycle before proceeding to the next review cycle. The reviews are performed by qualified Chartered Accountants employed on

a full-time basis by the Practice Review Department. Since inception to date, the Practice Review Department has had three Directors being: Rob Theunissen, Bhasker Patel and currently Jillian Bailey. The Practice Review Committee is responsible for determining the outcome of review findings on an anonymous basis and assessing the quality and consistency of review reports. In addition, the committee determines the nature of attest assignments subject to practice review and sets the re-review criteria for each review cycle.





The first engagement review cycle commenced in December 1994 and the second engagement review cycle started in April 1999. To date a total of 7 250 engagement reviews have been performed. The primary objective of the practice review process continues to be monitoring the compliance by practitioners with appropriate levels of professional standards in the performance of the attest function. The secondary objective is to provide guidance to practitioners to assist them to improve their standards.

During the period January 2005 until March 2006, a total of 743 engagement reviews were performed. As at March 2006, a total of 3 349 second cycle reviews had been completed of which 937 were repeat reviews. During the period, a further 40 practitioners were referred to the Investigation Committee, bringing the total number of such referrals, since inception of the practice review process, to 218.

Roadshows were held around the country in October 2005 to inform practitioners of the process to be followed in the third review cycle. The third review cycle commenced in February 2006. The engagement reviews are now performed on either a three- or six-year cycle depending on the classification of a practitioner's attest portfolio. Engagement

reviews are carried out independently from the firms' internal reviews. In addition, a new type of review has been introduced, being the firm review which will assess a firm's compliance with quality controls required by the standards. All audit firms involved in the audit of listed companies, including audits of subsidiaries/associates/joint ventures of listed companies, are subject to a firm review. Firm reviews will be performed on a three-year cycle.

### Appreciation

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

**Danny Naidoo**

*Chairperson*

## **Corporate Governance Statement**

*Report for the 15 months to 31 March 2006*

### **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 43 persons.

### **The Board**

The Board appoints a smaller Executive Committee (currently six 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 standards and standards of professional conduct, and 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 from 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 meets at least three times per annum to review the operations and performance of the PAAB and to approve strategies, policies, budgets, major contracts and commitments.

### **The Executive Committee**

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

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

### **Other committees**

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

A Nominations Committee has been established to manage the nominations to, and composition of IRBA committees.

### **Audit Committee**

The Board appoints a two-member Audit Committee, one of whom shall be a suitably qualified independent person and the other a Board member who is not a person nominated by the profession. 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 period 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 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 action and in this regard has lodged its employment equity plan with the Department of Labour.

### Board and EXCO members' attendance – 1 January 2005 to 31 March 2006

Board	Meetings attended
Ms R E Benjamin-Swales	4/4
Mr C F Reid	3/3
Mr S Fakie	2/4
Alternate	1
Mr J van Rooyen	1/3
Alternate	1
Mr F Nomvalo	2/4
Alternate	1
Mr J A Rock	3/4
Alternate	1
Ms Y Maya	1/1
Mr R Voller	3/3
Mr T C Barnes	4/4
Mr D D Nagar	4/4
Mr W P du Plessis	4/4
Mr R P Brussow	4/4
Mr G J le Roux	3/4
Ms C Emslie	4/4
Ms F Mtoba	3/4
Prof C Koornhof	4/4
Prof D Vorster	3/4
K Kooverjee	1/1
N Radebe	1/1
G Everingham	0/1
<b>EXCO</b>	<b>Meetings attended</b>
<b>2005</b>	
Ms R E Benjamin-Swales	4/4
Mr C F Reid	3/4
Ms C R Emslie	3/4
Mr W P du Plessis	4/4
Mr D D Nagar	4/4
Prof C Koornhof	2/4
Mr F Nomvalo	2/4
Alternate	1
<b>2006</b>	
Mr D D Nagar	1/1
Mr W P du Plessis	1/1
Ms R E Benjamin-Swales	1/1
Ms C Emslie	1/1
Prof C Koornhof	1/1
Mr F Nomvalo	0/1

## ***Statement of Responsibility of Board Members***

*for the 15 months to 31 March 2006*

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 34 to 43 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, which has been subsumed into the Independent Regulatory Board for Auditors, 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 33.

The annual financial statements of the Public Accountants' and Auditors' Board were approved by the Board on 21 June 2006 and are signed on its behalf by:

**Deepak Nagar**

*Chairperson*

21 June 2006



## *Report of the Independent Auditors*

### **To the members of the Public Accountants' and Auditors' Board**

We have audited the annual financial statements of the Public Accountants' and Auditors' Board set out on pages 34 to 43 for the 15 months to 31 March 2006. 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 March 2006 and the results of its operations and cash flows for the period then ended in accordance with South African Statements of Generally Accepted Accounting Practice.

**KPMG Inc**

*Registered Auditors*

*Chartered Accountants (SA)*

Johannesburg

21 June 2006



**Balance Sheet**

at 31 March 2006

		2006	31 December 2004
	Note	R	R
<b>Assets</b>			
<b>Non-current assets</b>			
		<b>4 703 162</b>	4 381 302
Property	2.1	<b>3 935 376</b>	4 118 485
Furniture, computers, equipment and motor vehicle	2.2	<b>767 786</b>	262 817
<b>Current assets</b>			
		<b>10 341 662</b>	4 824 246
Accounts receivable and prepayments		<b>3 443 152</b>	1 714 877
Cash and cash equivalents		<b>6 898 510</b>	3 109 369
		<b>15 044 824</b>	9 205 548
<b>National Education Fund investment</b>	3	<b>2 355 725</b>	2 428 560
<b>Total assets</b>		<b>17 400 549</b>	11 634 108
<b>Reserves and liabilities</b>			
<b>Reserves</b>			
<i>Board</i>			
		<b>4 282 896</b>	5 518 978
Accumulated funds		<b>797 816</b>	2 751 398
Disciplinary Reserve Fund		<b>3 485 080</b>	2 767 580
<i>National Education Fund</i>			
Accumulated funds		<b>2 355 725</b>	2 428 560
		<b>6 638 621</b>	7 947 538
<b>Current liabilities</b>			
		<b>10 761 928</b>	3 686 570
Accounts payable		<b>1 675 841</b>	1 829 712
Fees in advance		<b>7 481 836</b>	128 517
National Education Fund		<b>1 604 251</b>	1 728 341
<b>Total reserves and liabilities</b>		<b>17 400 549</b>	11 634 108



## Income Statement

for the 15 months to 31 March 2006

		31 December	
		2006	2004
	Note	R	R
<b>Revenue</b>	8		
Fees		14 926 022	10 639 192
Registrations		1 175 824	723 435
Annual		9 887 452	7 264 415
Training contracts and levies		3 687 746	2 491 342
Monitoring		175 000	160 000
Recoveries of independent review costs		195 459	—
Interest		382 822	302 420
		15 504 303	10 941 612
<b>Expenditure</b>			
General and administration		12 416 658	7 294 964
Administration expenses	4	10 215 596	6 025 393
Board and committee expenses	6	861 604	372 174
Legal expenses		336 337	35 292
Local secretaries' expenses		109 065	129 093
Public relations		602 307	403 440
Publications		291 749	329 572
Disciplinary expenses		483 136	348 468
Committee expenses		525 343	380 058
Legal and other expenses		2 393 005	1 046 359
Disciplinary expense contribution		(1 096 434)	(252 667)
Cost awards		(621 278)	(154 782)
Disciplinary fines		(717 500)	(670 500)
Practice review		1 409 049	(499 290)
Practice review fee income		(7 435 956)	(6 318 328)
Salaries and direct expenses		7 855 005	5 083 038
Allocated expenses	4	990 000	736 000
Auditing standards		2 407 736	1 532 813
Salaries, travel and other direct expenses		2 127 736	1 328 813
Allocated expenses	4	280 000	204 000
Examinations		23 806	59 359
Entrance fees and other income		(2 013 552)	(1 948 721)
Expenses	7	2 037 358	2 008 080
		16 740 385	8 736 314
<b>(Deficit)/surplus for the period</b>		<b>(1 236 082)</b>	<b>2 205 298</b>

***Statement of Changes in Funds****for the 15 months to 31 March 2006*

	National Education Fund R	Accumulated Funds R	Disciplinary Reserve Fund R	Total R
<b>Balance at 1 January 2004</b>	2 659 873	1 216 600	2 097 080	5 973 553
(Deficit)/surplus for the period	(231 313)	2 205 298	—	1 973 985
Transfer (from)/to reserve				
– disciplinary fines	—	(670 500)	670 500	—
<b>Balance at 31 December 2004</b>	2 428 560	2 751 398	2 767 580	7 947 538
<b>Balance at 1 January 2005</b>	2 428 560	2 751 398	2 767 580	7 947 538
(Deficit)/surplus for the period	(72 835)	(1 236 082)	—	(1 308 917)
Transfer (from)/to reserve				
– disciplinary fines	—	(717 500)	717 500	—
<b>Balance at 31 March 2006</b>	2 355 725	797 816	3 485 080	6 638 621



## Cash Flow Statement

for the 15 months to 31 March 2006

		31 December
	2006	2004
Note	R	R
<b>Cash flows (applied to)/generated from operating activities</b>		
Net (deficit)/surplus for the period	(1 308 917)	1 973 985
Board	(1 236 082)	2 205 298
National Education Fund	(72 835)	(231 313)
Adjustment for:		
– depreciation	4 401 574	382 976
– interest income	(433 852)	(342 766)
<b>Operating (deficit)/income before working capital changes</b>	<b>(1 341 195)</b>	<b>2 014 195</b>
Working capital changes	5 471 173	(364 192)
– increase in accounts receivable	(1 728 275)	(286 595)
– increase/(decrease) in accounts payable and fees in advance	7 199 448	(77 597)
Cash flows generated by operations	4 129 978	1 650 003
Interest income	433 852	342 766
<b>Net cash inflow from operating activities</b>	<b>4 563 830</b>	<b>1 992 769</b>
<b>Cash outflow on investing activities</b>		
– additions to equipment	2.2 (723 434)	(89 926)
Net increase in cash and cash equivalents	3 840 396	1 902 843
Cash and cash equivalents at beginning of period	3 809 588	1 906 745
Cash and cash equivalents at end of period	7 649 984	3 809 588
Comprising:		
National Education Fund		
Bank deposit	3 751 474	700 219
Public Accountants' and Auditors' Board		
Cash and cash equivalents	6 898 510	3 109 369
	7 649 984	3 809 588

NATIONAL EDUCATION FUND

# *Income Statement*

*for the 15 months to 31 March 2006*

		2006	Year ended 31 December 2004
	Note	R	R
<b>Revenue</b>			
Bridging programme funding		782 138	300 000
Interest			
– Board		160 225	160 000
– Bank		51 030	40 346
		993 393	500 346
<b>Expenditure</b>			
Portion of Board's education and administration expenses	4	70 000	30 000
Bursary awards		65 000	54 570
Accreditation model		164 700	—
Examination bridging programme		722 647	635 066
Meetings and other expenses		29 022	4 500
Publications – SA Journal of Accounting Research		14 859	7 523
		1 066 228	731 659
<b>Deficit for the period</b>		<b>(72 835)</b>	<b>(231 313)</b>





# Notes to the Financial Statements

for the 15 months to 31 March 2006

## 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, are depreciated on a straight-line basis at the following rates estimated to write off each asset to residual value over the term of its useful life.

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

- 1.2** Appropriate portions of the Board's education and administration expenses are allocated to the examinations, practice review and auditing standards functions as well as to the National Education Fund expenses.

- 1.3** Retirement funding in respect of the defined contribution plan is expensed as incurred.

- 1.4** 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.

In all cases cost presents fair value.

## **1.6 Revenue recognition**

Revenue comprises fees – for registrations, annual, training contracts and levies, monitoring – as well as practice review, examination fees, disciplinary expense contribution and interest income. Fees received in advance are accrued on a time apportionment basis.

**Notes to the Financial Statements** *continued**for the 15 months to 31 March 2006*

		31 December	
		2006	2004
		R	R
<b>2. Non-current assets</b>			
<b>2.1 Property</b>		<b>3 935 376</b>	<b>4 118 485</b>
Cost		<b>5 389 020</b>	5 389 020
At beginning of period		<b>5 389 020</b>	5 389 020
Accumulated depreciation		<b>1 453 644</b>	1 270 535
At beginning of period		<b>1 270 535</b>	1 124 048
Charge of the period		<b>183 109</b>	146 487
<p>The property, comprising land and buildings, is situated at Erf 201 Bruma Township.</p> <p>The property is valued every four to five years on the net existing use basis by independent valuers. As at 31 December 2004, the value was R5 770 000.</p>			
<b>2.2 Furniture, computers, equipment and motor vehicle</b>		<b>767 786</b>	<b>262 817</b>
<b>2.2.1 Furniture, computers and equipment</b>		<b>755 786</b>	<b>250 817</b>
Cost		<b>2 814 017</b>	2 285 145
At beginning of period		<b>2 285 145</b>	2 242 039
Additions		<b>723 434</b>	89 926
Disposals		<b>(194 562)</b>	(46 820)
Accumulated depreciation		<b>2 058 231</b>	2 034 328
At beginning of period		<b>2 034 328</b>	1 844 659
Charge for the period		<b>218 465</b>	236 489
Disposals		<b>(194 562)</b>	(46 820)
<b>2.2.2 Motor vehicle</b>		<b>12 000</b>	<b>12 000</b>
Cost		<b>90 282</b>	90 282
At beginning of period		<b>90 282</b>	90 282
Accumulated depreciation		<b>78 282</b>	78 282
At beginning of period		<b>78 282</b>	78 282
Charge for the period		<b>—</b>	—
<b>Total net book value</b>		<b>4 703 162</b>	<b>4 381 302</b>



	2006 R	31 December 2004 R
<b>3. National Education Fund investment</b>		
Bank deposits	751 474	700 219
Owing by the Board	1 604 251	1 728 341
	<b>2 355 725</b>	2 428 560
Amount owing by Board carries interest at the bank deposit rate.		
<b>4. Administration expenses</b>		
Audit fees (note 5)	120 000	101 750
Building maintenance	232 280	213 257
Computer expenses	311 408	451 039
Depreciation	401 574	382 976
General office expenses	1 194 312	528 990
Interest – National Education Fund	160 225	160 000
Insurance	89 422	73 386
Motor vehicle expenses	70 451	44 829
Overseas travel	50 492	28 670
Printing and stationery	812 684	534 850
Salaries and benefits	8 392 116	4 788 889
Telephone and postages	361 302	326 530
Water, electricity and property levy	259 330	210 227
	<b>12 455 596</b>	7 845 393
Less: Apportioned to	<b>2 240 000</b>	1 820 000
Examinations	900 000	850 000
National Education Fund	70 000	30 000
Practice Review	990 000	736 000
Auditing Standards	280 000	204 000
	<b>10 215 596</b>	6 025 393
<b>5. Audit fees</b>		
Current period	120 000	91 750
Underprovision previous year	—	10 000
	<b>120 000</b>	101 750

**Notes to the Financial Statements** *continued**for the 15 months to 31 March 2006*

	2006 R	31 December 2004 R
<b>6. Board and committee expenses</b>		
Board and Executive Committees	411 291	137 930
Accounting Practices Board	15 820	13 600
Education Committees	434 493	220 644
Investigation and Disciplinary Committees	525 343	380 058
	<b>1 386 947</b>	752 232
Less: Transfer to disciplinary expenditure	525 343	380 058
	<b>861 604</b>	372 174
<b>7. Examination expenses</b>		
Administration expenses (note 4)	900 000	850 000
Invigilators' fees and hire of halls and equipment	101 300	88 938
Outsourced salary costs	64 581	56 100
Postage and miscellaneous expenses	73 662	96 360
Printing and stationery	192 819	213 854
Question composers' panel	30 000	50 000
Sundries	7 731	66 828
Umpires' and markers' fees	667 265	586 000
	<b>2 037 358</b>	2 008 080
<b>8. Gross revenue</b>		
Revenue per income statement	15 504 303	10 941 612
Practice Review fee income	7 435 956	6 318 328
Disciplinary expense contribution	1 096 434	252 667
Examination fees and other income	2 013 552	1 948 721
	<b>26 050 245</b>	19 461 328
<b>9. Gross remuneration of CEO</b>		
Packages inclusive of salary and pension fund contributions.		
This amount includes a one-month overlap of CEO's package	1 557 000	950 000



## 10. Operating lease commitments

There are no significant operating lease commitments.

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## 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. Contributions to the fund amount to R944 873 (2004: R880 753).

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## 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.

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## 13. Subsequent event

In terms of the Audit Professions Act, 2005 (Act No 26 of 2005). The Independent Regulatory Board for Auditors (IRBA) came into effect on 1 April 2006. In terms of this Act, all assets and liabilities, and activities of the PAAB transfer to the IRBA on this date.

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## 14. Comparative figures

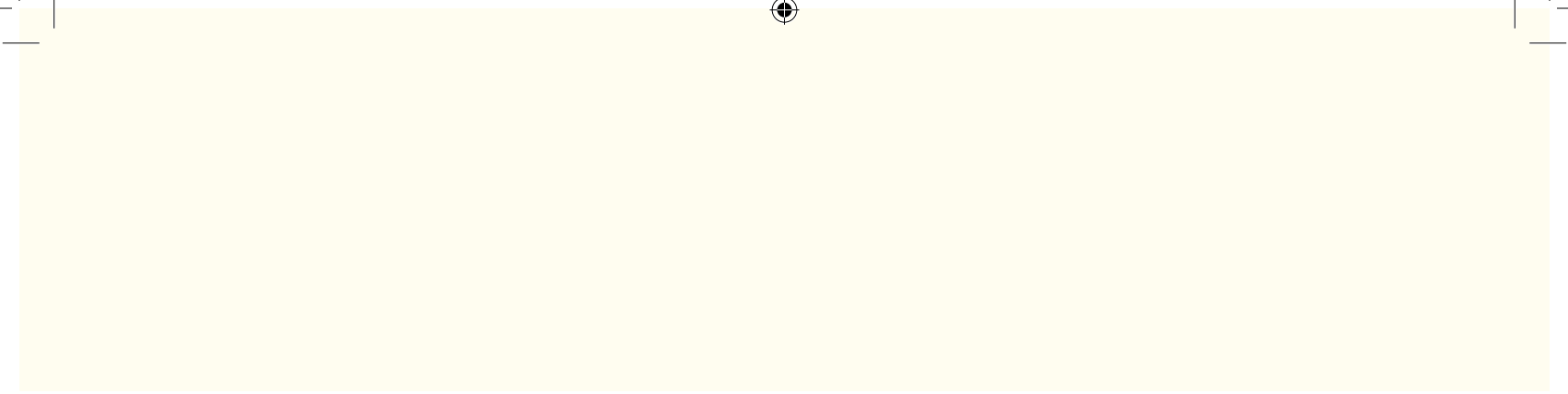
Comparative figures have been regrouped where necessary.

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## 15. Financial instruments

Exposure to interest rate and credit risk arises in the normal course of business. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At the balance sheet date there were no significant concentrations of credit risk. Interest rate risk is limited to fluctuations in the bank interest rate.

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## ***Administrative Offices***

### **Head office**

MANEO, 7 Ernest Oppenheimer Avenue, Bruma, Johannesburg

### **Contact details**

Postal address: PO Box 751595, Garden View, 2047

Telephone: (011) 622-8533

Website: [www.irba.co.za](http://www.irba.co.za)

Email: [board@irba.co.za](mailto:board@irba.co.za)

Docex: 158, Johannesburg

### **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



