



**irbba**

INDEPENDENT REGULATORY BOARD FOR AUDITORS

ANNUAL REPORT 2006/2007

## MINISTER'S FOREWORD



It gives me great pleasure to present the first Annual Report of the Independent Regulatory Board of Auditors (IRBA) for the year ended 31 March 2007. IRBA's forerunner, the Public Accountants' and Auditors' Board (PAAB) laid a foundation which the IRBA carried forward with success in the transitional period in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA).

The IRBA came into being at a time when the auditing profession was hit by scandals of corporate failure and malfeasance across the world, including our country South Africa. In South Africa, as in other parts of the world, we saw those who were entrusted with custodial responsibilities over huge financial resources collude with those bent on corruption. These acts of corruption and culpability serve to undermine a profession that depends on the level of confidence that people have in it. The integrity of this profession remains in doubt, with many watching sceptically at a distance. It is for this reason that at the launch of IRBA in August 2006 we took the opportunity to highlight the mammoth task that IRBA has of regulating this profession in a way that restores its integrity and stakeholders' faith to the profession as envisaged in the founding legislation. The APA thus creates the framework for the regulation of registered auditors as opposed to imposing a set of rules. It also seeks to enhance the independence of the regulatory board, enhance its effectiveness and provide the regulatory board with sufficient powers to carry out its duties. There is no doubt in my mind that, as the contents of this report will highlight; significant milestones have been accomplished in ensuring that IRBA delivers on its mandate of protecting the public interest. The foundations have been firmly laid in the past year and we are confident that these objectives will be met.

The first thing that needs to be noted and lauded is that a new board has been instituted and has begun knuckling down to ensure that the objectives that have been set for this important institution are met. The main achievement by the Board and the Executive staff has been to initiate processes that will ensure that the compliance to the APA becomes a reality. Committees have been established and have begun the important task of setting in place the basic tenets that will ensure development of the profession through continued professional education, the discipline of those who fail to comply or bring the profession into disrepute, accreditation of professional bodies and setting of auditing standards. The alignment of standards to international benchmarks and the continuous development of standards are important developments in ensuring that South Africa keeps abreast of world the standards.

I am confident that the work done in the past year contributes to laying a firm foundation for ensuring the integrity of the South African capital markets and thus making them attractive to investors. I trust that the efforts of the IRBA will ultimately contribute towards the creation of a better life for all South African citizens.

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### Legislative mandate

The Independent Regulatory Board for Auditors (IRBA) is established in terms of section 3 of the Auditing Profession Act, 2005, (Act No 26 of 2005), (the Act) which had an effective date of 1 April 2006. The objectives of the Act as set out in section 2 of the Act are as follows:

- to protect the public in the Republic by regulating audits performed by registered auditors;
- to provide for the establishment of an Independent Regulatory Board for Auditors;
- to improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in South Africa;
- to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession; and
- to provide for procedures for disciplinary action in respect of improper conduct.

General and specific functions and powers are contained in the Act to enable the IRBA to fulfil these objectives. The first year of operation of the IRBA was focused on the transition from the Public Accountants and Auditors Board (PAAB), the body which had been charged since 1951 with a similar mandate under the Public Accountants' and Auditors' Act, 1991 (Act No 80 of 1991) which was being repealed by the Act.

### Strategic focus

During the transition from the PAAB to the IRBA, the focus of the strategy has been as follows:

- defining a vision, mission and the organisational objectives in line with the Act;
- developing and/or amending and implementing key business strategies;

- developing and/or amending and implementing key operational strategies;
- ensuring the ongoing functioning of the IRBA in the least disruptive manner, taking into consideration the transitional provisions as contained in s59 of the Act.

### Organisational strategy

#### The IRBA vision

Our vision is to be an internationally recognised and respected regulator of the auditing profession in South Africa.

#### The IRBA mission

Our mission is to protect the financial interests of the South African public and international investors in South Africa, through the effective regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes, adapted to the South African environment where necessary.

#### The IRBA objectives

In line with our legislative mandate, the IRBA's objectives are to protect the public who rely on the services of registered auditors and support registered auditors who carry out their duties competently, fearlessly and in good faith and to:

- develop and maintain **auditing standards** which are internationally comparable;
- develop and maintain **ethical standards** which are internationally comparable;
- provide an appropriate framework for the **education and training** of properly qualified auditors as well as their ongoing competence;
- **inspect and review** the work of registered auditors and their practices to monitor their compliance with the professional standards;

- **investigate** and take **appropriate action** against registered auditors in respect of non-compliance with standards and improper conduct; and
- conduct our business in an **economically efficient and effective** manner, in accordance with the relevant regulatory frameworks.

#### The IRBA values

As overall custodians of the auditing profession in South Africa, the IRBA acknowledges the importance of the mandate assigned to it by Parliament and all its members and staff ascribe to the following core values:

#### *Independence, integrity and objectivity*

It is imperative that we are not just independent of the auditing profession in our composition and membership, but also reflect **independence** in the perception of our key stakeholders, through our actions and behaviour. It is therefore important that we act with **integrity and objectivity** in our deliberations, decisions and actions.

#### *Commitment*

We also recognise the scope and extent of our mandate and undertake to execute and deliver on this mandate with diligence and **commitment**.

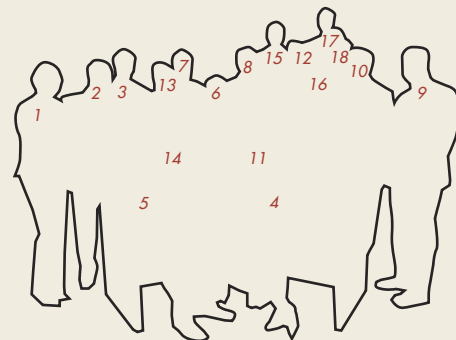
#### *Transparency and accountability*

As a public entity in the overall delivery structure of the South African government and a beneficiary of public funds, we promote **transparency** in our interactions with the relevant stakeholders, and recognise our **accountability** to the Parliament of South Africa and the Minister of Finance as our executive authority.

MEMBERS OF THE INDEPENDENT REGULATORY BOARD  
FOR AUDITORS AND EXECUTIVE STAFF 2006/2007



1 Ms R Malahleha; 2 Mr K Kooverjee; 3 Mr RW Voller; 4 Ms NF Mtoba; 5 Mr DD Nagar; 6 Ms PJ O'Connor;  
7 Mr WP du Plessis; 8 Mr BP Agulhas; 9 Mr RP Brussow; 10 Mr TC Barnes; 11 Mr AK Hoosain; 12 Mrs J Bailey;  
13 Mr JA Rock; 14 Prof C Koornhof; 15 Mr R Ally; 16 Mrs E Andrews; 17 Mr U Naidoo; 18 Prof G Everingham



**MEMBERS OF THE BOARD**  
for the year ended 31 March 2007

	<b>Meetings attended</b>
DD Nagar (Chairman)	4 of 4
WP du Plessis (Deputy Chairman)	4 of 4
TC Barnes	4 of 4
R Barrow	1 of 4
RE Benjamin-Swales	2 of 4
RP Brussow	3 of 4
CR Emslie	3 of 4
G Everingham	4 of 4
C Koornhof	3 of 4
K Kooverjee	2 of 2
JA Rock	1 of 4
GJ le Roux	1 of 1
F Mtoba	1 of 4
SF Nomvalo	3 of 4
RW Voller	3 of 4

<b>Alternate member</b>
R Botha
JA Boyd
GN Chili
LJ Hanner
M Kgosana
FW Lieberberg
CM Linnett
CS Makgeledisa
S Modiba
TM Nombembe
N Radebe
DJ Robertson
EH le Roux
X Sibiyi
A du Toit

## Executive Committee (EXCO) for the year ended 31 March 2007

	Meetings attended
DD Nagar	4 of 4
WP du Plessis	4 of 4
RE Benjamin-Swales	3 of 4
CR Emslie	4 of 4
C Koornhof	2 of 4
SF Nomvalo	2 of 4

## Audit and Risk Management Committee

Members		Meetings attended
HG Motau	(Chairman appointed 07/06/2007)	
CR Qually	(Chairman until 07/06/2007)	3 of 3
SF Nomvalo	(Resigned 11/2006)	1 of 1
N Anderson	(Appointed 23/08/2006)	1 of 2
T Matshazi	(Appointed 23/08/2006)	2 of 2

The Board appointed the following committees during the year in terms of the Act, to assist in the performance of its functions:

Committee	Chairman
Committee for Auditing Standards (CFAS)	S Kana
Committee for Auditor Ethics (CFAE)	E Kieswetter
Education, Training and Professional Development Committee (EDCOM)	J Rowlands
Inspection Committee (INSCOM)	D Naidoo
Investigating Committee (INVESCO)	H Griffiths
Disciplinary Committee (DC)	W van der Linde SC
Disciplinary Advisory Committee (DAC )	W du Plessis
Audit and Risk Management Committee	C Qually

The details of the composition, functions and activities of these committees are set out on pages 20 to 37 and page 44 of this annual report.

## Executive staff of the Board

AK Hoosain	Chief Executive Officer
BP Agulhas	Director: Standards
R Ally	Director: Operations
J Bailey	Director: Practice Review
UI Naidoo	Director: Education, Training and Professional Development
PJ O'Connor	Director: Legal



I am pleased to present the first annual report of the Independent Regulatory Board for Auditors.

The introduction of the Auditing Profession Act, 2005 represented a significant shift in the regulatory oversight of auditors in South Africa. Whilst we recognised the operational foundation created by our predecessor, the Public Accountants' and Auditors' Board (the PAAB), this transitional year focused mainly on the implementation of the Act and creating awareness amongst key stakeholders on the requirements and implications of the Act. We also continued with the ongoing business of the IRBA as carried forward from the PAAB.

I am also pleased to note that the composition of the Board changed as from 1 April 2007, to be in line with the requirements of the Act. The Board now consists of not less than six but not more than 10 non-executive members, appointed by the Minister of Finance. These members, of which not more than 40% may be registered auditors, must effectively manage and guide the activities of the Regulatory Board, based on their knowledge and experience. Appointments to the Board were made taking into consideration, amongst other factors:

- a) the need for transparency and representivity within the broader demographics of the South African population;
- b) any nominations received in terms of subsection (5) of the Act; and
- c) the availability of persons to serve as members of the Regulatory Board.

The focus of the implementation during the transitional year was on the following key activities, which are elaborated on further in this annual report.

- The nomination and appointment of new committees as required by the Act.
- The development of new IRBA method of work with the appropriate delegations to committees.
- The implementation of the reportable irregularities (RI) provisions of the Act.
- The development of a new accreditation model for professional bodies.
- The development and implementation of new registration processes for individual registered auditors and for firms.
- The revision and implementation of all key business processes to align with the requirements of the Act.
- The revision and implementation of all key operational policies and procedures to align with the requirements of the Act.
- Establishing the IRBA identity and creating awareness of the IRBA and the Act.

I am happy to report that the majority of the key projects underlying these focus areas have been completed, or substantially completed by 31 March 2007.

However, I am very much aware that this only represents the first steps towards accomplishing and delivering on the mandate as required by the Act. In his key-note address at the official launch of the IRBA, the Honourable Minister of Finance, Trevor Manuel



*Deepak Nagar (2007)*

articulated the following challenges to the IRBA going forward:

- calling auditors to integrity;
- restoring faith to a profession that has been hit by scandal;
- re-skilling the older members and ensuring that new entrants into the profession buy into a culture that promotes ethical behavioural practices in executing their duties;
- strengthening oversight of the profession, and ensuring that mechanisms to enforce conformity and compliance are developed and are effective; and
- actively seeking to ensure that goals of equity and transformation are vigorously pursued.

It has been an honour and privilege to have served as the first chairman of the IRBA and to have led it through its first year of implementation. I would like to thank the honourable Minister of Finance and my fellow board members for their confidence, commitment and support during this year. I would also like to express my appreciation to the Chief Executive Officer, his directors and support staff for their hard work, commitment and dedication during my term.

**Deepak Nagar**

*Chairman (to 31 March 2007)*

**ACTIVITIES OF THE IRBA**  
for the year ending 31 March 2007

**Key measurable objectives**

The following summarises the activities planned for 2006/7, the planned timeframes and whether targets had been achieved.

**Review of IRBA work method**

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Review of current method of work, meeting procedures and delegations	1 April 2006 to 30 June 2006	Completed
Adoption of revised method of work, meeting procedures and delegations	July 2006	Completed
Implementation of revised method of work, meeting procedures and delegations	1 August 2006 onward	Implemented

**Appointment of new IRBA members for 1 April 2007 to 31 March 2009**

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Call for nominations to serve on IRBA	October 2006	Completed
Evaluation and consideration by nominations committee	November to December 2006	Completed
Submission of recommendations to Minister of Finance	January 2007	Completed
Appointment of new IRBA Board members	March 2007	Completed April 2007

**Committee for Auditor Ethics**

The Act requires in terms of s20(2)(a) the establishment of a Committee for Auditor Ethics which in terms of s21(2) must assist the IRBA to:

- (a) determine what constitutes improper conduct by registered auditors by developing rules and guidelines, including a code of professional conduct;
- (b) to interact on any matter relating to its functions and powers with professional bodies and any other body or organ of state with an interest in the auditing profession; and
- (c) to provide advice to registered auditors on matters of professional ethics and conduct.

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Nomination and appointment of members	1 April 2006 to 30 June 2006	Completed
Terms of reference and method of work	July 2006	Completed
Development of business processes to support Ethics Committee	July 2006 to September 2006	Completed
Approval business processes, resources requirements, work schedule and implementation plan	October 2006	Completed – to be reviewed on an ongoing basis
Implementation of business processes to support Ethics Committee	October 2006 to 31 March 2007	Implemented
Issue a new Code of Professional Ethics	July 2008	Ongoing

### **Committee for Auditing Standards**

The Act requires in terms of s20(2)(b) the establishment of a Committee for Auditing Standards which in terms of s22(2) must assist the IRBA to:

- (a) develop, maintain, adopt, issue or prescribe auditing pronouncements;
- (b) consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and
- (c) promote and ensure the relevance of auditing pronouncements by:
  - (i) considering the needs of users of audit reports;
  - (ii) liaising with the other committees of the Regulatory Board on standards to be maintained by registered auditors and by receiving feedback from such committees on areas where auditing pronouncement are needed;
  - (iii) ensuring the greatest possible consistency between auditing pronouncements and accepted international pronouncements; and
  - (vi) consulting with professional bodies on the direction and appropriateness of auditing pronouncements.

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Nomination and appointment of members	1 April 2006 to 30 June 2006	Completed
Confirmation of terms of reference and method of work and adoption of AASB work schedule	July 2006	Completed
Refinement of business processes to support Audit Standard Committee	July 2006 to September 2006	Completed
Ongoing implementation of work schedule	October 2006 to 31 March 2007	Implemented

ACTIVITIES OF THE IRBA *continued*  
for the year ending 31 March 2007

**Reportable irregularities**

The standards department used to be responsible for the administration and processing of Material Irregularities (MIs) as defined in the PAA Act. In the new APA, the Act replaces the MIs with a new definition of Reportable Irregularities (RIs). Section 45 of the Act sets out the requirements on how RIs are to be dealt with. It was envisaged that RIs will continue to be dealt with by the standards department, but business processes would need to be revised.

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Development and adoption of new guide on RIs by (CAFS)	1 April 2006 to 30 June 2006	Completed
Development of new RI business process	1 April 2006 to 30 June 2006	Completed
Communication and implementation of new RI business process	July 2006 to 31 March 2007	Completed
Ongoing assessment of impact of new RI requirements and business process	July 2006 to 31 March 2007	Ongoing

**Accreditation of professional bodies**

Section 5(a) of the Act requires the IRBA to prescribe minimum requirements for accreditation of professional bodies in addition to those provided for in the new Act. In order for the IRBA to comply with these requirements we needed to develop an appropriate accreditation model (the model) to facilitate the accreditation process.

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Development and adoption of the accreditation model	1 April 2006 to 30 June 2006	Completed
Development of new business process to support the implementation of the model	1 April 2006 to 30 June 2006	Completed December 2006
Communication and implementation of the model and supporting business process	July 2006 to 31 March 2007	Communication completed. Implementation commenced 1 April 2007
Ongoing monitoring and assessment of impact of model and business process	July 2006 to 31 March 2007	From 1 April 2007

### Registration of individuals

Section 37 sets out the requirements relating to the application, consideration and registration of individuals as registered auditors.

Planned activity	Planned timeline	Actual
Review of the current registration process against the Act	1 April 2006 to 30 April 2006	Completed
Updating and refinement of the registration process in line with the Act, including determination of resource requirements	1 May 2006 to 31 May 2006	Completed
Adoption and approval by IRBA	June 2006	Completed
Implementation of new business process	1 July 2006 onward	Implemented

### Registration of firms

Section 38 sets out the requirements relating to the application, consideration and registration of firms as registered auditors. This is a new process required by the new Act.

Planned activity	Planned timeline	Actual
Development of firm registration policy and new business process, including determination of resource requirements	1 July 2006 to 31 August 2006	Completed September 2006 to December 2006
Approval of firm registration policy and business process by IRBA	September 2006	Completed March 2007
Communication of and preparation for implementation of the new business process	1 October 2006 to 31 December 2006	In progress April to July 2007
Implementation of new business process	1 January 2007 onward	To be implemented 1 July 2007

## Other measurable objectives

### Training contracts and officers

Section 7(1) of the new Act requires the IRBA to:

- (a) prescribe training requirements, including, but not limited to, the period of training and the form for training contracts;
- (b) approve and register training contracts entered into by prospective registered auditors;
- (c) prescribe competency requirements; and
- (d) either conditionally or unconditionally, recognise or withdraw the recognition of registered auditors as training officers.

In addition to this s47(1)(a) requires that the IRBA or any person authorised by it, at any time inspect or review the practice of a registered auditor and the *effective implementation of any training contracts*.

These functions are currently being performed by the South African Institute of Chartered Accountants (SAICA), as part of the competence requirements for becoming a Chartered Accountant (CA). However, it is apparent from the Act that the IRBA will also need to perform certain of these functions, particularly as it relates to the training in auditing. This will require extensive consultation with key stakeholders such as SAICA and the audit firms, in order to determine the most efficient business process to comply with this requirement of the Act.

The registration of new contracts mainly takes place in January of every year and any revised process needed to be agreed to and finalised before January 2007.

Planned activity	Planned timeline	Actual
Consultation with key stakeholders on new business process in line with the Act	1 April 2006 to 30 June 2006	Ongoing – These processes will be aligned during implementation of accreditation model
Development and ongoing consultation of new business process in line with the Act, including determination of resource requirements	1 July 2006 to 30 September 2006	Ongoing – These processes will be aligned during implementation of accreditation model
Communication of and preparation for implementation of the new business process	1 October 2006 to 30 November 2006	Ongoing – These processes will be aligned during implementation of accreditation model
Implementation of new business process	1 January 2007 onward	Rescheduled for implementation of accreditation model during 2007/08

### Continuing professional education

Section 7(1)(c) of the Act requires the IRBA to prescribe requirements for the conditions relating to and the nature and extent of continued education, training and professional development of registered auditors.

Planned activity	Planned timeline	Actual
Completion and approval of CPD policy by IRBA	1 April 2006 to 30 June 2006	Completed September 2006
Development of new business process in line with the policy, including determination of resource requirements	1 July 2006 to 30 September 2006	Completed October to December 2006
Communication of and preparation for implementation of the new business process	1 October 2006 to 30 November 2006	Completed October to December 2006
Implementation of new business process	1 January 2007 onward	Implemented March 2007

### Inspections (Practice review)

Section 47(1)(a) requires the IRBA or any person authorised by it to, at any time inspect or review the practice of a registered auditor. The IRBA continued with the established processes of the PAAB, by which it conducts practice reviews or inspections. The focus for the first year of operations was the implementation of the new firm review process.

The IRBA completed the planned firm reviews of the "Big Four" firms in South Africa by December 2006 and issued a combined report in this regard.

### Investigation and charging of improper conduct

Sections 48 and 49 of the new Act requires the IRBA to refer a matter brought against a registered auditor to the investigating committee for the purpose of considering, investigating and laying the appropriate charges against the registered auditor. The PAAB had a well-established process for this, but it had to be amended to conform to the requirements of the new Act. In addition to this, section 24(1) of the Act requires that the investigating committee must include individuals with significant legal experience.



ACTIVITIES OF THE IRBA *continued*  
for the year ending 31 March 2007

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Review of the current investigation and charge process against the Act	1 April 2006 to 30 June 2006	Completed
Updating and refinement of the process in line with the new Act, including determination of resource requirements	1 July to 30 September 2006	Completed July 2006
Adoption and approval by IRBA, including review of committee membership in line with s24(1)	October 2006	Completed August 2006
Communication of and preparation for implementation of the new business process	October 2006 to 31 December 2006	Completed September 2006
Implementation of new business process	1 January 2007 onward	Implemented October 2006

**Disciplinary Committee and hearings**

Section 24(2) sets out the requirements regarding the composition of the disciplinary committee (DC) of the IRBA. Although the PAAB had a DC in place, its composition was not in line with the requirements of the Act. Furthermore, sections 50 and 51 set out a new disciplinary process, which is different to that previously used by the PAAB. A new DC had to be constituted and the disciplinary process reviewed to conform to the requirements of the Act.

<b>Planned activity</b>	<b>Planned timeline</b>	<b>Actual</b>
Nomination and appointment of members by the IRBA	1 April 2006 to 30 June 2006	Completed
Terms of reference and method of work	July 2006	Completed
Review and development of business processes in line with the new Act	July 2006 to September 2006	Completed
Approval of business processes, resources requirements, work schedule and implementation plan	October 2006	Completed
Communication of and preparation for implementation of the new business process	October 2006 to 31 December 2006	Completed
Implementation of new business process	1 January 2007 onward	Implemented

### **Supervisory function**

The PAAB was designated as a supervisory body in terms of the Financial Intelligence Centre Act (FICA), and had introduced a new function which is also administered by the auditing standards department. As the successor body to the PAAB, the IRBA has continued with this function.

### **Consultative Advisory Group**

The Consultative Advisory Group (“CAG”) was established by the AASB of the PAAB in order to give stakeholders in the audit process an opportunity to provide comment and feedback on the activities of the AASB. The CFAS has continued to use the CAG for this purpose.

### **The Public Practice Examination (PPE)**

Section 7(1)(b) of the new Act requires the IRBA to recognise or withdraw the recognition of any accredited professional body to conduct any qualifying examination or conduct any such examination for the purpose of registering as a registered auditor, as contemplated in s37 of the new Act. The IRBA and its Edcom had to consider this matter and taking into consideration various factors and the need to facilitate possible accreditation of various professional bodies. The IRBA decided to retain the right to continue to set the PPE for the next five years. The decision will be revisited at that time.

**COMMITTEE FOR AUDITING STANDARDS**  
(formally the Audit and Assurance Standards Board)



*Suresh Kana (2007)*

<b>Members</b>	<b>Meetings attended</b>
S Kana (Chairman)	4 of 4
S van Esch (Vice-chairman)	4 of 4
P Austin	3 of 4
K Bowman*	3 of 3
M Bourne	4 of 4
W de Jager	4 of 4
M Engelbrecht	2 of 2
F Evans*	2 of 3
H Heymans*	1 of 1
J Makwakwa*	3 of 3
M Petros*	1 of 3
F Prinsloo	4 of 4
J van Schalkwyk	2 of 4
E Southey	2 of 2
D Spavins	2 of 2
F Timmins	3 of 4
J Grist†	0 of 1
C Qually†	1 of 1
G Coppin†	1 of 1

\*These individuals were not members of the AASB.

†These individuals are not members of the CFAS.

It is with great pleasure that I present the first report of the Committee for Auditing Standards (CFAS). This report covers the period from April 2006 to 31 March 2007. This year saw the transition of the audit standard-setting body in South Africa from the Auditing and Assurance Standards Board (AASB) formed under the repealed Public Accountants' and Auditors' Act, 1991 to the CFAS, established in terms of the Auditing Profession Act, 2005.

The members of the CFAS were appointed through a public nominations process. The Board, based on the recommendation of the CFAS, appointed four

additional CFAS members to draw on the additional expertise of individuals who have significant experience in audit standard setting.

During the period under review, one of the key strategies of the CFAS was to continue with the process started by the AASB to establish key stakeholder relationships with other regulators and as such the Regulated Industries Standing Committee (RISC), which was established as a subcommittee of the AASB, continued its activities in this respect under the auspices of the CFAS. The main purpose of the RISC is to develop guidance to auditors to meet the requirements

of regulators and provide guidance on audit reports to regulators in accordance with the International Engagement Standards.

A key project of the RISC is the assistance being provided to the Department of Trade and Industry (DTI) in developing guidance for verifiers performing verification engagements on the compliance by business in South Africa with the DTI's Broad-based Black Economic Empowerment (BBBEE) Codes of Good Practice. The RISC, at the specific request of the Financial Sector Charter Council (FSCC), also assisted the FSCC in drafting reports which are required to be submitted to the FSCC by verifiers reporting on the compliance of entities operating in the financial sector, with the industry BBBEE guidelines.

The CFAS, in line with the objective of the IRBA of protecting the interests of the public, issued a South African Auditing Practice Statement (SAAPS) on *'Reporting on Donor Funding Engagements'*. Donor funding is significant and important to South Africa's economy and the SAAPS provides guidance to auditors on factors affecting the nature of donor funding engagements so as to issue reports designed to meet the requirements of International Engagement Standards as well as the various stakeholders involved in donor funding.

The DTI gazetted the proposed new Companies Bill in February 2007. The new Bill has significant consequences for the administration and operation of commerce and industry, including the impact thereof on the requirement for audits and obligations of auditors. A key strategy of the CFAS is to monitor developments of the new Bill and the impact thereof on audits conducted in South Africa, in order to react to matters that affect public interest.

Another key objective of the CFAS is to seek opportunities to influence and participate in international standard-setting activities. One such initiative was the IRBA's acceptance to participate in the IAASB's Clarity project to redraft the International Standards on Auditing (ISA) which will result in clear and understandable auditing standards, capable of implementation throughout the world. The IRBA was requested to redraft three ISAs, two of which were presented to the IAASB, for approval by the IAASB as proposed redrafted ISAs, at its meeting in July 2007. Work to redraft the other ISA commenced in May 2007 and is scheduled to be presented to the IAASB in December 2007.

December 2006 also brought about a change to the form and the content of the auditor's report. The CFAS issued a proposed revision to an existing SAAPS to provide guidance resulting from changes provided in the new ISA, as well as requirements of the Auditing Profession Act. The proposed revised SAAPS was exposed for public comment in April 2007.

## New projects commenced by the AASB/CFAS

The following new projects were commenced during the year:

- Clarity project on behalf of IAASB
- Illustrative independent auditor's reports
- Attendance of auditors at the annual general meeting
- Regulated industries audit guidance (see below)
- Regulated industries audit reports (see below)

## Auditing pronouncements issued by the AASB/CFAS

### Clarity standards

The IAASB issued the amendments to the Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and the first four final International Standards on Auditing (ISAs) redrafted as part of its comprehensive programme to enhance the clarity of its standards.

The four redrafted ISAs have a provisional effective date for audits of financial statements for periods beginning on or after 15 December 2008. While the final common effective date for all redrafted ISAs will be determined as the IAASB's agenda progresses, it will not be earlier than 15 December 2008.

### Practice statements

During the period, the CFAS approved the issue of a new South African Auditing Practice Statement (SAAPS), *Reporting on Donor Funding Engagements*. The SAAPS does not establish new standards or principles of auditing, but rather is intended to provide auditors with additional practical guidance on evaluating the nature of engagement to be performed at an entity that is a donor, an intermediary or a recipient so as to issue an appropriate report in the circumstances.

### Guideline on reportable irregularities

With the promulgation of the APA, auditors have a responsibility to report a reportable irregularity to the IRBA when the auditor is satisfied or has reason to believe that a reportable irregularity has taken place or is taking place in respect of that entity. The

guideline was issued to assist auditors in understanding their statutory obligation with regards to reportable irregularities.

## Regulated Industries Standing Committee (RISC)

The following projects have been completed or are in progress:

- Guidance on procedures to be performed for the Bond Exchange of SA
- Auditors report on factual findings to the directors of the JSE Limited
- Reports on short-term insurance and long-term insurance
- Guide for auditors on financial advisory and intermediary services
- Reporting requirements for estate agents
- Pro forma auditor's reports to be submitted to the executive committee of the JSE Limited
- The auditor's reasonable assurance report on part 4 to 9 of the financial statement return and the auditor's limited assurance report on the medical scheme's compliance with certain sections of the Medical Schemes Act
- Changes to EXCON Circular dealing with the audit requirements relating to foreign portfolio investments by SA institutional investors
- Reports for the National Credit Regulator in terms of the National Credit Act
- Guidance on reporting in terms of BASEL II requirements
- Revision of guidance on bank confirmations
- Audit and assurance reports for the International Trade Administration Commission of SA (ITAC)

### Meetings and subcommittee meetings

During the year under review, the AASB met once, the CFAS three times and 39 subcommittee meetings of the CFAS were held.

### Comment letters

Nine comment letters were issued during the year under review.

### Appreciation

I wish to thank the members of both the AASB and the CFAS, their technical advisers, firms and entities that have allowed them to participate in and contribute to the standard-setting activities of the IRBA. I also extend a special thanks to the Director: Standards and staff of the secretariat, for the important ground work needed to establish this committee, as well as for the technical and administrative support provided to the AASB and CFAS throughout the period.

Suresh Kana

*Chairman*

## COMMITTEE FOR AUDITOR ETHICS



*Edward Kieswetter (2007)*

<b>Members</b>	<b>Meetings attended</b>
E Kieswetter (Chairman)	3 of 3
J Brink (Deputy chairman)	3 of 3
S Davies	3 of 3
V Jack	3 of 3
J Kuzwayo	1 of 3
F Ntombela	3 of 3
G Paris	3 of 3
U Schäckermann	3 of 3
N van Graan	3 of 3

### Establishment and mandate

The Committee for Auditor Ethics (CFAE) is a new committee established in terms of the Auditing Profession Act which did not exist in terms of the now repealed Public Accountants' and Auditors' Act, (Act No 80 of 1991). After the Board's public nomination and appointment process, the newly constituted CFAE held its first meeting on 29 September 2006

### Meetings

Since the committee's first meeting at the end of September 2006, a second meeting was held on 30 November and the third on 16 February 2007. The CFAE has established two subcommittees in order to ensure that its legislative functions and other projects are efficiently carried out. These subcommittees are:

- Subcommittee for development of the code. To date, this subcommittee has held three meetings.
- Subcommittee for network firms. To date, this subcommittee has held one meeting.

### Developing a code of ethics

The CFAE has identified the development of a code of ethics as a high priority. It is envisaged that a code of ethics will be issued by April 2008. In the interim period, the current code continues to be effective in terms of the transitional provisions in the Auditing Profession Act. The following matters relevant to the development of the code have been considered and will be recommended for approval by the Board:

- The code will be principles or values based and the CFAE will issue additional guidance or rules of conduct for enforceability purposes.
- The CFAE has taken cognisance that firms need to ensure that commitment to the code is from the top, as part of the requirements in ISQC 1.
- The CFAE and its subcommittee will be involved in the development process and the CFAE will consult with relevant stakeholders to make contributions.
- The process to develop the code will include the following: the purpose of the code; its tone;

compliance with the law and other regulations; identification of values needed currently in the profession; consideration of top ethical values that might be expected by stakeholders; comparison with other codes of ethics; inclusion of wording that expects auditors to conform to the code of ethics; obtaining review from stakeholders; announcing and distributing the new code; and updating the code at least once a year.

The CFAE has proposed that there be continuous awareness and enforcement of the code and that wider compliance and an ethics programme are an important part of conveying the Board's commitment to the underlying principles. A continuous awareness programme will be embarked upon to sustain interest in, and commitment to the code. Auditors and others will be made aware of the consequences of breaching the code.

### Network firms

The secretariat has concluded research into the practice of network firms and a subcommittee has been constituted with the intention of recommending to the CFAE, criteria which will determine whether a firm is operating as a network firm. Taking into consideration the research and recommendations of the subcommittee, it is envisaged that guidance on network firms within the South African context will be the first pronouncement to be issued by the CFAE.

### Ethics education

The CFAE intends to drive the process with the Education, Training and Professional Development department to ensure that universities offer more extensive subjects on auditor ethics and that the Board's Public Practice

Examination deals with auditor ethics. It is the committee's opinion that auditors are more focused on compliance with auditing standards, whilst there is no similar consideration for compliance with ethical standards. The CFAE will therefore pro-actively progress in increasing awareness and focus on ethics in qualifications for auditors.

### Appreciation

I wish to thank the members of the CFAE, its subcommittees, the firms and entities that have allowed them to participate in and contribute to the standard-setting activities of the IRBA. I also extend a special thanks to the Director: Standards and the staff of the secretariat, for the important ground work needed to establish this committee, as well as the technical and administrative support provided to the CFAE and its subcommittees throughout the period.

Edward Kieswetter

*Chairman*



## EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT COMMITTEE



*Jeff Rowlands (2007)*

<b>Members</b>	<b>Meetings attended</b>
JE Rowlands (Chairman)	4 of 5
P Austin	4 of 4
MD Engelbrecht	3 of 5
D Forsyth	4 of 5
I Gamliel	4 of 5
MY Ismail	5 of 5
E Lehapa	4 of 5
JJ Njeke	1 of 5
J Mthimunye	3 of 5
M Olver	3 of 5
LJ Stainbank	4 of 5
G Teare	1 of 5
L Tomlinson	3 of 5
S van Esch	4 of 5
H Wessels	3 of 5
T Zakuza	2 of 5
S Zilwa	1 of 5

The period under review proved to be groundbreaking mainly due to the success achieved in implementing the new format of the Public Practice Examination (PPE), the introduction of a marking centre and writing the PPE under the auspices of the Independent Regulatory Board for Auditors (IRBA). It also posed many challenges with the need to respond and implement our mandate with regards to Continuing Professional Development (CPD) and Accreditation, as promulgated in the Auditing Profession Act, 2005 (the Act). I am pleased to report that the Education, Training and Professional Development Committee (EDCOM) with

assistance from the various subcommittees rose to this challenge in addition to carrying out its other duties, particularly those relating to the PPE, its monitoring role and the transformation of the profession.

### **The Public Practice Examination**

Of the 2 451 candidates who sat the November 2006 PPE, 1 744 passed the exam, achieving a record pass rate of 71% (2005: 63%). The pass rate for candidates who wrote for the first time was 79% (2005: 72%). Six candidates were awarded honours for achieving a mark of 75% and over.

The pass rate for Black (African, Coloured and Indian) candidates was a record 64% (2005: 57%), out of a total of 806 (2005: 747) candidates.

It was the first time that the PPE was written under the auspices of the IRBA, which replaced the PAAB. More importantly, it was the first time candidates were allowed reading time in order to better simulate practice. The exam was restructured to span an entire day comprising two sessions (9:00 – 12:00 and 14:00 – 17:00) which included a half an hour reading time in each session. Previously the exam was of a five hour duration with no break and no reading time.

The PPE has once again proved to be a very good test of professional competence at entry point into the profession.

The IRBA also introduced the concept of a marking centre for the 2006 PPE. This was in response to risks that were identified in the previous system of marking the PPE. The marking was co-ordinated by umpires, whilst the IRBA staff provided administrative support. The experience demonstrated the value of marking at a marking centre. As with any new process, valuable lessons were also learnt, and the IRBA will ensure that the process will be further improved in 2007.

The Chairman of the Examination Committee (EXAMCOM), Mr Herman Wessels, his committee and the question-composing team are commended for their efforts in preparing and marking the 2006 PPE.

## Transformation of the profession

The growth in the number of Black candidates who have passed the PPE and are choosing to enter the profession is very encouraging with numbers having more than doubled since the year 2000.

We recognise, however, that there is much to be done in order to achieve an appropriately transformed profession. As part of the drive to increase numbers of Black auditors the IRBA introduced a support programme for Black repeat candidates, funded by the National Education Fund (NEFCO) and co-ordinated by the National School of Accountancy. The IRBA is also considering a number of other initiatives to attract more Black members to the profession.

In 2006, 65 candidates completed the support programme and achieved a record pass rate of 68%. It is clear that the support programme is achieving its objective of assisting repeat Black candidates to pass the PPE as the pass rate for Black repeat candidates who did not participate in the support programme was significantly lower (49%).

As part of our effort to increase the overall numbers in the profession, the support programme will be open to all repeat candidates in 2007 and the number of centres at which the programme will be presented will also be expanded.

## Continuing Professional Development

A CPD information booklet for registered auditors (RAs) has been prepared and sent to each RA. This booklet is based on the CPD policy that has been developed by the EDCOM and approved by the Board in 2006.

From 1 January 2007 all RAs will be required to undertake CPD and report on their CPD activities annually to the IRBA. The first reporting date will be the end of March 2008, when RAs apply for renewal of licence.

In a three-year period, an RA will be expected to have completed at least 90 hours of audit-relevant verifiable

CPD of which at least 50% (45 hours), must be in the area of professional knowledge. The remainder of the CPD must be devoted to the development of professional skills and ethical values, with no less than 10% (9 hours) of the total CPD requirement being devoted to each of these aspects. The three-year reporting period for each individual RA will commence from first registration with the IRBA or 1 January 2007, whichever is later.

In any one year reporting period within the three-year reporting cycle, the minimum number of CPD hours required is twenty (20). The onus is, however, on the RA to ensure that the minimum number of hours acquired over the full three-year reporting cycle is at least 90 hours and in the prescribed categories.

As a result of comments received from various stakeholders, the IRBA has instituted an interim arrangement with regard to the submission of self-certified readings, which will count towards the required number of CPD hours. For the first three-year reporting cycle, RAs are permitted to submit a maximum of 30 hours of self-certified readings over the three years, with a maximum of 10 hours in any one year. These 10 hours are excluded from the minimum 20 hours that are required in any particular year. This interim arrangement will be reviewed at the end of the first three-year cycle.

EDCOM supports the interim arrangement and is confident that this will facilitate a phased in approach to CPD and will especially be welcomed by RAs in small practices.

CPD activities undertaken by RAs will be monitored annually, through an annual return submitted with the

renewal of the licence to practise. An RA's registration with the IRBA will be dependent on the CPD activities being up to date and relevant to the work they undertake.

### The accreditation model

The notice inviting comments on the accreditation model was published in the Government Gazette on 30 June 2006. Comments were received from SAICA, SAIPA and ACCA and meetings were held with representatives of these professional bodies to discuss the IRBA's response to their comments.

Comments were considered and where appropriate, changes to the accreditation model have been made. The accreditation model has been approved by the Board, and will enable EDCOM to evaluate applications from professional bodies for full or partial accreditation.

### Monitoring of recognised programmes

The monitoring of programmes of professional bodies for 2005/6 was based on the recognition model which was used for some years before the introduction of the accreditation model. Applications for accreditation, based on the accreditation model are only expected from June 2007.

The IRBA has extended the recognition status of SAICA to 31 March 2008. Monitoring reports for 2005 and 2006 from SAICA will be evaluated and the final monitoring reports prepared by the MCOM.

Members of MCOM attended three university visits as observers. These visits formed part of SAICA's new accreditation process.

The monitoring of programmes of professional bodies will in future be carried out in accordance with the provisions of the Act, and as embodied in the accreditation model referred to above.

### Membership of the Education, Training and Professional Development Committee

The term of the EDCOM members expired on 31 March 2007. Nominations were invited for membership of the incoming EDCOM with the following nominations being approved by the Board:

H Wessels  
S Lehapa  
M Ismail  
P von Wielligh  
M Naidoo  
L Engelbrecht  
H Gowar  
C Lane

Three more members will be recruited to ensure equitable representation. The Board values the availability of members who served on the outgoing committee and whose expertise will be invaluable in the effective running of the new EDCOM.

### Appreciation

My sincere gratitude is extended to the committee members for their valuable contributions during their term of office. 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, Training and Professional Development department for their dedication and commitment.

My particular thanks to Herman Wessels who has made a very significant contribution over many years to the deliberations of EDCOM and whose role as chairman of the examination committee has been invaluable.

Professor Jeff Rowlands

*Chairman*

## INSPECTION COMMITTEE



*Danny Naidoo (2007)*

<b>Members</b>	<b>Meetings</b>
S Naidoo (Chairman)	4 of 4
PJ Brink	3 of 4
DD Nagar	4 of 4
JG Beaumont	2 of 4
RP Brussow	4 of 4
CN Mbili	3 of 4
FF Scheepers	3 of 4
BJ Olivier	3 of 4

Practice reviews are performed in terms of section 47 of the Auditing Profession Act, 2005. One of the objectives of the Act is to protect the South African public by regulating audits performed by Registered Auditors (RAs). The functions of the IRBA include promoting the integrity of the auditing profession through conducting practice reviews. Reviews are performed by qualified professional staff employed on a full time basis by the IRBA. There are two types of reviews in place, being engagement reviews and firm reviews. Review findings are reported quarterly on an anonymous basis to the Inspection Committee, which is responsible for determining the final outcome of a review.

Review decisions are in terms of predetermined criteria applicable to the review cycle. A review decision would be either:

- Satisfactory, meaning review again in the next review cycle; or
- Re-review, meaning review again in one year's time; or
- Referral to the Investigating Committee, meaning disciplinary action by the IRBA.

### Engagement reviews

The objective of engagement reviews is to monitor compliance by RAs with appropriate levels of professional standards in the performance of the attest

function. All attest RAs are subject to engagement reviews where a sample of attest engagement files are reviewed at least once in a review cycle. Engagement reviews are either on a three-year or a six-year review cycle, depending on the classification of the RA's attest portfolio. An engagement review assesses the sufficiency and appropriateness of evidence obtained and the appropriateness of key audit judgements made. Verbal representations on review findings are not accepted.

The first engagement review cycle commenced in December 1994, the second review cycle in April 1999 and the third review cycle in February 2006. An RA must first be found satisfactory in a review cycle before proceeding to the next cycle. New practitioners fall into the cycle in place at the time of their attest registration. To date a total of 7 563 engagement reviews have been performed. During the period April 2006 to March 2007, 223 second cycle and 90 third cycle engagement reviews were performed. A total of 40 practitioners were referred to the Investigating Committee. The major reason for review results not being rated as satisfactory relates to documentation either being insufficient and/or inappropriate. Non-documentation of audit evidence does not necessarily imply that an inappropriate audit opinion was expressed.

Areas identified on engagement reviews as not having sufficient and appropriate audit evidence documented were:

- Ethical considerations
- Fraud considerations including testing of journal entries
- Testing the design and implementation of internal controls
- Going concern considerations
- Subsequent event considerations
- Unadjusted audit difference considerations
- Analytical review considerations
- Deferred tax considerations
- Considerations on the use of the work of experts
- Testing of provisions
- Testing of impairments
- Testing of carrying value

### Firm reviews

All audit firms involved in the audits of listed companies are subject to firm reviews at least once in a review cycle. Firm reviews are on a three-year review cycle. Extensive research was conducted by the IRBA on global best practices relating to firm reviews prior to the implementation of this process in South Africa. The first firm reviews of South Africa's four largest audit firms namely, Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers were performed in the period April 2006 to March 2007. The objectives of the firm review process are to inspect the design and implementation of a firm's quality control system, organised under the following elements: leadership responsibilities, ethical requirements, client acceptance and continuance, human resources, engagement performance and monitoring. The firm reviews identified no significant systemic weakness in the overall systems of quality control operated by the Big Four audit firms. However, certain areas were identified where systems need to be improved in order to enhance audit quality.

Key recommendations for improvement based on the principal findings of the firm reviews include:

- Internal reviews are performed by the firms on a sample of completed audit engagements. It was found that internal reviews should emphasise the need for audit documentation.
- Pre-issuance reviews are required on public interest entities prior to the signing of the audit opinion. It was found that the documentation of pre-issuance reviews needs to be improved.
- Monitoring of gifts and hospitality is required for independence purposes. It was found that registers to record the provision and receipt of gifts and hospitality to and from clients needs to be addressed.
- In deciding whether to accept a new client or to retain an existing client, firms are required to consider various factors. It was found that reportable irregularities were not being specifically addressed in the documentation on files.
- Firms are required to have capable and competent staff and to this end performance appraisals are an important tool. It was found that performance appraisals of partners and staff need to be prepared timeously and to indicate both development needs and corrective action to be taken.
- Firms are required to have sufficient staff with available time. It was found that training and annual leave was often cancelled by staff due to work pressure.
- In order to ensure completeness and enable monitoring thereof, it was recommended that complaint logging systems need to be maintained.

### Appreciation

I record my thanks to the staff of the Practice Review department, who have performed diligently and consistently throughout the period and to the Inspection Committee members for their time and dedication to the practice review process. I also thank the practitioners and firms who were subject to review for their co-operation.

Danny Naidoo  
Chairman

## INVESTIGATING COMMITTEE



*Horton Griffiths (2007)*

<b>Members</b>	<b>Meetings attended</b>
H Griffiths (Chairman)	7 of 7
KN Kooverjee	5 of 7
CM Read	5 of 7
EH du Plooy	7 of 7
TP van der Mescht	6 of 7
IJ de Villiers	6 of 7
M Sindane	5 of 7
BW Smith	6 of 7
AR De Valence	6 of 7
R Morar	5 of 7
MI Khan	6 of 7

### Investigations

An investigation is initiated once a complaint is received either from an external party or may be initiated from within the IRBA office. These complaints may fall into four categories:

#### Externally originated

Complaints lodged by a member of the public; or matters referred by a court or other regulator.

#### Internally originated

Complaints lodged by the IRBA itself, such as those arising out of the practice review process; or matters where investigations are initiated by the IRBA itself, as a result of information which comes to its attention, for example matters which appear in the press. Once a complaint is received, a check is made to ascertain that the respondent is an RA and the complaint is then perused by the department's forensic

investigator. This is to ascertain if further information is needed from the complainant, or specific information is needed from the respondent. After a preliminary investigation has taken place, the Director: Legal, must decide in terms of s48(1) whether or not to refer the matter to the Investigating Committee (Invesco). Most cases will be referred and in terms of s48(3) Invesco must then investigate the matter.

#### Investigations initiated

During the course of the 12 months, 147 new investigations were initiated. These include enquiries or allegations of improper conduct received by the directorate, as well as investigations initiated by the IRBA 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:

Cases	Category
25	Negligence in general terms
5	Audit of an attorney's trust account
2	Deceased estates
16	Tax
2	Failure to report a reportable irregularity
1	Malicious reporting of a reportable irregularity
4	Referrals from the GAAP monitoring panel
3	Body corporates
8	Overcharging
7	Failure to respond to communications
4	Refusal to resign/hand over documents
5	Dishonesty of various kinds
1	'Poaching' staff
2	Failure to contact the existing auditor
1	Trainee accountant related
4	Other staff related
40	Arising out of practice review
1	Breach of confidentiality
11	Independence
1	Acting in a manner in association with a non-qualified person such that the client believed the non-qualified person was an auditor
<b>The other five allegations were of a general nature as follows:</b>	
1	Lowballing
1	Non-compliance with the terms of the sale of a business
1	Holding out as a CA whilst not so registered
1	Insider trading
1	Rudeness

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. The reason for this is that once Invesco is made aware of inappropriate conduct, it could make a

recommendation on any element of such conduct once it has completed its investigation.

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



**Investigation matters disposed of**

Excluding matters where disciplinary hearings were held, 100 cases were disposed of during the year.

Of these cases 28 were disposed of due to the factors listed below:

- 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.
- Were not proceeded with by Invesco 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 72 cases were disposed of as follows:

**Matters dealt with by Invesco under the transitional arrangements**

These matters reflect, by necessity, only the matters failing to be finalised under the previous dispensation. In due course there will be no matters finalised by this committee, as all complaints reported under the previous dispensation will have been finalised.

<b>Matters</b>	<b>Discharged in terms of rules</b>
6	Rule 3.9.1 (the committee being satisfied that the practitioner had given an acceptable explanation regarding the alleged conduct)
4	Rule 3.9.2 (the committee being satisfied that the alleged conduct – even if proved – would not constitute improper conduct)
9	Rule 3.9.3 (the committee being satisfied that there was no reasonable prospect of proving the practitioner guilty of the conduct imputed)
<b>Matters</b>	<b>Practitioners found guilty</b>
1	Cautioned, by consent. The matter was independence related
1	Reprimanded by consent. The matter concerned tax
<b>34</b>	<b>Practitioners were fined by consent. Of these matters:</b>
4	General negligence
	The fines were, respectively: R10 000 R5 000 R75 000 of which R37 500 was suspended on condition R30 000 of which R15 000 was suspended on conditions

<b>Matters</b>	<b>Practitioners found guilty (continued)</b>
5	Audit of an attorney's trust account The fines were, respectively R40 000 of which R20 000 was suspended on conditions; R20 000 of which R10 000 was suspended on conditions in two cases R75 000 in two cases
1	Audit of a body corporate R50 000 of which R25 000 was suspended on conditions
4	Tax The fines were, respectively: R20 000 of which R10 000 was suspended on conditions R5 000 in two cases R5 000 suspended on conditions
1	Referral from the FSB The fine was R20 000
1	Independence The fine was R5 000
1	Acting in a manner in association with a non-qualified person such that the client believed the non-qualified person was an auditor The fine was R20 000 of which R10 000 was suspended on conditions
1	Boorish behaviour The fine was R10 000
1	Composite matter consisting of a tax-related complaint as well as a number of complaints from trainees The fine was R50 000
1	Unauthorised signature of a document The fine was R5 000
1	Failure to respond to communications The fine was R50 000 of which R25 000 was suspended on conditions
<b>13 matters arose out of practice review:</b>	
<i>2nd cycle 1st review</i>	
2	one fined R50 000, of which R25 000 was suspended on conditions one fined R30 000 of which R25 000 was suspended on conditions
<i>2nd cycle 2nd review</i>	
8	one fined R75 000, of which R37 500 was suspended on conditions one fined R40 000, of which R20 000 was suspended on conditions one fined R20 000, of which R10 000 was suspended on conditions five fined R30 000, of which R15 000 was suspended on conditions
<i>2nd cycle 3rd review</i>	
2	one fined R30 000, of which R15 000 was suspended on conditions one fined R25 000, of which R15 000 was suspended on conditions
<i>2nd cycle 4th review</i>	
1	fined R30 000 as well as a prior suspended fine of R15 000 being imposed

### Concluding remarks

During this year the committee has implemented the requirements of the Auditing Profession Act. The effects are that the process has become more cumbersome and costly as each guilty finding (including settlements) now requires a charge sheet. I have no doubt that in the foreseeable future these procedures will be streamlined to reduce the workload that the new Act has created.

Furthermore, the case load of the Investigating Committee is ever-increasing in terms of both number and complexity. The agenda papers are commonly 2 500 pages per meeting, all of which must be read and absorbed, particularly if interviews are being carried out during the meeting. It is only the immensely hard work and dedication of the committee members that ensures that the cases under investigation at any one time remain manageable. This requires an extraordinary contribution by the committee members. Thank you to all the committee members for their commitment and especially for their willingness to contribute many hours of preparation before each meeting.

### Appreciation

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. This is my final report as chairman of this committee, which I now leave in the capable hands of my colleague Kishore Kooverjee, after 10 years' service. I wish him and the committee all the best with the challenges that face them in the future.

Horton Griffiths

*Chairman*

## DISCIPLINARY COMMITTEE



*Willem van der Linde (2007)*

### **Chairman**

WHG van der Linde SC

### **Deputy chairman #1**

A Dodson

### **Deputy chairman #2**

(vacant)

### **Non-RA members**

DCM Gihwala

E Noble

LJ Lekale

TSB Jali

AJ de Wet

H Goga

### **RA members**

A Jagga

CF Reid

J Rhynes

### **Attendance at meetings**

Readers will notice that there is no indication of meetings attended by the members of this committee.

The reason for this is that this committee functions differently from other IRBA committees, in that not all committee members attend each hearing. Six committee members are required to make up a quorum to hear a matter, and they are selected for each

separate hearing on the basis of a number of factors, such as language and lack of conflict.

Under Part 5 of the Act, the Independent Regulatory Board for Auditors is obliged to establish six permanent committees, of which the Disciplinary Committee is one. By virtue of section 24(2) of the Act, the Disciplinary Committee must be chaired by a retired judge or senior advocate; must consist of a majority of non-auditors (but must include auditors); and may include other suitably qualified persons. This then is the first annual report of the newly constituted committee.

A number of Board resolutions under section 19 of the Act (delegations) were necessary to facilitate the functioning of the Disciplinary Committee. This included not only a delegation of powers to conduct hearings generally, but also a delegation of the myriad of detailed powers necessary to attain practical workability of the new principles laid down in the Act. In addition, despite the transitional provisions in section 59, new disciplinary rules were also envisaged. The Board resolutions were passed on 20 June 2006, and the new disciplinary rules are about to be published for comment.

During the reporting year the committee continued to function with reference to the previous disciplinary rules and the code, by virtue not only of the transitional provisions but also section 12(2) of the Interpretation Act, 33 of 1957.

### Matters dealt with by the Disciplinary Committee

The committee heard and disposed of the following matters. It will be seen that the first six matters were all dealt with under the previous Act and with Mr DCM Gihwala as chairman.

The first matter originated on 14 October 2005, and the finding was handed down on 11 April 2006.

The committee found the respondent guilty on seven charges of improper conduct. The first six all related to failure to deal with correspondence within an appropriate time. The seventh charge was that the respondent had signed an auditor's report without being the appointed auditor of the company. The respondent was fined, directed to contribute to the Board's costs, and publication in the *Maneo* ordered.

The second matter also emanated from before 1 April 2006. The hearing continued on 11 April 2006, thereafter on 15 June, and the findings handed down on 27 July 2006. The respondent pleaded guilty to improper conduct in assisting a client with his tax return, knowing that the information contained in it was false. His name was struck from the register and he was ordered to contribute to the costs. Publication was ordered.

The third matter commenced on 12 July 2006, continued on 27 July 2006, and was disposed of on 20 October 2006. The respondent was found not guilty of all charges put to him.

The fourth matter was dealt with on 6 September 2006. The respondent was found guilty on two charges arising from practice review matters. He was fined, directed to make a costs contribution, and publication followed. It was ordered that his name be removed from the register, but this was wholly suspended provided he passed his next practice review.

The fifth matter was heard on 8 September 2006 and postponed to 20 October 2006 for sentence.

The respondent was found guilty on seven charges of improper conduct arising out of the administration of a deceased estate. He was fined, his name removed from the register, conditionally suspended, ordered to make a costs contribution, and publication followed.

The sixth matter was heard and disposed of on 20 September 2006. This was another practice review matter. The respondent pleaded guilty. His name was removed from the register, suspended on condition he passed his next practice review. He was directed to contribute to costs, and publication followed. Previous suspended fines were put into operation.

Only one matter was dealt with under the new dispensation. It was heard and disposed of on 22 January 2007. The respondent was charged with improper conduct arising from practice reviews. He was found guilty as charged.

It was directed that his registration be cancelled but this was conditionally suspended; he was fined; he was directed to contribute to costs; and previous suspended sentence was put into operation, and publication followed.

The smooth functioning of the disciplinary committee is due to the unstinting energy of Jane O'Connor, the Director: Legal of the Board. During the year under review she had the added burden of the transitional arrangements. This included drafting of the resolutions and the new rules, which she did with her hallmark efficiency. We express our appreciation to her.

Willem van der Linde, SC  
*Chairman*

## DISCIPLINARY ADVISORY COMMITTEE



Wynand du Plessis

Members	Meetings attended
WP du Plessis (Chairman)	3 of 3
CR Emslie	3 of 3
RW Voller	1 of 3

The continued increase in the number of complaints is indicative of the growth in awareness regarding the disciplinary processes amongst users of services provided by registered 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.

From 1 July 2006 all complaints were handled in accordance with the new processes as set out in the Auditing Profession Act. Whereas under the previous dispensation there were two committees concerned with the discipline of the profession (as well as the directorate's legal department) namely the Investigating and Disciplinary Committees, now there are three: the Investigating, Disciplinary Advisory and Disciplinary Committees. The Disciplinary Advisory Committee (DAC) is a direct subcommittee reporting to the full Board, and is not a committee stipulated in terms of the Act.

### Establishment and mandate

The DAC met three times.

In terms of the Act, Invesco now investigates matters and then recommends to the Board (this function has been delegated by the Board to the Disciplinary Advisory Committee) whether or not to charge the practitioner.

The DAC considers all matters where Invesco has made a recommendation, upon finalisation of its investigations. If its recommendation is that the respondent not be charged, DAC has the discretion whether to endorse this decision or not. If its recommendation is that the respondent be charged DAC cannot interfere with that decision.

Thereafter either the practitioner will not be charged, or if the practitioner is charged, the matter follows the disciplinary process.

WP du Plessis

Chairman

### Matters dealt with by the DAC

Matters	Not prosecuted in terms of rules
1	Rule 3.9.1 Practitioner had given an acceptable explanation regarding the alleged conduct
3	Rule 3.9.2 Alleged conduct – even if proved – would not constitute improper conduct
3	Rule 3.9.3 No reasonable prospect of proving the practitioner guilty of the conduct imputed
Matters	Practitioners found guilty
7	Practitioners were fined by consent. All these matters arose out of practice review: <i>2nd cycle 2nd review</i>
5	two fined R30 000, of which R15 000 was suspended on conditions two fined R30 000, of which R20 000 was suspended on conditions one fined R20 000, of which R10 000 was suspended on conditions <i>2nd cycle 3rd review</i>
2	one fined R30 000, of which R15 000 was suspended on conditions one fined R30 000, of which R15 000 was suspended on conditions, as well as a prior suspended fine of R10 000 being imposed

### Introduction

I am proud to present the first report on the functional and operational activities of the Independent Regulatory Board for Auditors (IRBA). This first year has been an exciting and challenging experience as the Chief Executive Officer of the IRBA. Our focus has been to implement the strategic plan as approved by the IRBA, whilst at the same time managing the ongoing business of the IRBA, as carried forward from the PAAB in terms of the transitional provisions in the Auditing Profession Act (the Act).

### Transition

All the committees that were required to be established in terms of the Act, have been duly constituted and have had several meetings. New members brought fresh ideas and views to the table, which was necessary for the legislation to achieve its objectives based on strengthened independence and a vision for the profession that is aligned to the broader goals of our young democracy. The Minister also approved the appointments to the new Board which became operational from April 2007.

Considerable time has been spent to bring policies and procedures in line with the Public Finance Management Act (PFMA), which the IRBA is subject to. Besides the requirements of the PFMA, our own governing legislation has also necessitated increasing our capacity to deliver on the objectives of the Act, and human resources have almost doubled since April 2006. This in turn has required us to consider additional capacity and support infrastructure required to deliver on our mandate.

The last year has also been spent to introduce the IRBA to the public and strategic stakeholders, locally and internationally. These liaisons have already seen our profile being raised in the global arena through increased representation on international committees and boards, thereby reaffirming our commitment to be an internationally respected regulator.

It is equally important, however, to ensure that our local presence is maintained and the executive will therefore be rolling out its stakeholder relationship strategy, marketing the Registered Auditor brand and

continuing its strategy to attract young professionals to the auditing profession. With the completion of the accreditation model to be used to accredit professional institutes, the IRBA is gearing up to consider applications for such accreditation and thereby facilitating the entry of young talent into the auditing profession. The first public practice examination conducted by the IRBA also saw record results, not only in terms of the overall pass rate (71 percent) but also in terms of the number of Black candidates, a positive step towards transformation.

### Operational activities

#### Stakeholder management

The IRBA commenced a process of establishing an effective stakeholder management plan to facilitate its interaction with the appropriate stakeholders during the implementation of the new Act and beyond. The plan involves:

- Stakeholder identification and prioritisation
- Stakeholder grouping
- Identification of stakeholder needs
- Contracting with stakeholders
- Agreeing action plans
- Monitoring and feedback

The stakeholder management plan is driven by the CEO with the support of the directors. During the 2006/07 year the CEO and management had several interactions with a large number of local and international stakeholders.

Stakeholder related activities included, amongst others, a national road show held in 14 centres around the country in 2006, which was attended by 854 delegates, the majority of whom were registered auditors. This road show will now become an annual event and is aimed at facilitating first hand interaction between the CEO and registered auditors.

An inaugural gala dinner at Gallagher Estate, Midrand, in August 2006 was attended by some 350 guests, including the Minister of Finance, Mr Trevor Manuel, who delivered a memorable address to the audience.

The IRBA staff has been identified as a primary stakeholder. Interaction with the staff included quarterly staff meetings, annual teambuilding events at organisational and department level, and an annual family day.

### **Corporate social investment**

The IRBA is committed, on a small but growing scale, to corporate social investment and charitable activities. The Board has partnered with Lambano Sanctuary, a family-based home structure for HIV/Aids babies and toddlers, which provides a home and care for the children for as long as they need it. Staff made donations from their own pockets to assist the home in September 2006, and will continue to assist the home wherever possible. IRBA also supports the Lambano golf day.

Other charity activities include regular contributions by staff members to campaigns such as Dress Red, Casual Day, the 16 days of activism campaign and similar ad hoc awareness campaigns.

A task team of staff members was recently established to identify further activities and initiatives that the IRBA could align itself to.

### **Participation in international forums**

The Executive has made significant progress in achieving representation on international forums.

The IRBA is represented by the CEO on the International forum of Independent Audit Regulators (IFIAR). The decision to establish IFIAR was taken in September 2006 at a meeting in Paris and the IRBA is proud to be a founding member of this forum. The purpose of the forum is to share knowledge of the audit market environment and practical experience of independent audit regulatory activity, to promote collaboration in regulatory activity, and to provide a focus for contact with other international organisations which have an interest in audit quality. IRBA participation in these committees and forum has allowed the IRBA, as the South African regulator, to be at the forefront of international regulatory developments.



*Kariem Hoosain (2007)*

The CEO has been appointed to two International Federation of Accountants (IFAC) structures, namely the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board Consultative Advisory Group for Education (IAESB-CAG). The IESBA is primarily involved in developing ethical standards and guidance for use by professional accountants. It encourages member bodies to adopt high standards of ethics for their members and promotes good ethical practices globally.

The IAESB-CAG is an integral and important part of the IAESB's formal process of consultation. The objective of the CAG is to provide input to the IAESB through consultation with representatives of organisations that have an interest in the development of high quality international standards on accountancy education and continuing professional development, in order to obtain:

- views on the IAESB's agenda and work programme, including project priorities;
- technical advice on projects; and
- views on other matters of relevance to the activities of the IAESB.

The director for standards also represents the IRBA on an international forum for National Audit Standards Setters and has been invited to participate in task forces of the International Audit and Assurance Standards Board of IFAC.

### **Communication and publishing**

The new IRBA corporate image has been widely promoted since the establishment of the IRBA in April 2006. The brief to the creative agency was to bring the IRBA into the 21st Century with a crisp, clean modern look, and to make a clean break from the PAAB identity. New corporate colours were selected, as reflected in the layout of this annual report. The identity



has been carried through all elements of the corporate collateral, as well as on a few new promotional items. Further branding activities will be carried out as and when necessary.

The new look quarterly IRBA News newsletter was launched in July 2006, and replaced the PAAB's previous publication, *Maneo*.

A number of new publications have also been developed, among them a pocket version of the Act, a Continuing Professional Development (CPD) guide, a printed version of the accreditation model and the guide on Reportable Irregularities. The 2007 Manual of Information/*Handboek vir Inligting* was also printed in the new corporate image.

The IRBA website will also undergo transformation, both in terms of its layout and content. This is an ongoing project.

**Human resources**

*Staff complement*

In the past year, the main focus of the human resource component has been on recruitment and retention of appropriately qualified staff to ensure that the necessary capacity exists for the IRBA to achieve its objectives and comply with its legal mandate.

Over the last year the organisation increased its staff complement from 36 to 54 employees in order to meet its operational requirements, with further increases planned for the 2007/8 financial year. As a result of the substantial increase in human resources, the IRBA is currently sourcing new office accommodation.

*Employment equity*

One of the organisation's 2007/2008 strategic objectives is to implement a properly developed employment equity strategy. Plans thereof are underway and senior management have undergone training on the requirements of the Employment Equity legislation.

Other steps already taken in this regard were the review of organisational policies and procedures to create the basis for:

- Elimination of unfair discrimination
- Respect for diversity
- Affirmative action

In spite of not having a proper EE strategy, the IRBA made a significant improvement in its employment equity status. The demographic profile of IRBA has changed substantially from when it was the PAAB (31% – ACI) to 31 March 2007 (51% – ACI).

*IRBA staff complement reported in occupational levels for the period ending 31 March 2007*

Occupational levels	Male			Female				White male	Total
	A	C	I	A	C	I	W	W	
Senior management	0	1	3	0	0	0	2	0	6
Professionally qualified and experienced specialists and mid-management	0	1	0	2	1	1	0	13	18
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	0	0	1	0	0	0	3	1	5
Semi-skilled and discretionary decision making	4	1	0	2	2	3	8	0	20
Unskilled and defined decision making	0	0	0	5	0	0	0	0	5
Total employees	4	3	4	9	3	4	13	14	54

### Recruitment and selection

The current recruitment environment is highly competitive, especially with such high skills shortage in specialised areas. The IRBA has, however, managed to attract a number of individuals to assist it in carrying through its vision, although some vacancies still exist and continue to affect the ability to fully deliver on the IRBA's mandate.

From 1 April 2006 to 31 March 2007, 12 permanent vacancies were filled at the following occupational levels:

	Male		Female	
	Black	White	Black	White
Professionals and middle management	1	5	4	
Semi-skilled technical and academically qualified	1		1	

### Staff turnover

Employees who left the organisation between the period 1 April 2006 and 31 March 2007:

	Male		Female	
	Black	White	Black	White
Professionals and middle management	1	1	1	2
Semi-skilled technical and academically qualified	1			1

All of the above employees resigned from the organisation.

### Performance management

One of the current challenges is the absence of an appropriate organisational and individual performance management process. In order to be able to fairly evaluate and recognise the efforts and contributions of all employees to the achievements of the IRBA, the development of a robust performance management strategy and process has become a high priority for the next few months.

### Salary reviews

During the past year, there were two salary adjustments for IRBA employees. The first one was a normal annual review for the period ending 31 December 2006, whilst the second one was a three-month pro rated review to cater for changes in the IRBA's financial year and consequently the salary review cycle.

Whilst senior management and professional staff were on a total cost to company package structure, other levels of staff were moved from the basic plus benefits structure to total cost to company.

### Employee wellness

#### HIV/Aids

In May 2006, a total of 40 employees attended a basic HIV/Aids awareness programme and were encouraged to participate in a voluntary counselling and testing programme. IRBA is extremely pleased with the 100% take-up by staff and will continue to make this an annual part of the employee wellness programme.

#### *Voluntary vision testing*

External eye specialists were brought in to test those who wished to have their vision checked. Testing was offered at no cost and any further treatment or prescriptions required were handled using medical aid benefits. This is also an annual exercise in employee wellness planning.

IRBA recognises that the physical, mental and emotional wellbeing of its staff all contribute to the IRBA being a successful organisation that is able to meet its mission and objectives. Therefore further wellness initiatives that are planned for the future will include stress management and change management programmes, and any other relevant issues that are identified.

#### *Industrial relations*

One internal disciplinary hearing was held during the year under review.

#### **Information technology**

The IRBA does not currently have a comprehensive IT strategy which supports its business operations. It inherited a number of disparate package software systems, and much of its hardware was obsolete and required upgrading and replacement.

As a result, the IT department rolled out an extensive hardware and software upgrade that was necessary for a number of departments. The upgrade consisted of new servers, firewall(s), backup systems, switches, wireless infrastructure, operating systems, and controls.

The upgrade provided for increased stability, resource availability, access speeds, and additional storage space. A Virtual Private Network (VPN) was set up to grant access to IRBA users (with special permissions) from external public networks.

The data line was also upgraded to the highest stable standard. The local area network was also expanded to include a wireless data link, incorporating Voice over Internet Protocol (VoIP) technology, to a satellite office building which currently houses the Practice Review department.

It is envisaged that a comprehensive IT strategy will be developed during the 2007/08 financial year, which will also result in the implementation of a new enterprise-wide software application for the IRBA.

#### **Finances**

The IRBA derives most of its income from fees. Fees for the current year were R25,302 million. R10,881 million was received from National Treasury for IRBA to facilitate the implementation of the IRBA during the 2006/07 year. The actual financial performance is set out in the annual financial statements on pages 45 to 64.

#### **Conclusion**

The successful functioning of the IRBA in its first year of operation is attributable to the support of the Board and the co-operation and support of its staff. The hard work and dedication shown by my management committee is indicative of the high level of commitment to the mandate and objectives of the IRBA. I am deeply grateful for their commitment, support and enthusiasm over the past year. I would also like to express my appreciation to the Board, its executive committee, the various committees and specifically the Chairman, Deepak Nagar for his support, guidance and leadership.

Finally, thanks to the Honourable Minister of Finance, the Director-General of National Treasury and the Accountant-General of South Africa and their staff for their support, assistance and co-operation.

**Kariem Hoosain**

*Chief Executive Officer*

# CORPORATE GOVERNANCE STATEMENT

for the year ended 31 March 2007

## Introduction

### The Board

The IRBA Board (the Board) is the designated accounting authority and governs the IRBA in accordance with the provisions of the Act, the Public Finance Management Act, 1999 (PFMA) and good corporate governance principles. The Board met at least four times during the year to review the operations and performance of the IRBA and to approve strategies, policies, budgets, major contracts and commitments.

A materiality framework is also in place. No instances occurred during the year that required disclosure in terms of the PFMA and Treasury Regulations to the National Treasury of certain defined transactions, losses through criminal conduct, or irregular, fruitless or wasteful expenditure.

### The Executive Committee

During the past year the Board appointed a smaller Executive Committee from amongst its members to assist the CEO and the executive management to fulfil their day-to-day responsibilities. The Executive Committee meets at least four times per annum to deal with all the executive business of the IRBA. The Executive Committee is responsible, on behalf of the Board, for co-ordinating and directing the IRBA'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.

### Audit Committee

The objective of the committee is to assist the Board with its responsibility of safeguarding assets, maintaining effective and efficient internal controls, reviewing the financial information and preparing the annual financial statements. 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 committee is also responsible for risk management. The committee ensures that identified risks are

monitored and appropriate measures are devised and implemented to manage such risks.

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

### Internal auditing

Internal Audit was appointed during the current year. A risk assessment was performed and the significant risks have been identified and reviewed by Internal Audit. A three-year rolling audit plan was developed, approved and implemented.

## Responsibility of board members

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 has 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 to implement and maintain the accounting records and systems of control.

## Strategic plan and budget

Management of the IRBA prepare the business plan, strategic plan and budget of the IRBA for Board consideration and approval. The strategic plan and budget are duly submitted to National Treasury for consideration and approval of the budget. Quarterly reports are submitted to National Treasury as per the requirements of the PFMA and Treasury Regulations.

## Change in the composition of the Board

During its first year of operation, the composition of the Public Accountants' and Auditors' Board as it existed under the Public Accountants' and Auditors' Act continued in terms of a transitional requirement in s59(i)(b)(i) of the Act .

However, the Minister appointed a substantially changed Board in terms of s11 of the Act with effect from 1 April 2007.

## REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2007.

The Audit Committee ("Committee") consists of the members listed hereunder and meets three times per annum as per its approved terms of reference. During the current year three meetings were held.

<b>Members</b>		<b>Meetings attended</b>
HG Motau	(Chairman appointed 07/06/2007)	
CR Qually	(Chairman until 07/06/2007)	3 of 3
SF Nomvalo	(Resigned 21/11/2006)	1 of 1
N Anderson	(Appointed 23/08/2006)	1 of 2
T Matshazi	(Appointed 23/08/2006)	2 of 2

### Responsibility

The committee reports that it has complied with its responsibilities arising from section 38(1)(a) of the PFMA and Treasury Regulation 3.1.13.

The committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee charter, has regulated its affairs in compliance with this charter and has discharged its responsibilities as contained therein.

### Internal controls

Outsourced Internal Audit was appointed during the current year. A risk assessment was performed and the significant risks have been identified and reviewed by Internal Audit. A three-year rolling audit plan was developed, approved and implemented. The control system in place provides reasonable, but not absolute, assurance that the organisation's assets are safeguarded, that transactions are authorised and recorded properly and that material errors and irregularities are either prevented or detected in time.

In line with the PFMA and the King II report on corporate governance, Internal Audit provides the committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as

the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the internal auditors, the audit report on the annual financial statements and management letter of the Auditor-General, no significant or material non-compliance with prescribed policies and procedures have been reported. Accordingly, we can report that the system of internal control for the period under review was efficient and effective.

### Financial statements

The Audit Committee has reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the accounting officer and reviewed the Auditor-General's management letter and management's responses thereto. The committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

HG Motau

*Chairman of the Audit Committee*

# ANNUAL FINANCIAL STATEMENTS

*for the year ended 31 March 2007*

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# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE INDEPENDENT REGULATORY BOARD FOR AUDITORS for the year ended 31 March 2007

## Report on the financial statements

### Introduction

I have audited the accompanying financial statements of the Independent Regulatory Board for Auditors which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 48 to 64.

### Responsibility of the accounting authority for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statements and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) and the Auditing Profession Act, 2005 (Act No 26 of 2005) (APA). This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing and General Notice 645; 647 and 648 of 2007, issued in Government Gazette No 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management;
- overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

The Independent Regulatory Board for Auditors' policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

### **Opinion**

In my opinion the financial statements present fairly, in all material respects, the financial position of the Independent Regulatory Board for Auditors as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as set out in note 1 to the financial statements, and in the manner required by the PFMA.

### **Other reporting responsibilities**

#### **Reporting on performance information**

I have audited the performance information as set out on pages 10 to 17.

#### **Responsibilities of the accounting authority**

The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

#### **Responsibility of the Auditor-General**

I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No 29919 of 25 May 2007.

In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

#### **Audit findings**

No audit findings.

### **Appreciation**

The assistance rendered by the staff of the Independent Regulatory Board for Auditors during the audit is sincerely appreciated.



DEL Zondo for Auditor-General

Pretoria  
25 July 2007





## STATEMENT OF RESPONSIBILITY BY THE ACCOUNTING AUTHORITY

for the year ended 31 March 2007

The Accounting Authority is responsible for the preparation and fair presentation of the annual financial statements of the Independent Regulatory Board for Auditors ("IRBA"). The annual financial statements comprise the statement of financial position at 31 March 2007, the statement of financial performance, the statement of changes in net assets and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes. These statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP), with the prescribed standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board.

Management's responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The internal controls include a risk-

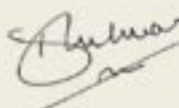
based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safely guarded and transactions executed and recorded in accordance with sound business practices.

The Accounting Authority has the ultimate responsibility for this system of internal controls and reviews the effectiveness of its operation primarily through the Audit Committee.

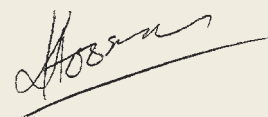
The Accounting Authority has made an assessment of the IRBA's ability to continue as a going concern and there is no reason to believe the business will not be a going concern in the year ahead.

### Approval of annual financial statements

The annual financial statements of the IRBA set out on pages 49 to 64 were approved by the IRBA on 25 July 2007 and signed on its behalf by:



DCM Gihwala  
Chairman



AK Hoosain  
Chief Executive Officer

# REPORT OF THE ACCOUNTING AUTHORITY

as at 31 March 2007

## Introduction

The Accounting Authority presents its first report which forms part of the annual financial statements of the Independent Regulatory Board for Auditors ("IRBA") for the period ended 31 March 2007, to the Minister of Finance, the executive authority in terms of section 55 (1)(d) of the Public Finance Management Act 1 of 1999 as amended ("PFMA").

The IRBA is the successor of the repealed Public Accountants' and Auditors' Board Act, 1991 (Act 80 of 1991) ("PAAB") on 1 April 2006.

## The Board and Secretariat of IRBA are as follows:

### Previous Board (Appointed for the term

#### 1 April 2006 to 31 March 2007)

DD Nagar (Chairman)

WP du Plessis (Deputy Chairman)

TC Barnes

R Barrow

RE Benjamin-Swales

RP Brussow

CR Emslie

G Everingham

C Koornhof

K Kooverjee

JA Rock

GJ le Roux

NF Mtoba

SF Nomvalo

RW Voller

### Chief executive officer

AK Hoosain

## Business address

### Head office

Maneo

7 Ernest Oppenheimer Avenue

Bruma

Johannesburg

### Postal address

PO Box 751595

Garden View

2047

## Principal activities of the IRBA

The IRBA is established in terms of section 3 of the Auditing Profession Act, 2005, (Act No 26 of 2005), ("the Act") which had an effective date of 1 April 2006. The objectives of the Act as set out in section 2 of the Act are as follows:

- to protect the public in the Republic by regulating audits performed by registered auditors;
- to provide for the establishment of an Independent Regulatory Board for Auditors;
- to improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in South Africa;
- to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession; and
- to provide for procedures for disciplinary action in respect of improper conduct.

## Analysis of annual financial statements

### Amounts transferred from PAAB

IRBA is the successor of PAAB from 1 April 2006. The following balances transferred from PAAB.

	1 April 2006 R'000
<b>Net assets</b>	6 638 621
<b>Assets</b>	15 796 298
Property, plant and equipment	4 703 162
Accounts receivable and prepayments	3 443 152
Cash	7 649 984
<b>Liabilities</b>	(9 157 677)
Accounts payable	(1 675 841)
Fees in advance	(7 481 836)
<b>Reserves</b>	6 638 621
Disciplinary fund	3 485 080
Education fund	2 355 725
Accumulated fund	797 816

#### *Property, plant and equipment*

A significant portion of property, plant and equipment is made up of buildings and computer equipment.

#### *Accounts receivable and prepayments*

Majority of this account relates to debtors in respect of practice reviews conducted in the two months prior to the year end. The recovery of certain debtors transferred from the PAAB are also in doubt, and a provision for doubtful debts in the amount of R282 138 had to be created in respect of those debtors.

#### **Cash**

A substantial cash balance was transferred from the PAAB to the IRBA. A substantial portion of the cash resulted from registration fees received in advance by the PAAB on behalf of the IRBA, before its establishment with effect from 1 April 2006. This cash was utilised over duration of the financial year. (Also see note below.)

### Fees paid in advance

This represents amounts paid in advance by the members of the PAAB at 31 March 2006, in lieu of their registration with the IRBA with effect from 1 April 2007.

### Other financial activities

#### *Revenue*

During its first year of operation, the IRBA was primarily funded from various fees levied in respect of registration of auditors, trainee accountants, examination candidates and practice reviews. In addition to this the IRBA obtained funding from National Treasury for the implementation of the Act. In this regard, R10,9 million was received during financial year as government grants.

One of the challenges that the IRBA faces, is to ensure that its funding arrangements enforces its independence from the profession. As such a sustainable funding model, which reduces its funding reliance on the profession still needs to be considered by the Board, and agreed to by the National Treasury. The total income for the year amounted to R37,0 million, and was adequate to fund its implementation activities as well as its operations for the year.

#### *Expenses*

IRBA's total expenditure for the year amounted to R34,0 million, primarily made up of staff costs, travel and accommodation and legal costs.

#### *Surplus*

IRBA made a surplus of R2,9 million for the current year. A roll-over of these funds will be requested to the National Treasury during August 2007, based on the audited annual financial statements.

STATEMENT OF FINANCIAL POSITION  
as at 31 March 2007

Figures in rand	Note(s)	2007 R
<b>Assets</b>		
<i>Non-current assets</i>		
Property, plant and equipment	2	5 142 526
<i>Current assets</i>		
Trade receivables	3	2 332 154
Other receivables	4	118 676
Loans receivable	5	61 900
Cash	6	4 870 474
		7 383 204
<b>Total assets</b>		12 525 730
<b>Net assets and liabilities</b>		
<i>Net assets</i>		
Disciplinary fund		4 412 580
Education fund		1 935 578
Accumulated fund		3 227 880
		9 576 038
<i>Liabilities</i>		
<i>Current liabilities</i>		
Trade and other payables	7	2 463 622
Provisions	8	486 070
		2 949 692
<b>Total net assets and liabilities</b>		12 525 730

**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 31 March 2007

Figures in rand	Note(s)	2007 R
<b>Revenue</b>	10	25 584 332
Government grants	11	10 881 000
Interest received	12	555 263
Other income		10 208
		37 030 803
<b>Expenses</b>	13	34 093 386
<b>Surplus for the year</b>		2 937 417

**STATEMENT OF CHANGES IN NET ASSETS**  
for the year ended 31 March 2007

Figures in rand	Disciplinary fund R	Education fund R	Accumulated funds R	Total funds R
<b>Balance transferred from PAAB at 1 April 2006</b>	3 485 080	2 355 725	797 816	6 638 621
Surplus per statement of financial performance			2 937 417	2 937 417
Transfer from education fund		(420 147)	420 147	
Transfer to disciplinary fund	927 500		(927 500)	
<b>Balance at 31 March 2007</b>	4 412 580	1 935 578	3 227 880	9 576 038

**CASH FLOW STATEMENT**  
for the year ended 31 March 2007

Figures in rand	Note(s)	2007 R
<b>Cash flows from operating activities</b>		
Cash receipts from customers and funders		37 946 109
Cash paid to suppliers and employees		40 398 209
<b>Cash used in operations</b>	14.1	<b>(2 452 100)</b>
<b>Cash flows from investing activities</b>		
Cash generated from acquisition of PAAB operations	14.2	7 649 984
Purchase of property, plant and equipment	2	(882 673)
Interest income		555 263
<b>Net cash from investing activities</b>		<b>7 322 574</b>
<b>Cash and cash equivalents for the period</b>		<b>4 870 474</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>0</b>
<b>Cash and cash equivalents at the end of the period</b>	6	<b>4 870 474</b>

## 1. Significant accounting policies

### 1.1 Basis of preparation

The annual financial statements are presented in South African rand, rounded to the nearest thousand. They are prepared on the historical basis except that the following assets and liabilities are stated at fair value: financial instruments classified as available-for-sale.

The accounting policies have been consistently applied to the results, assets, liabilities and cash flow of the entities included in the annual financial statements.

The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) and the Public Finance Management Act (Act No 1 of 1999 as amended by Act No 29 of 1999) (PFMA), including any interpretations of such statements issued by the Accounting Practices Board, and the Auditing Profession Act, 2005 (Act No 26 of 2005) (the Act) with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statements as follows:

Standard of GRAP	Replaced statement of SA GAAP
GRAP 1: Presentation of annual financial statements	AC 101: Presentation of annual financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in

items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following significant changes in the presentation of the financial statements:

#### 1.1.1 Terminology differences

Standard of GRAP	Replaced statement of SA GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting date	Balance sheet date

#### 1.1.2 The cash flow statement can only be prepared in accordance with the direct method.

Specific information such as:

- (a) receivables from non-exchange transactions, including taxes and transfers;
- (b) taxes and transfers payable; and
- (c) trade and other payables from non-exchange transactions;

must be presented separately on the statement of financial position.

**1.1.3 The amount and nature of any restrictions on cash balances is required to be disclosed.**

Paragraph 11 – 15 of GRAP 1 has not been implemented as IPSAS 24 *Presentation of Budget Information in Financial Statements* has been issued, but is not yet effective. Although the inclusion of an explanation of the reasons for material differences between budget and actual amounts would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

**1.2 Significant judgements**

The preparation of annual financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Actual results may differ from these estimates.

**1.3 Revenue**

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts received or receivable. Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably.

Revenue comprises fees for registrations, annual, training contracts, levies, monitoring, as well as practice review, examination fees, disciplinary expense contributions and sale of study material.

**Government grants income recognition**

Government grants are recognised initially when there is reasonable assurance that they will be received and that the IRBA will comply with the conditions associated with the grant. The grant is recognised as operating income in the statement of financial performance in the same period in which the IRBA qualifies to receive it.

**1.4 Interest income**

Interest income is accrued on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity.

**1.5 Property, plant and equipment**

Buildings, equipment and vehicles are carried at cost less accumulated depreciation and any impairment losses. Land is stated at cost less accumulated impairment losses.

The following rates were used for depreciation of property and equipment on the straight-line basis.

Item	Average useful life
Buildings	30 years
Furniture and fixtures	10 years
Motor vehicles	5 years
Computer equipment	3 years
Computer software	2 years

The IRBA has reviewed the residual values used for the purpose of depreciation calculations in light of the amended definition of residual value. The review did not highlight any requirement for an adjustment to the residual values or useful lives in the current period. Residual values and useful life will be reviewed annually in the future.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (i.e. impairment losses are recognised).



Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The depreciation charge for each period is recognised in operating surplus or deficit.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the operating surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## 1.6 Reserves

### 1.6.1 Disciplinary fund

This is a fund established to protect the operating capacity of the IRBA against the impact of unforeseen exceptional disciplinary costs which may result in the future. Disciplinary fines levied during the year are transferred to the disciplinary fund at the end of each financial year.

### 1.6.2 Education fund

This fund is established to fund education and training activities in support of previously disadvantaged persons in becoming registered auditors. Any surplus or deficit arising out of these activities is transferred to or out of this fund at the end of each financial year.

## 1.7 Financial instruments

### Initial recognition

The Board classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity

instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the IRBA's statement of financial position when the IRBA becomes party to the contractual provisions of the instrument.

### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the surplus or deficit when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest-rate method.

### Cash

Cash comprises cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

## 1.8 Leases

### Finance leases

Finance leases consistent with the definition set out in the National Treasury regulations refer to a contract that transfers substantially all the risks and rewards incidental to ownership to the lessee.

### *Operating leases*

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## **1.9 Employee benefits**

### *Defined contribution plans*

The Independent Regulatory Board for Auditors Retirement Fund is registered in terms of the Pension Fund Act, 1956 (Act No 24 of 1956), as amended. The fund is a defined contribution plan. The IRBA, 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 IRBA will become a member of the fund. Contributions to the fund amount to R1 453 973.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

## **1.10 Provisions**

Provisions are recognised when:

- the IRBA has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Long-term provisions are discounted to net present value.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

## **1.11 Related parties**

IRBA operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, parties within the national sphere of government will be considered to be related parties. Other related party transactions are also disclosed in terms of the requirements of the standard.

## **1.12 Irregular and fruitless and wasteful expenditure**

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The Public Finance Management Act, Act No 1 of 1999 as amended.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised. In accordance with the requirements of the Public Finance Management Act, the details are included in a note to the financial statements. Any irregular, fruitless and wasteful expenditure is charged against the respective class of expenses in the period in which it is incurred.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2007

2. Property, plant and equipment

Figures in rand	2007		
	Cost R	Accumulated depreciation R	Carrying value R
Land	990 000	–	990 000
Buildings	2 945 376	146 995	2 798 381
Furniture and fixtures	249 352	16 173	233 179
Motor vehicles	204 762	9 997	194 765
Computer equipment	1 196 345	270 144	926 201
<b>Total</b>	<b>5 585 835</b>	<b>443 309</b>	<b>5 142 526</b>

Reconciliation of property, plant and equipment – 2007

	Amounts transferred R	Additions R	Depreciation R	Total R
Land	990 000	–	–	990 000
Buildings	2 945 376	–	146 995	2 798 381
Furniture and fixtures	104 280	145 072	16 173	233 179
Motor vehicles	12 000	192 762	9 997	194 765
Computer equipment	651 506	544 839	270 144	926 201
	<b>4 703 162</b>	<b>882 673</b>	<b>443 309</b>	<b>5 142 526</b>

The land and building is situated at stand 201 Bruma Township. The property is valued every three years on the existing-use basis by independent valuers. As at 31 December 2004, the value was R5 770 000.

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3. Trade receivables

Fines, penalties and legal cost recoveries outstanding	530 525
Sundry	307 327
Practice review	1 776 440
Less provision for bad debts	(282 138)
	<b>2 332 154</b>

4. Other receivables

Prepayments	104 986
Deposits	13 690
	<b>118 676</b>

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<b>5. Loans receivable</b>	
Staff loans	24 100
Travel advance	37 800
	<u>61 900</u>
<b>6. Cash</b>	
Cash consists of:	
Cash on hand	2 000
Cash at bank	4 868 474
	<u>4 870 474</u>
<b>7. Trade and other payables</b>	
Deferred lease payments	20 289
Trade payables	714 820
Fees received in advance	624 856
VAT payable to SARS	46 355
Other accruals	1 057 302
	<u>2 463 622</u>
<b>8. Provisions</b>	
Leave provision	486 070
The leave provision is calculated based on the number of leave days outstanding at year end and the total cost of employment.	

## 9. Financial instruments

In the course of the IRBA's operations it is exposed to credit, liquidity and market risk. The Board has developed a comprehensive risk strategy in terms of TR28.1 in order to monitor and control these risks. The risk-management process relating to each of these risks is discussed under the headings below.

The IRBA's exposure to interest rate risk and the effective interest rates on financial instruments at statement of financial position dates are as follows:

	Floating rate		Non-interest bearing		Total R'000
	Amount R'000	Effective interest rate	Amount R'000	Weighted average period until maturity	
<b>Year ended 31 March 2007</b>					
<b>Assets</b>					
Cash	4 870 474	7,25%	–	–	4 870 474
Accounts receivable	1 776 440	12,50%	674 390	–	2 450 830
Loans receivable	–		61 900	–	61 900
<b>Total financial assets</b>	<b>6 646 914</b>		<b>736 290</b>	<b>–</b>	<b>7 383 204</b>
<b>Liabilities</b>					
Accounts payable	–		1 818 477	–	1 818 477
<b>Total financial liabilities</b>	<b>–</b>		<b>1 818 477</b>	<b>–</b>	<b>1 818 477</b>

### Credit risk

Financial assets, which potentially subject the IRBA to the risk of non-performance by counter parties consist mainly of cash and cash equivalents and accounts receivable.

The IRBA limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by National Treasury. The IRBA is continuously monitored by the Accounting Authority.

Credit risk with respect to members paying annual subscription fees is limited due to the nature of the income received. The IRBA's concentration of credit risk is limited to the audit industry in which the IRBA operates. No events occurred in the industry during the financial year that may have an impact on accounts receivable that has not yet been adequately provided for.

### Liquidity risk

The IRBA manages liquidity risk through proper management of working capital, capital expenditure and actual vs. forecasted cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

### Market risk

No significant fluctuations in the market occurred during the year that the Board is aware of.

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## 10. Revenue

Annual licence fees	9 327 159
Disciplinary cost recovery	249 800
Disciplinary fines	927 500
Examinations	2 851 478
Monitoring	200 000
Practice review	9 023 972
Registration fees	1 269 342
Sale of study material	281 631
Support programme	276 809
Training contracts and levies	1 176 641
	<hr/>
	25 584 332

## 11. Government grants

The IRBA has received an amount of R10 881 000 for the 2006/2007 financial year in respect of the implementation of the Audit Profession Act, (Act No 26 of 2005).

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## 12. Interest received

Interest received	555 263
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## 13. Expenses

Auditors remuneration	297 962
Bad debts	192 707
Building operating expenses	468 488
Committee expenses	1 139 397
Consulting fees	429 477
Depreciation	443 309
Education fund	696 956
Examination expenses	1 508 653
Information technology	210 082
Legal expenses	2 005 950
Operating lease charges (equipment)	362 876
Other expenses	3 181 400
Postage, printing and stationery	893 781
Publications	396 680
Public relations and advertising	1 512 387
Salary costs	17 926 530
Staff welfare and training	427 875
Travel and accommodation – local	1 329 389
Travel and accommodation – overseas	669 487
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	34 093 386

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued  
for the year ended 31 March 2007

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## 14. Compensation to employees

### 14.1 Salary cost

Salaries and wages	17 714 308
Performance bonus	150 000
Social contributions: UIF	62 222
	17 926 530
Average number of employees	56

### 14.2 Senior management salaries

Name	Designation	Salary	Medical	Pension	Travel	Bonus	Total
K Hoosain	CEO	1 314 376	50 124	–	48 000	150 000	1 562 500
BP Agulhas	Director	620 916	10 905	68 092	60 000	–	759 913
R Ally	Director	563 789	25 044	65 333	64 497	–	718 663
J Bailey	Director	665 579	–	105 878	24 000	–	795 457
J O'Connor	Director	594 727	29 632	96 072	48 000	–	768 431
U Naidoo	Director	588 252	17 472	63 514	48 000	–	717 238
		4 347 639	133 177	398 889	292 497	150 000	5 322 202

The CEO's performance bonus was payable in terms of his contract of employment and was awarded after consideration of his performance by the Board. There is currently no performance bonus policy in place for the rest of the senior management and staff.

## 15. Cash flows

### 15.1 Cash used in operations

Surplus	2 937 417
<i>Adjustments for</i>	
Depreciation	443 309
Movements in provision	(120 000)
<i>Changes in working capital</i>	
Trade and other receivables	915 306
Trade and other payables	(6 628 132)
	(2 452 100)

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## 15. Cash flows continued

### 15.2 Cash generated from acquisition of PAAB operations

<i>Current assets</i>	
Accounts receivable	(3 367 220)
Prepayments	(75 932)
Cash	(7 649 984)
<i>Non-current assets</i>	
Property, plant and equipment	(4 703 162)
<i>Current liabilities</i>	
Accounts payable	1 675 841
Fees received in advance	7 481 836
<i>Reserve and funds</i>	
Disciplinary reserve	3 485 080
Education fund	2 355 725
Accumulated funds	797 816
<i>Book value on acquisition</i>	–
Consideration paid	–
Add cash at acquisition	7 649 984
	<hr/>
	7 649 984

## 16. Commitments

### 16.1 Operating leases

Total future minimum lease payments under non-cancellable leases	
No later than one year	355 104
Later than one year and no later than five years	639 987
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	995 091

The operating leases relates to the rental of four photocopiers and three fax machines. No provision was made for an option to renew the lease on expiry.

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## 17. Contingencies

In terms of the PFMA, all surplus funds as at year end may be forfeited to National Treasury. No formal approval has been obtained from National Treasury to retain surplus funds. A request for the accumulation of surplus funds to National Treasury will be made.

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## 18. Material losses through criminal conduct, irregular, fruitless and wasteful expenditure

To the best of our knowledge, no material losses through criminal conduct or irregular, fruitless and wasteful expenditure were incurred during the year ended 31 March 2007.

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## 19. Comparative figures

No comparative figures have been presented as these are the first annual financial statements of the IRBA. The annual report of PAAB for the 15 months ended on 31 March 2006 is available on the IRBA website at [www.irba.co.za](http://www.irba.co.za).

## 20. Related parties

All national departments of government and state-controlled entities are regarded as related parties in accordance with Circular 4 of 2005: *Guidance on the term "state controlled entities" in context of IAS 24 (AC 126) – Related Parties*, issued by the South African Institute of Chartered Accountants. The following transactions and balances were recorded relating to transactions with related parties as defined.

### 20.1 Services provided to related parties

Auditor-General	644 010
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### 20.2 Services provided by related parties

Auditor-General	189 657
City of Johannesburg	192 815
Government Printing	4 963
National Treasury	10 881 000
South African Revenue Services	5 303 726
South African Broadcasting Corporation	225
Telkom	85 742

### 20.3 Year-end balances arising from services provided by related parties

City of Johannesburg	26 098
South African Revenue Services	47 466
Telkom	6 042

### 20.4 Board members fees

The following were paid to members of the IRBA for attendance of meetings:

Name	Entity paid	Amount
DD Nagar	Grant Thornton	30 000
WP du Plessis	Strydom du Plessis	23 000
TC Barnes	MFD Sentinel	8 250
G Everingham		2 750
C Koornhof		5 500
		69 500

## 21. Taxation

No provision has been made for taxation as the IRBA is exempt from income tax in terms of section 10(1)(cA) of the Income Tax Act, 1962 (Act No 58 of 1962).

## 22. Events after reporting date

There were no significant events after reporting date.