



Financial Sector
Conduct Authority

FSCA COMMUNICATION 6 OF 2020 (RF)

EXEMPTION FROM USING CERTAIN PRESCRIBED FORMATS FOR PREPARING FINANCIAL STATEMENTS UNDER SECTION 15 OF THE PENSION FUNDS ACT, 1956

1. PURPOSE

The purpose of this Communication is to inform stakeholders that the Financial Sector Conduct Authority (FSCA) has, in terms section 281(1) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (Financial Sector Regulation Act), exempted Large Funds from using certain prescribed auditor's report formats when preparing financial statements, on the condition that such funds use the illustrative auditor's reports approved by the Independent Regulatory Board for Auditors (IRBA).

2. BACKGROUND

2.1 On 18 July 2014, the then Registrar of Pension Funds published Board Notice 77 in *Government Gazette* 37844 (the Board Notice). The Board Notice prescribed the format of the financial statements that must be completed by funds in accordance with section 15 of the Pension Funds Act, 1956 (Act No. 24 of 1956).

2.2 Amongst the auditor's report formats prescribed for Large Funds (as set out in the Board Notice), were the following Schedules:

- (a) Schedule D1 – Reports of the independent auditors; and
- (b) Schedule IB1 – Report of the independent auditors on compliance with regulation 28 to the Registrar of pension funds.

2.3 The IRBA approved the following illustrative auditor's reports to be used by registered auditors:

- (a) March 2018: "Auditor's report template: Audit of the Financial Statements of a Large Retirement Fund (Schedule D)"; and
- (b) March 2019: "Assurance Report on Compliance with Regulation 28 of the Pension Funds Act".

2.4 The FSCA supports the use of these IRBA illustrative auditor's reports and will be replacing the existing Board Notice 77 with a prudential standard to incorporate the IRBA's approved illustrative auditor's reports into the prescribed formats for preparing financial statements.

- 2.5 However, in terms of section 1A(4) of the Pension Funds Act, 1956 (Act No. 24 of 1956) (Pension Funds Act), any matter prescribed must be read as a reference to the matter being prescribed in a prudential standard, conduct standard or joint standard.
- 2.6 Accordingly, the format of financial statements prescribed under section 15 of the Pension Funds Act would constitute a prudential standard and any amendment to such prudential standard must follow the consultation processes set out in Chapter 7 of the Financial Sector Regulation Act. The process of amending the Board Notice will therefore take a number of months to finalise.
- 2.7 The FSCA acknowledges the need to make the illustrative auditor's reports, already approved by the IRBA, effective and has accordingly taken a decision to, as an interim measure, facilitate the use of the IRBA's illustrative auditor's reports by exempting funds from using the relevant prescribed schedule D and Schedule IB1 auditor's report formats on the condition that the IRBA's illustrative auditor's reports are used.
- 2.8 This exemption will be valid up until such time as the existing Board Notice 77 has been amended to incorporate the IRBA's illustrative auditor's reports.
- 2.9 Various funds have already submitted financial statements in terms of IRBA's new approved illustrative auditor's reports, notwithstanding the requirements prescribed in the Board Notice. In order to acknowledge these reports and facilitate compliance with the Board Notice, the exemption will apply retrospectively, i.e. as from the date on which the first new illustrative auditor's report was approved by IRBA (March 2018). The effect of this approach is that any fund who –
- submitted financial statements in accordance with IRBA's new approved illustrative auditor's reports after March 2018, can rely on the exemption and is therefore in compliance with the requirements of the Board Notice; or
 - did not submit financial statements in accordance with IRBA's new approved illustrative auditor's reports after March 2018 would still be in compliance with the requirements of the Board Notice.
- 2.10 It is important to note that this exemption does not absolve funds from the requirements of section 15 of the Pension Funds Act or the Board Notice, and all funds must still prepare financial statements and other relevant documents as per section 15 of the Pension Funds Act and the Board Notice 77. The only exception is that Large Funds may, in accordance with the exemption, substitute the auditor's report format referred to in –
- 2.10.1 paragraph 2.2(a) above with the format referred to in paragraph 2.3(a) above; and
- 2.10.2 paragraph 2.2(b) above with the format referred to in paragraph 2.3(b) above.

3. ENQUIRIES

For further information regarding this Communication please contact the FSCA by emailing Ms Wilma Mokupo at Wilma.Mokupo@fsc.co.za.