



# irba

INDEPENDENT REGULATORY BOARD FOR AUDITORS

# NEWS

ISSUE 28 | OCTOBER 2014 - MARCH 2015



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## FROM THE CEO'S DESK

This year is starting with significant changes for our profession. These changes will see investors getting more information in their company's audit reports and give them the necessary assurance when it comes to their investment decisions.

The new and revised Auditor Reporting Standards issued by the International Auditing and Assurance Standards Board (IAASB) on 15 January 2015 are the most significant changes the profession has seen in the last 20 years. The IRBA supports these changes and welcomes the fact that the new standards will give investors more information relating to audits and the entities being audited.

As with all new standards, the Committee for Auditing Standards (CFAS) will follow due process in recommending the new and revised standards for approval by the IRBA Board before they are implemented. The CFAS will also advise the Board on the recommended date of implementation. For more information on the new and revised standards see the Standards section on page 6.

In the last couple of weeks, I have followed the World Economic Forum discussions in Davos with great interest, especially the debates on anti-corruption and how the global community plans to come together to fight corruption. This topic reinforced the importance of the role of our profession in the fight against corruption and what it is that we can do to fight corruption in our own country.

There is a lot that each one of us can do to improve good governance and to fight the scourge of corruption. The auditing profession is best placed to take the lead in this fight and to turn things around for the good of our country and the economy.

The IRBA has been receiving a lot of recognition from its international counterparts to offer assistance in various capacities in their programmes around the continent. This is testament to the good work that the IRBA continues to do in the education, technical and inspections spaces. The IRBA's involvement in international forums continues to allow it to position itself to contribute towards the growth of the profession on the African continent.

Our Inspections department continues to enhance communication with firms by giving feedback on some of the most common inspections that resulted in unsatisfactory

outcomes, and so demonstrates our belief that the various stakeholders who have an interest in Audit Quality should work together to achieve this common objective. Read more of the inspections findings newsflash on page 14.

The IRBA, together with the South African Institute for Chartered Accountants (SAICA), responded to auditors' requests for further guidance and clarification on the application of Section 90 (2) of the Companies Act, which deals with the provision of non-audit services by the auditor of a company. Accordingly, updated guidance will be issued this month.

The IRBA is excited about the start of the Audit Development Programme (ADP), which will see the first intake of the Candidate Registered Auditors (CRA) in March. The ADP positions the Chartered Accountant as a Specialist Accountant and the programme equips CRAs with the required skills and experience to competently perform and deliver services on which the public and investors can rely. Read more on the ADP on page 3.

We are pleased that the Minister of Finance facilitated another meeting in January of all Heads of entities that report to him. One of the objectives of these meetings is to enhance communication between these entities and with the Minister, and thereby further strengthen the impact of national initiatives and the capacity of the individual state organs. Communication and engagements must move us forward.

In his budget speech, Minister Nhlanhla Nene alluded to the tough economic challenges facing our country – and the fact that we need to intensify efforts to improve the economy. The strengthening of public institutions such as the IRBA will go a long way in making markets work better and creating investment in infrastructure and more jobs.

So as we proceed with our journey into a brand-new year and embark on future challenges and embrace new opportunities, it seems appropriate to approach 2015 with the famous words of Muhammad Ali: "Don't count the days, make the days count".



*Bernard Peter Agulhas*  
Chief Executive Officer

# EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT



## The Audit Development Programme goes live

The National Assembly approved the Auditing Profession Amendment Bill on Thursday, 12 March 2015. This Bill brings into effect changes to the IRBA's model to qualify Registered Auditors (RAs).

In order to become an RA, the new model provides for a period of specialisation, post qualification, as a professional accountant from an IRBA-accredited professional body. This specialisation period is called the Audit Development Programme (ADP). Please refer to [www.irba.co.za](http://www.irba.co.za) for more details on the ADP and the new route to becoming an RA.

Only those candidates who have completed their training programme (articles) and have passed the Assessment of Professional Competency will be eligible to register for the ADP.

Those wanting to register for the ADP must complete the application form, which is available on the IRBA's website and send it to the IRBA at [adpadmin@irba.co.za](mailto:adpadmin@irba.co.za). The ADP registration fee for 2015 is R5 000.

For all ADP queries, please contact the IRBA at [adp@irba.co.za](mailto:adp@irba.co.za).



Candidates from all over South Africa wrote the PPE at exam centres across the country

# EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT cont.

## OFFICIAL STATEMENT ACCOMPANYING THE RELEASE OF THE RESULTS OF THE PUBLIC PRACTICE EXAMINATION 2014

Statement Issued 27 February 2015

### Overall results

Today, the Independent Regulatory Board for Auditors (IRBA) released the results of the 2014 Public Practice Examination (PPE) – the final assessment of professional competence for candidates wishing to register as Registered Auditors (RA) or Chartered Accountants (South Africa) (CA (SA)). This was the last time that the PPE was presented in this format because of the changes to the structure of the IRBA's final assessment of professional competence. The 2014 examination was aimed at providing a final opportunity for candidates (mainly repeat) to demonstrate their professional competence.

The overall pass rate for the PPE, written in November 2014, is 56%. The pass rate achieved in 2014 cannot be compared to pass rates in previous years due to the very different composition of the candidate population. Although the results of the 2014 PPE are lower than usual, the IRBA is pleased to announce that of the 724 candidates who wrote the examination, 407 candidates passed.

Only one candidate achieved honours (above 75%) and the IRBA would like to congratulate Mr Molefi Mphirima on this achievement. Due to the nature of the 2014 assessment and candidate population, the IRBA decided not to announce a list of the top ten candidates as has been the practice in previous years.

### Transformation

Transformation of the profession is at the forefront of the IRBA's agenda. In this regard the IRBA is delighted at the throughput rates for Black candidates. Of the 531 Black candidates that entered the 2014 PPE, 301 passed, resulting in an overall pass rate of 57%.

The IRBA is particularly pleased to announce the results of the 2014 IRBA Support Programme. The IRBA has presented a support programme for Black repeat candidates on an annual basis for the past 13 years. In 2014, Fasset (the Seta for finance, accounting, management consulting and other financial services) once again provided the IRBA with funding for the Support Programme. The candidates who attended the Support Programme achieved better results on each question

than repeat candidates who did not attend the IRBA's programme. Of the 231 Black candidates who successfully completed the programme 145 passed, representing a pass rate of 63% compared to a pass rate of 52% achieved by Black candidates who did not attend programme.

### The end of an era

The PPE in its current format was written for the last time in 2014. In future, all candidates wishing to become RAs will be required to successfully complete SAICA's Assessment of Professional Competence (APC) and training contracts (articles), register with the IRBA as a Registered Candidate Auditor and undertake a specialisation period in an audit firm. Specialist training for candidate RAs will take a minimum of 18 months and candidates will be required to demonstrate their professional competence on the job with the submission of a portfolio of evidence at the end of the specialism period. Please refer to the IRBA's website for further information on the Audit Development Programme (ADP) [www.irba.co.za](http://www.irba.co.za).

### In conclusion

The IRBA wishes to acknowledge the significant contribution made by the various education institutions, training offices and SAICA towards the success of the PPE and the profession over the years. The IRBA also extends a special word of gratitude to the Examination Committee members who have worked tirelessly over the years to ensure that the standard of the examination has remained consistent and that the examination continued to be relevant for a changing profession.

The PPE has served the IRBA well over the last 16 years and it has positioned the RA designation as an internationally sought after and respected brand. It is therefore with bitter sweet nostalgia that the IRBA bids a final farewell to the PPE.

The IRBA wishes all candidates who have successfully passed the PPE over the years well and thanks them for their role in providing public protection both locally and internationally.

### PPE results released

The IRBA released the results for the 2014 Public Practice Examination (PPE) on 27 February 2015 and also bid farewell to Ms Hermien Drotsky, the Examination officer who retired after five years of being an administrator to the PPE. The department expressed its gratitude for the professional services Ms Drotsky gave to the PPE over the years and

# EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT cont.

wishes her well. The CEO thanked the ETP team for the stellar work that they have done in managing the board examination for the past 17 years. "It has been amazing to be a part of the organisation managing the examination over the past years," said Bernard Agulhas. "I am proud of the work that the ETP team has been doing. This is one of the outputs of the IRBA that makes us proud to have hosted the PPE," he added.

The last PPE examination was written in November 2014 and the new qualification route, the Audit Development Programme (ADP) was approved at the National Assembly on 12 March 2015.



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# STANDARDS

## New and Revised Auditor Reporting Standards

The International Auditing and Assurance Standards Board (IAASB) issued a suite of new and revised auditor reporting standards on 15 January 2015:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*;
- ISA 260 (Revised), *Communication with Those Charged with Governance*;
- ISA 570 (Revised), *Going Concern*;
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; and
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Registered auditors are reminded that the Committee for Auditing Standards (CFAS) is required to follow due process, which entails recommending the new and revised standards to the IRBA Board for approval to adopt for use by registered auditors. Once adopted by the IRBA Board, the new and revised ISAs will be effective for audits of financial statements for periods ending on or after 15 December 2016.

The Standards Department is launching an **Auditor Reporting Awareness Programme**, addressing stakeholders through targeted initiatives. Stakeholders identified are registered auditors (JSE-accredited auditors for Key Audit Matters), users of auditor reports (investors, directors and regulators), preparers and students (CTA level). Details on the initiatives will be communicated to relevant stakeholders.

## Adoption of the IAASB's 2014 Handbooks

The IRBA adopted, issued and prescribed the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2014 Edition Volumes I, II and III* in Board Notice 143 of 2014 included in Government Gazette 38263 of 5 December 2014.

The 2014 Board Notice and PDF formats of the 2014 IAASB Handbooks, Volumes I, II and III, are available for download from the Auditing Standards section of the IRBA website at

<http://www.irba.co.za/index.php/auditing-standards-functions-55/252-international-clarity-pronouncements-adopted-and-i/831-2014-auditing-standards>

The IRBA auditing pronouncements are also published by The South African Institute of Chartered Accountants (SAICA) in the Auditing Handbook included with their annual Members Handbooks.

## Committee for Auditing Standards (CFAS)

### Prescribed Auditor Reports for Medical Schemes and Proposed Guide for Registered Auditors: Engagements on the Annual Financial Statements and Annual Statutory Returns of a Medical Scheme

- The Council for Medical Schemes (CMS) published the **prescribed auditor report templates** effective for the 2014 financial year, on 27 November 2014. These statutory auditor reports have been developed by the CMS in consultation with the CFAS and its Medical Schemes Task Group, which includes auditors of medical schemes:
- ISA 700 auditor report template: *Report on the Financial Statements*
- ISA 800 and ISRE 2410 auditor report template: *Report on Parts 4 to 10 of the Annual Statutory Return*
- ISAE 3000 (Revised) auditor report template: *Assurance Report on Compliance with Sections 36(5) and 36(8) of the Act*
- ISA 810 auditor report template: *Report on the Summary Financial Statements*

These auditor report templates are effective for year-ends of medical schemes ending on and after 31 December 2014. The auditor reports may be downloaded from the IRBA website at <http://www.irba.co.za/index.php/regulated-industries-functions-74/98?task=view>

The CFAS approved the release of the **Proposed Guide for Registered Auditors: Engagements on the Annual Financial Statements and Annual Statutory Returns of a Medical Scheme** (this proposed Guide) on 26 November 2014, for exposure for public comment.

This proposed Guide deals with the special circumstances applicable to a medical scheme, including the nature, characteristics and transactions of a medical scheme, and the nature of an engagement to report thereon. No audit guide previously existed in South Africa for the audit of a medical

# STANDARDS cont.

scheme.

Comments were due to be submitted to the IRBA by 10 February 2015.

The exposure draft may be downloaded from the IRBA website at <http://www.irba.co.za/index.php/auditing-standards-functions-55/75?task=view>

## JSE Section 13, Property Entities IRBA Guide

The CFAS has approved a project for the development of an IRBA Guide to be used by reporting accountants when required to report in terms of Section 13, *Property Entities* of the JSE Listings Requirements. It is anticipated that the Guide will be issued on exposure in June 2015 with the final Guide issued in September 2015.

## CFAS Public Sector Standing Committee (PSSC)

The Auditor-General South Africa (AGSA) is in the process of developing a new audit methodology. The PSSC is providing a platform for consultation with registered auditors on critical methodology issues related to the planned changes.

## CFAS Sustainability Standing Committee (SSC)

### Illustrative engagement letter and assurance report – GRI G4

The CFAS approved a project for a task group of the SSC to develop illustrative report(s), engagement letter(s) and any necessary guidance to be used by registered auditors when required to issue an ISAE 3000 (Revised) sustainability assurance report on a Sustainability Report prepared in terms of GRI G4. It is anticipated that the illustrative engagement letter(s), assurance reports(s) and related guidance will be issued on exposure in September 2015 with the final pronouncements issued in December 2015.

## CFAS B-BBEE Advisory Committee (BAC)

### Proclamation of Broad-Based Black Economic Empowerment Amendment Act, 2013 (the Act)

The Broad-Based Black Economic Empowerment (B-BBEE) Amendment Act 2013 (the Act) was proclaimed into law in Government Gazette 38126 of 24 October 2014. The Act has significant implications for practitioners.

One of the consequences of the Act is that all actions that are not aligned to the letter of the Codes of Good Practice and the Sector Codes are considered a punishable offence. The offences and penalties as defined in terms of Section 13O of the Act, and will result in a fine or a term of imprisonment in the event of an offence.

### Clarification on B-BBEE Verification Engagements performed in terms of the 2013 Codes of Good Practice

The attention of B-BBEE Approved Registered Auditors (BARs) is drawn to the IRBA communiqué dated 13 December 2013 in which BARs were advised to refrain from issuing B-BBEE certificates based on the gazetted amended 2013 Codes of Good Practice (CoGP) during the transitional period, which ends on 30 April 2015.

The Department of Trade and Industry (DTI) was requested to give clarity on the status of the previous Statement 005, which gave BARs the authority to issue B-BBEE certificates. Statement 005 was omitted from the newly gazetted amended 2013 CoGP, and has not yet been reintroduced.

In this regard, BARs are informed of the following:

- It has been confirmed with the DTI that the status of previous Statement 005 in relation to the authority of BARs to issue B-BBEE certificates in terms of the amended 2013 CoGP is still valid and applicable.
- The application of the 2013 CoGP will come into effect on 1 May 2015.
- As a result, the advice contained in our 13 December 2013 communiqué should still be taken into consideration when approached by clients wanting to have their B-BBEE credentials measured in terms of the amended 2013 CoGP.
- Despite the status of Statement 005, the DTI has committed to appointing a single regulator for all B-BBEE verification professionals. An announcement will be made as soon as this comes into effect.

### Early adoption of Amended 2013 Codes of Good Practice

In terms of the amended 2013 CoGP Code 000, Statement 000, paragraph 10, for the first year after the gazetting of this statement, an entity may elect to use the amended 2013 CoGP or the 2007 CoGP. This period was extended to 30 April 2015. As from the 1 May 2015, the amended 2013 CoGP will come into effect.

The early adoption may only be applied to Generic Enterprises

# STANDARDS cont.

with turnover of more than R50 million as:

- The Qualifying Small Enterprises (QSE) amended 2013 scorecard has not yet been gazetted and therefore cannot be early adopted.
- The Exempt Micro Enterprises (EME) only require affidavits in terms of the amended 2013 CoGP and are therefore not considered measured entities. Early adoption only applies to measured entities. Therefore the amended 2013 CoGP may not be applied to EMEs.

## Second phase of amended B-BBEE Codes of Good Practice (CoGP)

- On 10 October 2014, the Minister of DTI gazetted Phase 2 of the B-BBEE Codes of Good Practice for comment. The public commentary period ended on 9 December 2014. The following codes and statements were part of the Phase 2 commentary:
- Code 000 Statement 003:  
Development and gazette of Sector Charters
- Code 000 Statement 004:  
Scorecard for Specialised Enterprises
- Code 100 Statement 102:  
Recognition in the Sale of Assets
- Code 100 Statement 103:  
Recognition of Equity Equivalents for Multinationals
- Code 600 Statements 600-605:  
Qualifying Small Enterprise Statements

The Department of Trade and Industry (DTI) has not gazetted these codes for use.

## Accounting Standards Board (ASB)

The ASB issued its Discussion Paper 9: Materiality – Reducing Complexity and Improving Reporting in July 2014. A task group of the CFAS prepared and submitted comments on the discussion paper to the ASB on 15 January 2015.

The discussion paper is available on the ASB's website at <http://www.asb.co.za/About-Us/Latest-News-Archive>

## International Integrated Reporting Council (IIRC)

The IIRC issued the following papers on assurance on integrated reporting (<IR>) in July 2014, with comments requested by 8 December 2014:

- *Assurance on <IR> – An Introduction to the Discussion; and*

- *Assurance on <IR> – An Exploration of Issues.*

The IRBA obtained comments on the papers through round-table discussions, held in Johannesburg and Cape Town. The IRBA comment letter was submitted to the IIRC on 8 December 2014.

The discussion papers are available on the IIRC's website at <http://www.theiirc.org/resources-2/assurance/>

## The International Audit and Assurance Standards Board (IAASB)

### Proposed International Standards on Auditing (ISAs), ISA 800 (Revised) and ISA 805 (Revised)

On 23 January 2015, the IAASB issued proposals to enhance auditor reporting on special-purpose financial statements. The exposure draft includes changes proposed to ISA 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and ISA 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

The IAASB agreed to limit its proposals to reporting in the above engagements, and thus does not intend to substantively change the underlying premise of audits of financial statements to which those ISA 800 and ISA 805 apply. A task group of CFAS will prepare a comment letter, with comments due to be submitted by 22 April 2015. The exposure draft is available on the IAASB's website at <http://www.ifac.org/publications-resources/proposed-international-standards-auditing-isas-isa-800-revised-and-isa-805-re>

### IAASB Work Plan for 2015-2016: Enhancing Audit Quality and Preparing for the Future

The IAASB issued its Work Plan for 2015-2016 on 17 December 2014. The Work Plan sets out the IAASB's priorities and actions for the 2015-2016 period. The Work Plan is available on the IAASB's website at

<http://www.ifac.org/publications-resources/iaasb-work-plan-2015-2016>

### IAASB Strategy for 2015-2019: Fulfilling Our Public Interest Mandate in an Evolving World

The IAASB's Strategy for 2015-2019 was issued on 17 December 2014. The Strategy describes the board's strategic objectives that articulate its vision over the medium term. The



# ETHICS

Strategy is available on the IAASB's website at <http://www.ifac.org/publications-resources/iaasb-strategy-2015-2019>

## Committee for Auditor Ethics (CFAE)

### IESBA issues consultation paper on Improving the Structure of the Code of Ethics for Professional Accountants

On 4 November 2014, the IESBA released a consultation paper on *Improving the Structure of the Code of Ethics for Professional Accountants* for public comment. The paper seeks input from stakeholders on approaches that could be taken to improve the clarity and usability of the Code, thereby facilitating its adoption, effective implementation, and consistent application.

Among the various matters on which the Ethics Board is consulting are:

- Restructuring the Code to more clearly distinguish requirements from guidance;
- Reorganising the content of the Code, including rebranding the Code, or parts thereof, as international standards;
- Identifying responsibility for compliance with the Code in particular circumstances; and
- Simplifying the wording of the Code so that it can be more readily understood.

As the IRBA's Code of Professional Conduct for Registered Auditors adopted Parts A and B of the IESBA Code, the IRBA will submit comments to the IESBA. The consultation paper is available on the IESBA website at

<http://www.ifac.org/publications-resources/improving-structure-code-ethics-professional-accountants>

### IESBA issues exposure draft addressing Part C of the Code of Conduct

On 24 November 2014, the IESBA released *Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles* for public comment. This exposure draft deals with two matters on which professional accountants in business most often seek assistance in practice – their responsibility to produce financial reports that are faithful representations of the economics of transactions, and pressure to breach the fundamental ethical principles.

As the IRBA's *Code of Professional Conduct for Registered Auditors* adopted Parts A and B of the IESBA Code only (and not Part C of the IESBA Code), the CFAE will not be submitting comments to the IESBA. The exposure draft can be found on the IESBA website <http://www.ifac.org/publications-resources/proposed-changes-part-c-code-addressing-presentation-information-and-pressure>

# REPORTABLE IRREGULARITIES

Below are statistics related to reportable irregularities processed by the IRBA.

REPORTABLE IRREGULARITIES RECEIVED				
	9 months ended 31 December 2014		Year ended 31 March 2014	
Number of reports (1st and 2nd ) received and files closed within 40 days	832	99%	570	97%
Number of second reports received late (after due date)	11	1%	19	3%
<b>Total number of RIs received</b>	<b>843</b>	<b>100%</b>	<b>589</b>	<b>100%</b>

CONTINUING/NOT CONTINUING RIS - OF THE TOTAL NUMBER OF RIS RECEIVED:				
	9 months ended 31 December 2014		Year ended 31 March 2014	
Continuing	432	51.2%	345	59%
Not continuing	408	48.4%	235	40%
Did not exist	3	0.4%	9	1%
<b>Total number of RIs received</b>	<b>843</b>	<b>100%</b>	<b>589</b>	<b>100%</b>

## Committees and task groups

Registered auditors and others with an interest in participating in IRBA structures on technical aspects are welcome to contact us. We have a range of committees, task groups and projects – and we would value the opportunity to welcome new participants. We are particularly keen for the perspectives of practitioners from small and medium practices, and other specialists who will serve to provide more insights to our work. In considering new members, we will strive to balance representation from various stakeholder groups.



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# LEGAL

## QUARTERLY REPORT FROM THE DIRECTOR: LEGAL FOR THE PERIOD 1 OCTOBER 2014 TO 31 DECEMBER 2014

### Investigating Committee

The Investigating Committee met twice during this period (7 October and 13 November 2014) and referred 24 individual matters to the Disciplinary Advisory Committee with recommendations.

### Disciplinary Advisory Committee

The Disciplinary Advisory Committee met twice during this period (27 October and 5 December 2014) and disposed of 17 matters, as follows.

#### Decisions not to charge

- **One** matter in terms of Disciplinary Rule 3.5.1.1 (the respondent is not guilty of unprofessional conduct; this includes the situation where the conduct in question might be proved but even if proved does not constitute unprofessional conduct);
- **Four** matters in terms of Disciplinary Rule 3.5.1.2 (the respondent having given a reasonable explanation for the conduct);
- **Three** matters in terms of Disciplinary Rule 3.5.1.4 (being that there are no reasonable prospects of succeeding with a charge of improper conduct against the respondent);
- **One** matter in terms of Disciplinary Rule 3.5.1.5 (being that in all the circumstances, it is not appropriate to charge the respondent with improper conduct).

#### Decision to charge and matters finalised by consent order

Five matters were finalised with fines. One practitioner had two cases against him that were handled simultaneously:

- **One** matter related to a referral from the Inspections Department. The respondent continued to be non-compliant with the auditing standards in that there was insufficient documentation of audit evidence to support the opinions expressed. Furthermore, there appeared to be indications that the practitioner prepared working papers for the sole purpose of responding to the inspection queries and that

these working papers were not part of the original audit file at the time the audit report was signed or the on-site inspection was carried out. The practitioner has been registered with IRBA since 2007 but this appears to be the practitioner's first inspection.

The practitioner was fined R25 000 on the first aspect, of which R12 500 was suspended for three years on conditions, and was fine R100 000 on the second aspect, with no order as to costs and publication in general terms only.

- **One matter** related to using knowledge obtained from an erstwhile client to go into business (specialised recruitment) in competition with the former client. There was no evidence that this had been to the financial detriment of the erstwhile client. The practitioner was no longer registered with the IRBA.

The practitioner was fined R100 000, of which R50 000 was suspended on conditions, together with costs of R5 000 and publication in general terms only. However, due to the fact that the practitioner was no longer registered with the IRBA, imposition of the entire order was postponed until such time as the practitioner re-registers with the IRBA.

- **One matter** related to improperly effecting changes to the CIPC records in the circumstances of a family dispute between a son on the one hand and the other son and mother on the other hand. The family own property (that is let for rental income), which is held chiefly through two companies.

The complainant (Brother #1) lodged the complaint against the respondent for colluding with Brother #2, and assisting Brother #2 to effect changes to the CIPC records by appointing Brother #2 as the sole director of the two entities in place of himself, Brother #1. The Brother-#2-and-mother team believe that the complainant has been grossly mismanaging the properties and that they had to remove him as director. The copy of the share register forwarded by the complainant shows that their mother transferred her shares to him in 2006, thus giving him the majority shareholding. However, their mother disputes this.

The respondent acknowledges that he made the changes to the CIPC records for changes in the directors and auditor on the strength of the documents submitted to him by Brother #2 and their mother, which comprised:-

- Shareholders' resolutions for both entities signed by the mother and Brother #2; and

## LEGAL cont.

- Copy of share registers for both entities.

The respondent claims that he acted in good faith on the basis of the information provided. But the respondent seems to have unwittingly placed undue reliance on the share registers presented to him as proof of the shareholding, which registers were clearly reconstructed. The respondent was therefore not properly appointed as the new auditor of the two entities and should not have made the requested changes to the CIPC records of the two companies.

The respondent was fined R30 000, of which R15 000 was suspended on conditions and R5 000 contribution towards costs and publication in general terms only.

- **One matter** related to furnishing incorrect assurance reports to the Law Society and not detecting theft in the attorney's trust account. The matter was investigated by the Law Society as well. The committee found that the respondent was negligent in the conduct of his audit in that:
  - the respondent was aware that there was an accounting breakdown in the attorney's firm resulting in a scope limitation;
  - The Law Society was conducting an investigation into the accounts of the attorneys prior to the date of the report produced by the respondent to the Law Society, but there is no evidence to show that the respondent took these risk factors into account, or applied the necessary professional scepticism when conducting the engagement.
  - It is clear from his work papers that the respondent failed to reduce engagement risk to an acceptable level.

The respondent was fined R100 000, of which R50 000 was suspended on conditions, and a R5 000 contribution to costs and publication in general terms only.

- **One matter** related to not detecting theft; audit negligence (no bank confirmation letter). The complainant's company suffered losses due to fraudulent activity and theft by the administrative director (who subsequently committed suicide), including the manipulation of electronic bank statements.

The allegation is that the practitioner failed to detect these irregularities by accepting bank statements/documents

directly from the administrative director, and failed to do third-party verification with the bank (or to obtain electronic copies himself, if electronic copies were used). The respondent's own work papers indicate that the balances will be agreed-to bank statements. This failure is a contravention of the auditing standards.

The respondent was fined R50 000, of which R20 000 was suspended on conditions, and a R5 000 contribution to costs and publication in general terms only.

**One matter** was referred back to the Investigating Committee for reconsideration.

### Decision to charge and matter referred to the Disciplinary Committee

**Two matters** were referred to the Disciplinary Committee for disciplinary hearings.

### Disciplinary Committee

The Committee sat twice during this period (26 November 2014 and 9 December 2014) to hear three matters.

#### FIRST MATTER

On 26 November 2014, the Committee considered the matter of Mr Johan Nel. The Respondent was present and represented. The Respondent pleaded guilty to, and was found guilty of, three charges levelled against him, one of which involved an element of dishonesty.

#### Charge One

The Respondent pleaded guilty to contravening the rules regarding improper conduct, 2.4.2, 2.6, and 2.17.

In respect of the first charge, the respondent unlawfully misappropriated certain funds held by him on behalf of a client. At all material times, he was not able to fully account to his client regarding the funds held on its behalf and was not able to make payment of the funds, interest earned and receipts in favour of the client on demand.

#### Charge Two

The Respondent pleaded guilty to contravening the rules regarding improper conduct 2.2, 2.6, 2.17 and the old

## LEGAL cont.

disciplinary rules, 2.1.2, 2.1.20, 2.1.21 for conduct that occurred prior to 1 January 2011.

In respect of the second charge, the respondent performed assurance work on a company of which he was the sole director, in contravention of section 275 of the Companies Act 61 of 1973 (repealed) and section 90(2)(b)(i) of the Companies Act 71 of 2008.

### Charge Three

The Respondent pleaded guilty to contravening the rules regarding improper conduct, 2.6, 2.12 and 2.17. The Respondent failed to deal with or answer appropriately and within a reasonable time certain correspondence and communication sent to him in relation to his client's funds.

### SENTENCE

Charges One to Three were taken together for the purposes of sentence and the Respondent was sentenced as follows:

- The registration of the Respondent was cancelled and his name removed from the register of auditors with effect from 26 November 2014.
- The Respondent was ordered to make a contribution of R175 000 towards the IRBA's legal costs which contribution constituted a reasonable portion of the costs incurred by the Investigating and Disciplinary Committee in connection with the investigation and hearing and which was considered to be just and fair in the circumstances.
- The payment of the costs concerned was suspended until such time as the Respondent successfully applies for, and is registered with the IRBA and it shall be a condition of such registration.
- Publication in IRBA News of the facts of the case, the name of the Respondent, the charges, the fact that the Respondent had pleaded guilty to the charges and the sentence imposed, without reference to the name of the Respondent's erstwhile firm.

### SECOND MATTER

On 26 November 2014, the Committee also heard a postponement application in the matter of Mr J D. Mr J D was present and represented. The application was granted and the matter was postponed to 22 to 24 June 2015.

### THIRD MATTER

On 9 December 2014, the Committee convened again to hear a postponement application in the matter of Mr M D. The Committee postponed the hearing *sine die* subject to the following directions:

1. The Respondent was ordered to file and submit his plea in writing by 16 February 2015.
2. The parties were directed to formulate and prepare a written statement setting out the facts on which they agree and also describing the facts on which there remains disagreement by 9 March 2015.
3. The parties were directed to attend a pre-trial conference on 13 April 2015, which will be convened by the Committee.



Jane O'Connor

**Director: Legal**

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# INSPECTIONS

## Inspections Findings Newsflash 1 of 2015

Based on the second quarter Inspection Committee results of 2014 that ended on 30 September 2014, we hereby provide some examples of the most common inspection findings that resulted in unsatisfactory inspection outcomes.

The examples below should be interpreted with caution and should be seen neither as exhaustive nor be considered in isolation. The selection of firms, engagements and focus areas for inspection is based on identified risk factors and these results may not be representative of the profession as a whole. Not all findings apply to every firm and, where they do apply to more than one firm, there are inevitably differences in the degree of application.

### Engagement Inspections:

The following are examples of findings that resulted in unsatisfactory inspection outcomes:

#### Materiality

- Insufficient or no documented justification on file for the basis and level of planning-, performance- and final materiality, that is fundamental to ensure that the engagement team obtains sufficient audit evidence to support the audit opinion.

#### Fraud and significant risks

- Fraud risks were identified on the audit file. However these were not identified and treated as significant risks as required by ISA 240.
- Revenue was not assessed as a significant risk on the audit file and there was no documented justification as required by ISA 240.
- There were no significant risks identified on the audit file.
- No documented verification of journals, even though it is deemed a significant risk by ISA 240.
- No documented Related Party completeness assessment.

#### Risk of Material Misstatement (RoMM)

- RoMM for all balances, classes of transactions and disclosures at the assertion level was assessed as low or medium.
- RoMM was assessed as low, but there were no test of controls documented on file to reduce the control risk to a risk level that is lower than high.

#### Sampling

- There was no documented link between the risk assessment and sample sizes (the higher the risk, the greater the sample size).
- There was no documented evidence on file that all balances and transactions equal to or greater than performance materiality were verified by the engagement team.

#### Other failures to identify material misstatements and/or obtain sufficient appropriate audit evidence at assertion level

- Revenue – completeness and occurrence. The source of the revenue completeness test was not appropriate. It should be the originating source documents. Revenue occurrence was tested to inappropriate documentation. Agreeing an invoice to the ledger does not prove occurrence.
- Property, plant and equipment – valuation. No documented assessment of significant components, method of depreciation, useful lives and residual values. A mere conclusion on the useful lives and residual values of property, plant and equipment is not sufficient audit evidence. Detailed considerations and analysis should be documented on file.
- Property, plant and equipment – completeness. No details of the verification/considerations documented on file.
- Shareholders and directors' loans – measurement in terms of the framework and impairment. There was no documented verification of the valuation in accordance with the framework. There is no evidence on file that the year-end balances are at amortised cost or fair value as applicable. No documented impairment considerations for debit loans.
- Inventory – valuation. No documented verification of the labour and overhead components of work-in-progress and finished goods.

#### Completion

- No documented justification for the audit opinion issued. The engagement partner should justify in the working papers why the audit opinion is correct based on the audit evidence obtained. Individual working papers and conclusions should not contradict this working paper.
- No documented consideration of a possible reportable irregularity as the annual financial statements is approved later than six months from the year end.
- No documented consideration of the impact on the audit

# INSPECTIONS cont.

opinion due to the fact that the annual financial statements were approved later than six months from the year end.

- No documented going concern considerations and conclusions.

## *Compliance with the Companies Act*

- Non-compliance with Section 90(2) of the Companies Act. Audit firms or network firms prepare or assist with the preparation of the annual financial statements for companies subject to mandatory audits. This is a serious contravention and results in immediate referral for investigation.

## **Recommendation**

Firms and practitioners are encouraged to analyse the aforementioned deficiencies, and if applicable, incorporate sustainable solutions into their processes for continuous improvement. Most of the examples listed above are directly as a result of the following:

- Insufficient and/or inappropriate audit evidence documented to support the audit opinion.
- Failure to identify and assess material misstatements in the financial statements.
- Not all firms are familiar with the strict independence requirements imposed by Section 90(2) of the Companies Act and the joint Guide and FAQs issued by the IRBA and SAICA. (Also refer to 'From the CEO's Desk' for an update on the Guidance.)



*Imre Nagy*

**Director: Inspections**

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# REGISTRY

## New registrations 1 October to 31 December 2014

### FULL NAMES

Adlam Stephan John  
Akoob Soroya  
Boutselis George  
Chait Justin Michael  
Chemhere Innocent  
Chifamba Tafadzwa  
Chitsike Nyaradzo Sami  
Daniel Mone Elizabeth  
De Beer Anene  
De Jager Adele  
Diedericks Justin  
Du Toit Wynand  
Els Gerhardus Marthinus  
Engelbrecht Melchior Jacobus  
Feni Nolwandiso Portia  
Fortmann Michael Grant  
Grobler Leon Werner  
Higgins Charles George

### FULL NAMES

Jordaan Gert Johannes  
Khan Zahira  
Komadinovic Tamara  
Letho Lehlohonolo  
Malunga Collins Fari  
Mashabane Nkosini  
Mashiqa Bongani Benjamin  
Mathe Terrance Kgatli  
Matshoba Dingane Duncan  
Mbhalati Rhangani Evans  
Modiba Solomon Modibe  
Moodley Reshagan Angamuthoo  
Mpjane Joseph Nakedi  
Nagdee Zafeer  
Naicker Omera Hylda  
Naicker Tarryn Jacinth  
Naidoo Gwendolyn Viniam  
Nell Yvette

### FULL NAMES

Nellmapius-Clarke Jeanine  
Nhleko Ntombenhle  
Nkonki Lindelwa Monalisa  
Nopece Lwazikazi Nomavo  
Nyangombe Machaya  
Quigley Chantal  
Saggers Graeme Donald  
Seobi Mmathabo Mmatladi Victoria  
Silber Tanya  
Smit Johan  
Steyn Elizabeth Magrieta  
Swanepoel Lehandi  
Van Jaarsveld Cindy  
Van Rooyen Izak Stephanus  
Visser Carl Matthew  
Vos Erlo  
Wadee Zaheer  
Westraadt Petrus

## Re-registrations 1 October to 31 December 2014

### FULL NAMES

Fakir Dharmini  
Motsweni Thokozile Mavis

### FULL NAMES

Pardoe Emma Susan  
Viljoen Hendrik Christoff

### FULL NAMES

Woite Herman Daniel

## Individuals removed from the register of the Board from 1 July to 30 September 2014

### FULL NAMES

Bergh Albert Egbert  
Birch Peter Warren  
Boshoff Septimus Jakobus  
Botha Izak Johannes  
Breytenbach Eugene Christo  
Cheadle Roberta Louise  
Crous Jan Louis Johan Breytenbach  
Horn Anthony Richard  
Jordaan Gert Johannes Daniel

### REASON

Resigned  
Resigned  
Emigrated  
Resigned  
Emigrated  
Resigned  
Deceased  
Resigned  
Deceased

### FULL NAMES

Kriel Hermanus Theodorus  
McGowan Mark Clark  
Mlalazi Thembelani Loreta  
Roos Hendrik Lukas  
Smith Aidan Michael  
Smith Kathleen Irene  
Snyman Christiaan Philippus  
Swart Charmaine  
Van der Bijl Paul Joshua

### REASON

Resigned  
Resigned  
Resigned  
Resigned  
Emigrated  
Emigrated  
Resigned  
Emigrated  
Resigned

*Caroline Garbutt*

**Manager: Registrations**

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E-mail: [registry@irba.co.za](mailto:registry@irba.co.za)



# COMMUNICATIONS

In the interest of improved communication with Registered Auditors and other stakeholders, a list of communiqués sent by bulk e-mail during the reporting period for this issue is set

out below.

These communiqués may be downloaded from the IRBA website at [www.irba.co.za](http://www.irba.co.za) under the News section.

<b>23 January 2015</b>	<b>Effect of the proclamation of the B-BBEE Amendment Act into law</b>
<b>21 January 2015</b>	<b>IAASB Issues a Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality</b>
<b>9 January 2015</b>	<b>Declaration of Assurance Work, Firm Return and Individual Annual Fees</b>
<b>15 December 2014</b>	<b>Prescribed Auditor Reports for Medical Schemes and Proposed Guide for Registered Auditors: Engagements on the Annual Financial Statements and Annual Statutory Returns of a Medical Scheme</b>
<b>10 December 2014</b>	<b>Adoption of the International Auditing and Assurance Standards Board's 2014 Handbooks on International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements</b>
<b>01 December 2014</b>	<b>Manual of Information 2014/15</b>
<b>19 November 2014</b>	<b>Invitation to Comment on the Question Papers and Draft Suggested Solutions of the 2014 Public Practice Examination (PPE)</b>

## Communications to RAs regarding concerns by auditor-general

The Auditor-General is concerned about the number of municipalities that receive qualified audit reports, notwithstanding the fact that many municipalities are utilising the services of registered auditors, and audit firms, to assist them with matters that influence the integrity of the financial statements and the auditor's opinion.

This concern has been formally raised by the Deputy Auditor-General with the CEO of the IRBA, with the request that the

concerns of the Auditor-General are communicated to the audit firms.

The purpose of this communication is to admonish all registered auditors and audit firms who consult to municipalities, and for that matter, similar entities, to ensure that they provide proper and appropriate support and advice, as well as good value, to these clients. This is not only in the interest of the profession, but mostly in the interest of public protection.

# GENERAL NEWS

## Going beyond the call of duty

In 2014, IRBA staff went beyond the call of professional duty by spreading Christmas cheer through its Corporate Social Responsibility programme. This included support for the Santa Shoebox project, which sees personalised gifts in boxes distributed to thousands of

children throughout South Africa and Namibia, donations to Thembalami, a Johannesburg-based care centre catering to the elderly in need of 24-hour nursing care and Arebaokeng, a hospice and child daycare centre catering to sufferers of cancer and HIV/Aids.



Santa Shoe box donations, Thembalami donations and toys donated to Arebaokeng

## GENERAL NEWS cont.



10 February 2015

**The Manager: Public Relations  
Independent Regulatory Board for Auditors  
Greenstone  
Edenvale**

**Dear Lebogang**

**Re: Donation of Sweets and Christmas Crackers**

On behalf of the Manager and residents of Thembalami Care Center we would like to express our sincere gratitude and appreciation for your donation of sweets and Christmas crackers towards our Christmas lunch on the 5<sup>th</sup> of December 2014.

We have put the sweets and crackers on the tables as part of the decorations and before I could even do my speech, the sweets were gone. Most of the residents have a sweet tooth and they will never say no thank you to any kind of sweets. The crackers added a festive atmosphere and the residents enjoyed opening them. The enjoyment on their faces is always something to see.

Please thank the staff members of IRBA for their continuous support towards the residents of Thembalami Care Center. Every donation makes a difference in the lives of our residents.

Thank you for opening your hearts and hands to those less fortunate within our community.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Elize Raath".

**Elize Raath  
Complex Manager**

## GENERAL NEWS cont.



### AREBAOKENG HOSPICE

393 Samora Machel street  
Hospital view, Tembisa 1632

TEL: 011 924 1548 / FAX: 086 605 3022  
URL: [www.arebaokenghospice.org](http://www.arebaokenghospice.org)  
Email: [Arebaokenghospice@ymail.com](mailto:Arebaokenghospice@ymail.com)



PBO#: 93000217

PR#: 0790000273317

NPO#: 009-168

2015/03/06

IRBA  
Green Stone Hill Office Park  
Emerald Boulevard  
Modderfontein  
1616

Dear Lebogang

Hope this email finds you well.

I would like to acknowledge a donation of toys and clothes made in December. Companies like the IRBA put smiles on the faces of our beneficiaries and add value to the work we do.

On behalf of Arebaokeng Hospice. I would like to thank you and your team.

Hope this relationship will stand the winds of economic recessions.

With regards  
Flora K. Modiba  
Executive Director