



CHANGES TO THE IRBA CODE OF PROFESSIONAL CONDUCT CUSTODY OF CLIENT ASSETS

CONTENTS

	Page
Definition.....	2
Section 270.....	2
Effective Date.....	4

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The proposed amendments to this Code are based on local requirements as per Part B of the IRBA Code of Professional Conduct for Registered Auditors. The IRBA Code of Professional Conduct adopted the *International Ethics Standards Board for Accountants (IESBA) Code of Ethics* published by the International Federation of Accountants (IFAC), which is used with the permission of IFAC. Adaptations to Parts A and B are underlined and *in italics*.

FINAL AMENDMENT TO THE CODE OF CONDUCT FOR REGISTERED AUDITORS ADDRESSING CUSTODY OF CLIENT ASSETS

Definition:

Client - Entity or person for which a registered auditor performs professional services.

S270 Custody of Client Assets

- 270.1 A registered auditor shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a registered auditor holding such assets.
- 270.2 The holding of client assets creates threats to compliance with the fundamental principles. For example, there is a self-interest threat to professional behaviour and there may be a self-interest threat to objectivity arising from holding client assets. A registered auditor entrusted with money (or other assets) shall therefore:
- (a) Keep such assets separately from personal or firm assets;
 - (b) Use such assets only for the purpose for which they are intended;
 - (c) At all times be ready to account for those assets and any income, dividends or gains generated to any entity or persons entitled to such accounting; and
 - (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.
- 270.3 As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a registered auditor shall make appropriate inquiries about the source of such assets and consider the related legal and regulatory obligations. For example, if the registered auditor has reason to believe that the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the registered auditor shall not accept or hold the client assets and shall comply with the provisions of section 225 of the Code.
- 270.4 When a registered auditor, in the course of providing professional services, is entrusted with client monies, which come into the registered auditor's possession or under the registered auditor's control and for which the registered auditor is responsible to account to a client, the registered auditor shall:
- (a) Not refer to such client monies as being "in trust" or in a "trust account";
 - (b) Maintain one or more bank accounts, with an institution or institutions registered in terms of the Bank Act, 1990 (Act 94 of 1990), that are separate from the registered auditor's own bank account;
 - (c) Appropriately designate such bank accounts. This includes a general bank account in the registered auditor's name where all client monies are held (such as ABC's Client Account), or a specific account named and operated per relevant client;
 - (d) Deposit client monies without delay to the credit of such client account;

- (e) Maintain such records as may reasonably be expected to ensure that the client monies can be readily identified as being the property of the client, for example proper bookkeeping and being able to supply the client with an analysis of the account/s;
 - (f) Perform a reconciliation between the designated bank account and the client monies ledger account/s; and
 - (g) Not hold client monies indefinitely unless specifically allowed by laws and regulations. Registered auditors are encouraged to hold client monies for a limited period, depending on the professional service provided.
- 270.5 While providing professional services, if the registered auditor is entrusted with client assets other than client monies which come into the registered auditor's possession or under the registered auditor's control and for which the registered auditor is responsible to account to a client, the registered auditor shall:
- (a) Not refer to such client assets as being held "in trust" or in a "trust account" as this could be misleading;
 - (b) Maintain such records as may be reasonably expected to ensure that the client assets can readily be identified as being the property of the client; and
 - (c) If client assets are in the form of documents of title to money, or documents of title that can be converted into money, make such arrangements as may be appropriate in the circumstances to safeguard such documents against unauthorised use.
- 270.6 A registered auditor shall consider applying the following measures to the protection of client assets:
- (a) If the registered auditor administers a large number of client accounts that hold client monies the registered auditor may utilise an umbrella account with sub-accounts for each client;
 - (b) If the professional service requires the registered auditor to be entrusted with client monies for an unusually long period and the registered auditor is not the auditor or assurance provider, the registered auditor shall request the client to open a separate bank account and then provide the registered auditor with appropriate power of attorney or signatory rights;
 - (c) Before taking custody of client assets the registered auditor shall consider whether the firm's indemnity and fidelity insurance is sufficient to cover incidents of fraud or theft; and
 - (d) Where a formal engagement letter is entered into covering the professional service involving custody of client assets, the engagement letter shall address the risks and responsibilities relating to such client assets.
- 270.7 A registered auditor shall not accept custody of audit or assurance client assets unless the threat to independence can be eliminated or reduced to an acceptable level. The independence requirements in section 290.159 - 290.162 apply for audit and review engagements and section 291.141 – 291.144 apply to other assurance engagements.

Effective Date

1. The changes will be effective on or after 31 December 2017.
2. The effective date applies to all client assets that are currently in the registered auditor's custody.
3. Where the registered auditor is performing non-assurance services for an audit or assurance client that requires the auditor to take custody of client assets, consideration should be given specifically to Section 290 of the IRBA Code of Professional Conduct.