

# annual report 2009

Building Confidence through Convergence & Cooperation



			30	
			2,10	
			-0,44	
			-22,18	
			-1,13	
			18	-10,44
			-38	0,00
			55,36	0,00
			-770,76	-1,09
			1.793,41	-0,81
			448,60	-0,45
			1.398,06	-6,12
			2.856,70	-9,55
			4.736,06	-1,66
			3.515,59	-9,64
			1.625,96	-0,28
			7.672,02	-1,28
			10.747,32	-1,42
			97,99	-0,30
			247,02	2,30
			300,79	0,95
			1.905,17	5,85
			1.254,95	-0,13
			2.663,59	6,4
			2.474,40	-6,1
			19.645,87	-1,1
			17.780,13	-1,1

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# Who We Are, What We Stand For

## Legislative Mandate

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

- To provide for the establishment of an Independent Regulatory Board for Auditors;
- To protect the public in the Republic by regulating audits performed by registered 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.

## About the IRBA

### Strategic Focus

The strategic focus of the IRBA is to:

Protect the financial interests of the public by ensuring that only suitably qualified individuals are admitted to the profession and that registered auditors deliver services of the highest quality and adhere to the highest ethical standards.

### Vision

To be an internationally recognised and respected regulator of the auditing profession in South Africa.

### Mission

To protect the financial interest 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.

### Objectives

To protect the public who rely on the services of registered auditors and to 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 audi-

tors 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;
- Conduct our business in an economic, efficient and effective manner, in accordance with the relevant regulatory frameworks.

### 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 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.

## Highlights for the Year

- 
- June 2008** *African Regulators Conference*
  - September 2008** *SA hosts IFIAR meeting*
  - December 2008** *IRBA relocates to new premises*
  - March 2009** *International Clarity Standards developed by SA issued as final standards*
  - March 2009** *SA ranked 4th out of 134 countries for auditing standards in Global Survey*

## Top Achievers

The top 10 candidates in the 2008 Public Practice Examination (PPE) were:

1. Catherine Marion Aitken (Honours)
2. Michelle Viljoen
3. Lynne Kathleen MacMurray
4. Madeleine Stefanie van der Merwe
5. Lauren Dicks
6. Priyesh Makan
7. Kerroshin Cyril Naidoo
8. Stuart John Hancock
9. Johanette Reyneke
10. Tanya Niebuhr



## NEW PREMISES

The IRBA relocated to its new premises at Greenstone, Modderfontein in December 2008. This move was necessitated by the phenomenal growth of the Board since the implementation of the Auditing Profession Act, No. 26 of 2005, in 2006. Every department had grown in staff numbers and IRBA had reached the point where it could no longer comfortably accommodate all the staff in its existing premises, or recruit the additional staff that were needed. The demand on resources for meetings and parking was also exceeded.

The new location was chosen with centrality, ease of access to major highways and the international airport in mind.

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## Members of the Board



**Standing (L-R):** Natasha Anderson; Gill Marcus; Cathryn Emslie; Deepak Nagar; Wynand du Plessis; Temba Zakuza; Jacob Modise.

**Seated (L-R):** Linda de Vries; Dines Gihwala; Freeman Nomvalo.

## Executive Staff



Bernard Agulhas



Jane O'Connor



Jillian Bailey



Riyadh Ally



Ugandra Naidoo



## Committees of the Board

The following committees assist the Board in the performance of its functions:

Statutory Committees	Chairperson	Chairperson's Report (page)
Education, Training and Professional Development Committee	T Zakuza	26
Committee for Auditing Standards	F Timmins	30
Committee for Auditor Ethics	E Kieswetter	38
Inspections Committee	DD Nagar	42
Investigating Committee	KN Kooverjee	46
Disciplinary Committee	WHG van der Linde SC	52

Board Committees		
Disciplinary Advisory Committee	WP du Plessis	50
Audit and Risk Management Committee	HG Motau / N Anderson	56
Nominations Committee	DCM Gihwala	
Human Resources and Remuneration Committee	LER de Vries	

## Executive Staff of the Board

BP Agulhas	Chief Executive Officer (from 1 December 2008)
AK Hoosain	Chief Executive Officer (to 30 June 2008)
R Ally	Director: Operations (to 6 December 2008)
J Bailey	Director: Practice Review (to 30 November 2008)
UI Naidoo	Director: Education, Training and Professional Development (to 30 September 2008)
PJ O'Connor	Director: Legal
S van Esch	Director: Standards (Acting) (from 1 July 2008)



## Report of the Chairperson

- Dines Gihwala

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

In this, the second year of operation of the IRBA under the changed composition as required in terms of the Auditing Profession Act, 2005, the Board has continued to focus on consolidating its mandate and activities. The key areas of focus were:

- The review, consideration and approval of the IRBA strategic plan and budgets in terms of the Medium Term Expenditure Framework (MTEF) requirements.
- The development of a new Accreditation Model for professional bodies.
- The implementation of new registration processes for audit firms.
- The development of a new code of ethics for registered auditors.
- The completion of the first cycle of the Firm review process with the focus on small and medium firms and networks.
- The consideration and evaluation of the application for accreditation from professional bodies.
- Strengthening stake holder relationships with the professional bodies, Department of Trade & Industry, other local and international regulators and standard setters.
- Conducting regular monitoring and oversight over the management activities of the IRBA.

This past year the Association of Chartered Certified Accountants (ACCA) made an application for accreditation to be considered by the IRBA in terms of the accreditation model. Considerable work has been done in this regard. However this application is not finalised yet.

The annual Public Practice Examination (PPE) of the IRBA was successfully concluded with a record number of entrants (2566) for this year. The pass rate was somewhat lower at 60%. 521 black candidates passed this year.

We have noted the changes in the training options that will in future be available to trainees registered

with the South African Institute of Chartered Accountants (SAICA), which may have the effect of significantly reducing the number of potential candidates that will be registered with the IRBA. We will continue to engage SAICA and the profession to ensure that there remains a sustainable flow of trainees that will choose auditing as a profession.

The IRBA continued to participate in the international standard setting process and was actively involved in the development and finalisation of some of the International Standards on Auditing as well as the IFAC Code of Ethics for Professional Accountants. These and other developments continue to be incorporated into our own standard setting processes.

We also hosted a very successful conference of the International Forum for Independent Audit Regulators (IFIAR), in September 2008 in Cape Town. At this conference the founding Charter of the IFIAR was formally adopted, which marked the achievement of a significant milestone in the short history of the IFIAR. The IRBA was also visited by representatives of the European Commission's sub committee charged with the evaluation of foreign jurisdiction audit regulators as well as a delegation from the Public Company Accounting Oversight Board of the United States of America. Although the final outcome of these initial evaluation processes for mutual recognition is still being awaited, we are quietly confident of a satisfactory result.

Whilst we welcome the passing of the new Companies Act, 2008, we are anxious for the Minister to pass the required regulations that will give more clarity and certainty regarding the auditing and review of certain types of companies. The outcome of these regulations may have a significant impact on the scope and jurisdiction of the work of the IRBA.

In conclusion I thank the honourable Minister of Finance and my fellow board members for their confidence, commitment and support during the past year.



## Report of the Chief Executive Officer

- Bernard Agulhas

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It is my pleasure to present the third annual report of the Independent Regulatory Board for Auditors (IRBA) for the financial year ended 31 March 2009.

I was officially appointed to my new position on 1 December 2008, after filling the role in an acting capacity for approximately six months. The new position not only presented the challenges that are usually associated with changes in management; there were several other factors that had a profound impact on the operations of the IRBA for the year under review.

It would be unfair, however, not to acknowledge the achievements of the IRBA during this period, and my report will deal with both the achievements and challenges, and plans put in place to move the organisation forward.

#### **Achievements**

Before looking back at the year that has passed, it is equally important to acknowledge the role that the IRBA will be playing in the coming months in retaining confidence and influencing investment in our local markets. As an international player, South Africa has to find its appropriate space in contributing to sustainable solutions, and as a regulator and standard setter, the IRBA is part of the governance chain to restore confidence in financial markets through transparency and accountability. This could be achieved through various processes.

The International Federation of Accountants (IFAC) in its report on the financial crisis, recommends an improvement in the institutional structures that govern banking, insurance and securities supervision. More importantly, it recommends convergence in supervisory practices based on a shared interpretation of legal and regulatory measures. This requires mutual recognition and coordinated enforcement in prudential requirements.

In the past year, we continued our discussions with the European and American regulators to achieve mutual recognition of our regulatory processes. What this would achieve is to provide the required confidence that our markets are reliable and our financial information credible.

We also pride ourselves on membership of the International Forum of Independent Audit Regulators (IFIAR), the purposes of which include the sharing of best practices in audit regulation and the promotion of collaboration and consistency in regulatory activity. Our reputation in the global arena has earned South Africa 4th place out of 134 countries in a Global Competitiveness Survey. We shall also continue to participate in international regulatory and standard setting processes, which ultimately provide South Africa with opportunities to sustain its reputation as an international role player.

It is important that all regulators strive for convergence in regulatory activity, not only internationally, but also locally. The IRBA therefore remained closely involved in the development of the Corporate legislation and it will continue to engage with the Department of Trade and Industry to minimise any unforeseen impact the changes may have on the auditing profession.

In times of financial turmoil, it is inevitable that renewed attention will be placed on auditors and a consequence of further exposure necessarily moves attention to the matter of auditor liability. In line with international developments, the IRBA embarked on a project to consider a different regime for auditor liability which is best suited for the requirements of South Africa.

This project forms part of a larger project to draft and recommend changes to the Auditing Profession Act, now that we have had more than two years to test the requirements and identify areas where processes could be improved.

# Report of the Chief Executive Officer

(continued)

## Challenges

### *Human Resources*

The previous Chief Executive Officer resigned with effect from June 2008. My concurrent appointment as Acting Chief Executive Officer meant that my portfolio as Director: Standards was left vacant. This came at a time when we had almost completed the new Code of Professional Ethics, and were in the middle of drafting some of the International Standards on Auditing for the International Federation of Accountants. During this period, two professional managers in the Standards Department resigned.

Close to the sitting of the 2008 Public Practice Examination (PPE), the final competency test set by the IRBA to qualify as a Chartered Accountant (SA), the Director: Education, Training and Professional Development resigned. This also happened during the time that we were considering the application for accreditation by a second professional body. Soon after this resignation, the Director: Practice Review resigned and in December 2008, prior to the year-end and audit, the Director: Operations resigned.

During the financial year, the IRBA experienced a total staff turnover of 21%, including top and senior management. Unfortunately the skills set for an audit regulator is unique, and it became vital to contract the necessary skills to enable the IRBA to deliver on its mandate. Critical projects such as the PPE, accreditation and technical assignments had to continue and individuals with the required competencies were contracted to complete these projects.

### *Public Finance Management Act*

The IRBA was established on 1 April 2006 and immediately became subject to the Public Finance Management Act, Act 1 of 1999 as amended by Act 29 of 1999 (PFMA), being listed as a Schedule 3A public entity. The predecessor body, the Public Accountants' and Auditors' Board, was not subject to the PFMA. The IRBA spent its first two years developing policies and procedures to enable it to comply with

the PFMA. Implementation necessarily takes time, training and understanding.

One of the most critical policies, Supply Chain Management, was approved by the Board in July 2008, and only after such approval could the necessary systems, procedures and capacity be established. During this period, however, the IRBA commenced with its move to new leased premises, which consisted only of the shell and which was required to be fitted out by the IRBA. The contract was signed in December 2007 and the Board approved the total costs for the new building in June 2008. Rentals became payable in August 2008 and it therefore became urgent to appoint the necessary contractors to avoid wasteful expenditure. In terms of its Supply Chain Management Policy for urgent situations, it was decided to follow a process whereby we obtained 3 quotations, supported by the necessary processes to ensure proper controls around procurement instead of following a full tender process. The Auditor General classified these costs, together with some other expenses where the Supply Chain Management Policy had not yet been followed, as Irregular Expenses. The policy will be followed in future and capacity and resources have already been put in place to ensure compliance.

The amounts classified as Irregular Expenses have been disclosed in the Financial Statements.

### *Relocation to New Premises*

The IRBA relocated to new premises on 1 December 2008. The move took place while we were in the middle of several strategic projects and we had to carefully balance everything to ensure that delivery was not compromised. Fortunately, the move, despite the usual delays necessarily caused by relocation, went smoothly and by February 2009 staff had settled into the new environment.

However, besides the urgent need to complete the fittings for the building, various matters related to the building industry, such as the lessor and con-

tractors using their own suppliers and resources, also resulted in irregular expenditure.

### **Looking Forward**

I am pleased that all the director positions were filled after the year end, and policies and procedures, especially around Supply Chain Management, are being implemented to support a well governed organisation. A further priority is the implementation of a Performance Management System for staff, together with a strategy to retain employees. Transformation will be a major imperative in this process. It has also become necessary for the IRBA to revisit their internal processes and systems and we are in the process of integrating the various systems to improve efficiency.

### **Conclusion**

The South African government and regulators have a common objective to protect the interests of the South African public. As such it is desirable for all

departments and public entities to work in unison to meet this objective and to this effect the IRBA has engaged with various stakeholders such as the JSE Ltd, Financial Services Board and Banking Supervision to ensure that regulatory requirements are drafted to reflect one common goal. From the IRBA's perspective, we must ensure that legislation and auditing standards are aligned and that the application of appropriate auditing and ethics standards provide the public with the assurance that South Africa has a properly regulated capital market.

### **Appreciation**

The detailed activities of the IRBA are set out in the reports of the Chairpersons of the various committees which support the secretariat. I thank the chairpersons and the members of these committees for their invaluable contributions, the directors and their staff for their unfailing commitment in challenging times, and the Board for their support over the past year.

## Performance of the IRBA

The following summarises the activities planned for 2008/9, the planned timeframes and actual delivery.

### Compliance

Planned activity	Planned time line	Actual
<b>Reportable Irregularities</b> Section 45 of the Auditing Profession Act requires a registered auditor to report a reportable irregularity to the IRBA without delay.  The IRBA must as soon as possible after receipt of a report that the Reportable Irregularity is continuing, notify an appropriate Regulator in writing of the details of the Reportable Irregularity.	The Compliance Department issues the relevant communication within three days of receipt of these reports.	<b>Number of First Reports</b> For the period 1 April 2008 to 31 March 2009, 1130 First Reports were received.  <b>Continuing</b> For the period 1 April 2008 to 31 March 2009, 721 Continuing Reports were received.  <b>Not continuing</b> For the period 1 April 2008 to 31 March 2009, 380 'Not continuing' Reports were received.  <b>Did not exist</b> For the period 1 April 2008 to 31 March 2009, 29 'Did not exist' Reports were received.  The relevant communication was issued by the IRBA, on average, 3 days after reports were received.
<b>Registration of Individuals</b> For the period 1 April 2008 to 31 March 2009, 286 individuals were registered.  The total number of registered auditors to date is 4 373.	The Compliance Department issues notification of registration within three days of confirmation of registration.	Notification is issued as per planned timeframes.
<b>Registration of Firms</b> For the period 1 April 2008 to 31 March 2009, 133 firms were registered.  The total number of registered firms to date is 1 914.	The Compliance Department issues notification of registration within three days of confirmation of registration.	Notification is issued as per planned timeframes.

### Education, training & professional development

Planned activity	Planned time line	Actual
Section 5(a)(b) of the APA requires the IRBA to review applications for accreditation. In the year under review the IRBA reviewed a second application for accreditation against the standards and indicators prescribed in the Accreditation Model.	May 2008 – March 2009.	Specialist reviewers were employed for stage one of the review. The specialist reviewers' reports were tabled at a meeting held on 5 December 2008.  The applicant requested a meeting in January 2009 to discuss the reports and requested a priority report to be drafted from the December 2008 meeting. This report was completed on 4 February 2009.  The IRBA continues to communicate with the prospective accredited institute.



## Education, training & professional development (continued)

Planned activity	Planned time line	Actual
<b>Public Practice Examination</b> In terms of section 7(1)(b) of the APA the IRBA may set the final test of professional competence, the Public Practice Examination (PPE).	February – October 2008.	October 2008.
Marking of the 2008 PPE.	November 2008 – February 2009.	February 2009.
Adjudication of the 2008 PPE.	February 2009.	February 2009.
Release of the 2008 PPE results.	27 February 2009.	27 February 2009.
<b>Training Contracts &amp; Officers</b> In terms of section 7(1)(e) the IRBA must register and approve training contracts for the purpose of registration as an RA.	Training contracts are approved, where appropriate, within 24 hours of application.	Approval within 24 hours.
<b>Continued Professional Development</b> In terms of section 7(1)(a) of the APA the IRBA may prescribe and monitor the CPD activities of RAs. In the year under review the IRBA received CPD reports from RAs.	April 2008.	May 2008.
Members who are non-compliant are removed from the register.	June 2008.	June 2008.
<b>Contribution to transformation of the profession</b> Section 33(f) of the APA requires the IRBA to monitor the transformation initiatives of any accredited bodies.	Ongoing.	Over the last two years the IRBA participated in the BEE charter process of SAICA.  The IRBA will continue to participate and support, as appropriate, the various initiatives identified in the CA Charter document.

## Legal

Planned activity	Planned time line	Actual
Conduct Investigations in accordance with approved procedures.	Ongoing.	For the period 1 April 2008 to 31 March 2009, 85 new matters were tabled at the Investigating Committee. On average there were 58 matters on the agenda which included new matters and matters carried forward.
Matters concluded by the Investigating Committee and referred to the Disciplinary Advisory Committee (DAC).	Ongoing.	For the period 1 April 2008 to 31 March 2009, 96 matters were finalised and referred to the Disciplinary Advisory Committee (DAC).
Matters concluded by DAC.	Ongoing.	84 referrals were finalised by DAC up to 31 March 2009 (including 11 of which were to be set down for Disciplinary Hearings).
Conduct Disciplinary Hearings.	Ongoing.	5 matters were finalised in this period.

## Performance of the IRBA (continued)

### Standards

<b>1. Auditor Ethics</b>		
This was the third full year of operation for this committee and the focus was on the following:		
Planned activity	Planned time frames	Actual
Draft and issue Guidance and circulars on Auditor Ethics, including new IRBA Code of Professional Conduct in terms of Section 21(2) (a) and Section 21(2) (c) of the APA.	Guidance on Network Firms – November 2008.	Guidance developed on Network Firms completed November 2008.  Decision to incorporate definition of Network Firms into the proposed IRBA Code of Professional Conduct.
Provide comment and input to International Exposure Draft on the Proposed Revised IFAC Code of Ethics for Professional Accountants (the IFAC Code) in terms of Section 21(2) (b) of the APA.	October 2008.  February 2009.	Comment on the Proposed Revised IFAC Code of Ethics for Professional Accountants submitted by closing date.  Provided input to IESBA on new section on auditor independence issues in merger and acquisition circumstances in response to comments received internationally, to be included in the IFAC Code – February 2009.
Participation in IFAC - International Ethics Standards Board for Accountants (IESBA) projects, as appropriate in terms of Section 21(2) (b) of the APA.	April 2008 to April 2009.	Attended five IESBA and IESBA Task Force meetings, considering comments received on the Proposed Revised IFAC Code and finalising the IFAC Code of Ethics for Professional Accountants.
Draft a new Proposed IRBA Code of Professional Conduct in terms of Section 21(2) (a) of the APA.	March 2008 to December 2008.	Exposure of Proposed IRBA Code of Professional Conduct delayed to consider impact of convergence issues arising from new IFAC Code (approved in April 2009), and recommendations for global Regulatory Changes arising from G20 Work Groups in 2009.
<b>2. Auditing Standards</b>		
During the year the CFAS achieved the following:		
Planned activity	Planned time line	Actual
Updating the work programme of the CFAS.	The CFAS and RISC work programmes are updated at each CFAS meeting.	Updated Work Programmes were prepared and approved at the following CFAS meetings: <ul style="list-style-type: none"> <li>• 5 June 2008;</li> <li>• 1 September 2008;</li> <li>• 17 November 2008; and</li> <li>• 5 March 2009.</li> </ul>
Updating the strategy of the CFAS.	The CFAS Strategic Plan is to be reviewed and updated during 2009.	<ul style="list-style-type: none"> <li>• Following completion in March 2009 of the Clarity Project for the ISAs, the CFAS plans to review its strategic plan to deploy its resources most effectively on projects for developing Auditing Guidance locally and internationally.</li> </ul>

## Standards (continued)

2. Auditing Standards (continued)		
Planned activity	Planned time line	Actual
Consider Clarity Project amendments and new International Standards on Auditing (ISAs) and adopt in SA.	<p>IAASB Clarity Project to Redraft and Revise and Redraft the ISAs - commenced 2007 and completed in March 2009.</p> <p>ISAs issued in SA following local approval processes as soon as ISAs are issued internationally.</p>	<p>The CFAS recommended for issue and the Board approved and prescribed for application by Registered Auditors in South Africa, the following Redrafted and Revised and Redrafted International Standards on Auditing (ISAs) in the "Clarity Format" during the period under review, after following the prescribed process.</p> <ul style="list-style-type: none"> <li>• ISA 550 (Revised and Redrafted) Related Parties.</li> <li>• ISA 250 (Redrafted) Consideration of Laws and Regulations in an Audit of Financial Statements.</li> <li>• ISA 510 (Redrafted) Initial Engagements – Opening Balances.</li> <li>• ISA 570 (Redrafted) – Going Concern.</li> <li>• ISA 210 (Redrafted) - Agreeing the Terms of Audit Engagements.</li> <li>• ISA 265 (New) – Communicating Deficiencies in Internal Control.</li> <li>• ISA 402 (Revised and Redrafted) – Audit Considerations Relating to an Entity Using a Third Party Service Organisation.</li> <li>• ISA 700 (Redrafted), Forming an Opinion and Reporting on Financial Statements.</li> <li>• ISA 800 (Revised and Redrafted), Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.</li> <li>• ISA 805 (Revised and Redrafted), Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.</li> <li>• ISA 810 (Revised and Redrafted), Engagements to Report on Summary Financial Statements.</li> <li>• ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing..</li> <li>• ISA 320, Materiality in Planning and Performing an Audit.</li> <li>• ISA 450, Evaluation of Misstatements Identified during the Audit.</li> <li>• ISA 530, Audit Sampling.</li> <li>• ISA 610, Using the Work of Internal Auditors.</li> <li>• ISA 705, Modifications of the Opinion in the Independent Auditor's Report.</li> </ul>

## Performance of the IRBA (continued)

### Standards (continued)

Planned activity	Planned time line	Actual
Consider Clarity Project amendments and new International Standards on Auditing (ISAs) and adopt in SA (continued).		<ul style="list-style-type: none"> <li>• ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.</li> <li>• ISA 220 (Redrafted), Quality Control for an Audit of Financial Statements.</li> <li>• ISQC 1 (Redrafted), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Related Service Engagements.</li> <li>• ISA 500 (Redrafted), Audit Evidence.</li> <li>• ISA 501 (Redrafted), Audit Evidence – Specific Considerations for Selected Items.</li> <li>• ISA 505 (Revised and Redrafted), External Confirmations.</li> <li>• ISA 520 (Redrafted), Analytical Procedures.</li> <li>• ISA 620 (Revised and Redrafted), Using the Work of an Auditor's Expert.</li> <li>• ISA 710 (Redrafted), Comparative Information – Corresponding Figures and Comparative Financial Statements.</li> <li>• ISA 210 (Redrafted), Agreeing the Terms of Audit Engagements.</li> <li>• ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.</li> <li>• ISA 402 (Revised and Redrafted), Audit Considerations Relating to an Entity Using a Service Organisation.</li> <li>• ISA 700 (Redrafted), Forming an Opinion and Reporting on Financial Statements.</li> <li>• ISA 800 (Revised and Redrafted), Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.</li> <li>• ISA 805 (Revised and Redrafted), Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.</li> <li>• ISA 810 (Revised and Redrafted), Engagements to Report on Summary Financial Statements.</li> </ul>
Draft and issue South African Auditing Practice Statements (SAAPS), Guides and Circulars on the implementation of ISAs and to meet South African Legislative Requirements.	March 2008.	<p>Practice statements, guidance and circulars issued for the period under review:</p> <ul style="list-style-type: none"> <li>• Guide for Registered Auditors: Auditor attending the AGM – April 2008.</li> </ul>



## Standards (continued)

Planned activity	Planned time line	Actual
Draft and issue South African Auditing Practice Statements (SAAPS), Guides and Circulars on the implementation of ISAs and to meet South African Legislative Requirements (continued).	September 2008.  September 2008.  Re-exposed for comment January 2009 – Approved for issue June 2009.	<ul style="list-style-type: none"> <li>• South African Auditing Practice Statement (SAAPS) 2, Financial Reporting Frameworks and Audit Opinions, amended for Split Opinions – September 2008.</li> <li>• South African Auditing Practice Statement (SAAPS) 3, Illustrative Independent Auditor's Reports updated – September 2008.</li> <li>• Guide for Registered Auditors: Access to Audit Working Papers - in progress.</li> </ul>
Regulated Industries Standing Subcommittee - engages with other Regulators in South Africa requiring Statutory and Regulatory Reporting from Registered Auditors.	2007 - February 2009.  June 2008.  Various 2008 – 2009.  2008 – 2009.  March 2009.  2008 – 2009.  Revised Report August 2008, Guide planned for September 2009.	<p>Assisted in the development of guidance and regulatory reports for:</p> <ul style="list-style-type: none"> <li>• SA Reserve Bank – Basel II Returns - February 2009.</li> <li>• Financial Services Board: <ul style="list-style-type: none"> <li>• Guide on Financial Advisory and Intermediary Services and Related Reports - June 2008.</li> <li>• Retirement Fund Auditors' Reports; Insurance Reports - in progress.</li> <li>• JSE Limited Listing Requirements for Accreditation of Auditors – in progress.</li> </ul> </li> <li>• Medical Council – development of Audit and Compliance Reports on Annual Returns from Medical Schemes - March 2009.</li> <li>• Housing Department – engaged with Office of Disclosure regarding Statutory and Regulatory Reporting requirements for Banks and Auditors – ongoing negotiations.</li> <li>• Attorneys Fidelity Fund, Provincial Law Societies and Auditors Assurance engagement in respect of Attorneys Trust Accounts compliance with the Act and Law Society Rules – in progress.</li> </ul>
Conduct research, prepare issues papers for the Board, and assist with proposals for amendments to statutory requirements.	September 2009.  September 2009.	<ul style="list-style-type: none"> <li>• Review of Auditor Liability Regime in South Africa with extensive research into local and international trends. – in progress.</li> <li>• Research affecting Proposed Amendments to the Auditing Profession Act – in progress.</li> </ul>

## Performance of the IRBA (continued)

### Standards (continued)

Planned activity	Planned time line	Actual
Participation in international activities.	<p>IAASB Clarity Project to Redraft and Revise and IRBA led the redraft of ISA 520 and ISA 710 in the Clarity Format – approved September 2008.</p> <p>September 2008.</p> <p>CFAS invited to participate in the IASSB Task Force developing an Proposed ISAE Assurance Standard planned for exposure in September 2009.</p>	<p>IAASB standards drafted in clarity format:</p> <ul style="list-style-type: none"> <li>• ISA 520, Analytical Procedures and ISA 710, Comparative Information–Corresponding Figures and Comparative Financial Statements were approved for exposure at the IAASB meeting in December 2007. The comment periods expired in March 2008 and April 2008 respectively.</li> <li>• The IAASB approved ISA 520 and ISA 710 as final standards at their meeting in September 2008.</li> <li>• Participated in National Standard Setters project with New Zealand (NZICA) and Canada (CICA) in the International Consultation paper on Review Engagements Standard ISRE 2400 and proposal to the IAASB for a Project for Revision of ISRE 2400.</li> <li>• Participated in the IAASB Project with the UK, US, Denmark, France, Hong Kong and Australia (March 2009) on <i>Reporting Accountants Reports on Proforma Information in Circulars and Prospectuses</i> for Securities Exchanges and Issues Paper for the IAASB to approve a project for drafting of a new ISAE Assurance Standard on Proforma Information. – in Progress.</li> <li>• The CEO attended two IAASB meetings during 2008.</li> </ul>
Issue comment letters on auditing standards and legislation.	<p>Comment Letter issued August 2008 and Presentation to Select Committee in Parliament, on 13 August 2008.</p> <p>March 2008.</p> <p>28 April 2009.</p>	<p>Comment letters issued for the period under review:</p> <ul style="list-style-type: none"> <li>• Comments on the South African Companies Bill (B61-2008) and submission presented at Public Hearings in:</li> <li>• JSE Ltd Proposed Listing Requirements for “Registration of Auditors of Issuers Listed on the JSE”; and</li> <li>• King III Draft Report on Corporate Governance.</li> </ul>

## Standards (continued)

Planned Activity	Planned time line	Actual
Issue comment letters on auditing standards and legislation (continued).	During 2008 by comment due date.	<b>ISAs – Clarity Project:</b> <ul style="list-style-type: none"> <li>Proposed ISA 210 (Redrafted) <i>Agreeing the Terms of the Audit Engagement</i> – 15 April 2008.</li> <li>Proposed ISA 265 (Revised and Redrafted) <i>Communication of Deficiencies in Internal Control</i> – 30 April 2008.</li> <li>Proposed ISA 402 (Revised and Redrafted) <i>Audit Considerations Relating to an Entity Using a Third Party Service Organisation</i> – 30 April 2008.</li> <li>Proposed ISA 520 (Redrafted), <i>Analytical Procedures</i>; 30 April 2008.</li> <li>Proposed ISA 710 (Redrafted) <i>Comparative Information, Corresponding Figures and Comparative Financial Statements</i> – 15 April 2008.</li> </ul>

## Practice review

Planned Activity	Planned reviews	Actual
Perform engagement reviews to monitor registered auditors' compliance with the relevant professional standards in the performance of the attest function in terms of Section 47(1) of the APA.	730	For the period 1 April 2008 to 31 March 2009, 718 engagement reviews were performed.
Perform firm reviews to inspect the design and implementation of an audit firm's system of quality control in terms of Section 47(1) of the APA.	15	For the period 1 April 2008 to 31 March 2009, 24 firm reviews were completed.

## Operational Activities of the IRBA

### 1. Stakeholder management

The IRBA continued with the process of maintaining an effective stakeholder management plan to facilitate its interaction with the appropriate stakeholders during the implementation of the new Act and beyond. The stakeholder management plan is driven by the CEO, with the support of the directors. During the 2008/09 year the CEO and management had several interactions with a large number of local and international stakeholders.

Discussions and/or draft agreements were started or concluded with:

- Companies and Intellectual Property Registration Office
- Department of Trade and Industry
- Financial Intelligence Centre (FIC)

The CEO attended the following stakeholder meetings during 2008:

#### Local

- National Treasury
- Auditor-General
- JSE Limited
- Financial Services Board (FSB)
- Financial Intelligence Centre (FIC)
- National Energy Regulator of South Africa (NERSA)
- National Credit Regulator (NCR)
- Council for Debt Collectors
- Department of Trade and Industry (DTI)
- Department of Housing
- Estate Agency Affairs Board (EAAB)
- Institute of Directors (IOD)
- Law Societies (provincial and national)
- South African Institute of Chartered Accountants (SAICA)
- SAICA BEE Charter

- South African Institute of Professional Accountants (SAIPA)
- Association of Chartered Certified Accountants (ACCA)

#### International

From 22-24 September 2008, independent audit regulators from 21 countries participated in the fourth meeting of the International Forum of Independent Audit Regulators (IFIAR) in Cape Town.

During the year, the CEO attended two meetings of the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), 2 plenary meetings of IFIAR and one meeting of the International Ethics Standards Board for Accountants (IESBA) of the IFAC.

#### African Regulators

The IRBA hosted a 3 day conference for African regulators from 5 – 7 May 2008. The aim of the conference was to assist developing nations by sharing information on establishing and operating an auditing regulatory body, with particular focus on the role of practice review (establishing processes and tools required to run an effective practice review department). Delegates from the following countries/organisations attended:

- Botswana
- Kenya
- Lesotho
- Malawi
- Uganda
- Zambia
- Zimbabwe
- Auditor-General's office (SA)
- South African Institute of Professional Accountants (SAIPA) (SA)
- Association of Chartered Certified Accountants (ACCA) (SA)

### **National road show**

A national road show was held in 12 centres around the country in 2008, and was attended by almost 1300 delegates, the majority of whom were Registered Auditors (RAs). The significant increase in attendees can be attributed to the topic of the road show, which was focused on practice review.

Feedback received from the attendees indicated that the RAs continue to appreciate the opportunity to receive information directly from the Board's representatives. A few areas of concern, including the future of the profession in light of the anticipated changes in company law, were highlighted. The cost of reviews continues to be a concern to many RAs and they were invited to make suggestions of ways in which to charge for reviews.

The road show has become an annual event and is aimed at facilitating first hand interaction between the IRBA and RAs.

## **2. Corporate Social Responsibility**

The IRBA continues to involve itself in corporate social responsibility and charitable events. Activities included regular contributions by the staff members to campaigns such as Dress Red, Casual Day, the 16 days of activism campaign and similar ad hoc awareness campaigns.

## **3. Participation in International Forums**

The executive continues to make significant progress in achieving representation on international forums.

The IRBA is represented by the CEO on the IFIAR.

The CEO and Director: Standards represented the IRBA on the international forum for National Audit Standards Setters and have been invited to participate in task forces of the International Auditing and Assurance Standards Board (IAASB) of IFAC.

The Director: Practice Review attended the IFIAR workshop in Stockholm, Sweden in February 2009.

## **4. Media**

During the period the IRBA ensured that it has a strong presence in the media. Some of the press releases published included articles on setting up independent regulatory bodies in Africa, successes in the Public Practice Examination, articles to market the auditing profession, working together to protect the public interest, accreditation of the first institute under the new accreditation model and uniform practice reviews.

## **5. Human Resources**

### **5.1 Staff Complement**

The staff complement decreased from 64 to 60 employees during the reporting period. Although the organisation has previously not experienced high turn-over levels, the market is becoming increasingly competitive, and staff turnover for the year equalled 21%. The challenges with regard to staffing are further elaborated on in the CEO's report.

### **5.2 Employment Equity**

The IRBA has made significant progress on its Employment Equity strategy. One of the developments has been the establishment and training of an Employment Equity Forum. The forum has completed a draft of its constitution.

## Operational Activities of the IRBA (continued)

### 5.3 Staff Complement Reported in Occupational Levels as at 31 March 2009

Occupational Levels	Male			Female				White Male	Total
	African	Coloured	Indian	African	Coloured	Indian	White		
Top Management		1							1
Senior Management							1		1
Professionally qualified and experienced specialists and middle management	5	1	1	3	1	1	5	10	27
Skilled technical and academically qualified workers, junior management, supervisors	1						1	1	3
Semi-skilled and discretionary decision making	5			5	3	2	8		23
Unskilled and defined decision making				5					5
Total employees	11	2	1	13	4	3	15	11	60

### 5.4 Recruitment and Selection

The current recruitment environment is highly competitive, especially with the 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.

A total of 9 permanent positions were filled at the following occupational levels:

	Male		Female			Total
	A	W	A	I	W	
Professionals & middle management	1		1			2
Skilled technical & academically qualified		1				1
Semi-skilled and discretionary decision making			2	2	2	6
Total	1	1	3	2	2	9

A - African

I - Indian

W - White

### 5.5 Staff Turnover

Employees who resigned from the organisation between the period 01 April 2008 and 31 March 2009:

	Male			Female		Total
	A	I	W	A	W	
Top management		1				1
Senior management		2			1	3
Professional qualified	1	1	3	1	2	8
Semi-skilled			1			1
Total	1	4	4	1	3	13

A - African

I - Indian

W - White

### 5.6 Performance Management

The IRBA has put a performance management policy in place, reviewed its job profiles and is in the process of finalising compilation of Individual Performance Contracts. These will form the guiding principle for fair and equitable evaluation and recognition of efforts of all the employees.



## 6. Employee Wellness Programme

The 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. A further wellness day is planned for the year ahead and will be made up of an overall wellness assessment and counselling; HIV/Aids voluntary counselling and testing (VCT), vision screening, elements of stress management and change management programmes.

## 7. Information and Communication Technology

The move to the new building was the main challenge on the information and communication tech-

nology infrastructure. The IRBA succeeded in setting up a new infrastructure despite the fact that normal Telkom services were not available at the new premises.

Furthermore the first phase of the development of an integrated management information system was completed.

## 8. Finances

The financial performance, cash flows and financial position are set out in the annual financial statements on pages 64 to 94.



## Chairpersons' Reports

Education, Training and Professional Development Committee  
- Temba Zakuza

01

02

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04

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Members	Meetings attended
TS Zakuza (Chairperson)	3 of 3
H Wessels (Deputy Chairperson)	3 of 3
P Austin (to June 2008)	1 of 1
NP Dongwana	2 of 3
L Engelbrecht	3 of 3
HR Gowaar	3 of 3
MY Ismail	3 of 3
CF Lane	3 of 3
SE Lehapa	3 of 3
MR Naidoo	2 of 3
V Paino (from October 2007)	2 of 3
D Steyn (from October 2008)	2 of 2
F van den Berg	3 of 3
SPJ von Wielligh	3 of 3

In terms of the founding resolutions of the Education, Training and Professional Development Committee (EDCOM), committee members are appointed for a period of three years and the Chairperson and Deputy Chairperson are appointed on an annual basis. The Chairperson and Deputy Chairperson were re-appointed for 2008/2009. Further, the founding resolutions make provision for accredited professional bodies to have representation on the EDCOM. The two SAICA representatives for 2008/2009 are:

- Vince Paino; and
- Dirk Steyn (Dr Steyn replaced Philip Austin as the SAICA representative on EDCOM in October 2008).

EDCOM is charged with taking responsibility for the accreditation of professional bodies and the education, training, professional development and assessment of auditors. EDCOM has two standing sub-committees that assist in carrying out these functions:

- The Examinations Sub-Committee (EXAMCOM); and
- The Monitoring Sub-Committee (MCOM)

*Ad hoc* committees are constituted on a needs basis.

The following projects were on the EDCOM's agenda for 2008/9:

### 1. The Public Practice Examination (PPE)

Of the 2 566 (2007: 2 479) candidates who sat the November 2008 PPE, 1 545 (2007: 1 766) passed the exam. This represents a pass rate of 60% (2007: 71%). The pass rate for candidates who wrote for the first time was 67% (2007: 81%). One candidate was awarded honours for achieving a mark over 75%.

### 2. Accreditation

The accreditation of professional bodies is intended to give rise to long-term partnerships between the IRBA and relevant bodies that share an interest in advancing an appropriate standard within the auditing profession in South Africa.

Currently, the South African Institute of Chartered Accountants (SAICA) is the only professional body accredited by the IRBA (accredited in 2008).

The Association of Chartered Certified Accountants (ACCA) has made application for full accreditation.

## Chairpersons' Reports -

Education, Training and Professional Development Committee (continued)

### 3. Monitoring

Central to achieving the objectives of the IRBA is the monitoring of the institutional and programme requirements to be complied with by accredited professional bodies. Due to the post facto nature of the monitoring process, and the fact that SAICA received accreditation in 2008, the first annual monitoring reports will only be issued in 2009.

### 4. Transformation of the Profession

The IRBA remains concerned with the small number of black registered auditors. In an effort to transform the profession, the IRBA runs a Support Programme for all black candidates who have been unsuccessful in previous attempts to pass the PPE. The Support Programme is funded by The Education Fund (TEF) of the IRBA.

Of the 173 candidates who participated in the 2008 programme, 88 passed, representing a pass rate of 51%. The pass rate for repeat candidates who did not attend the Support Programme was 42%.

The Support Programme will be presented again in 2009 in Johannesburg, Pretoria, Cape Town and Durban. The need to conduct the programme in the Eastern Cape is being investigated. The Support programme will commence in June 2009.

### 5. Continuing Professional Development (CPD)

The IRBA instituted a CPD policy in 2007. This is the second year that members are required to record and report on their CPD activities. In the year under review 2 574 members reported on their CPD activities and 2 459 were compliant. Non-compliant RAs have been given a time frame in which to submit appropriate CPD records.

### Appreciation

My sincere gratitude is extended to the committee members for their valuable contributions. 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 go to Mr Ugandra Naidoo for the contribution he made to the EDCOM during his tenure. Mr Naidoo resigned from his position as Director of the Education, Training and Professional Development Department in September 2008. A special word of thanks is extended to Ms Ferndale who provided the necessary support to the Department while the position of Director was vacant.



MAANASO-ZZIWA

The CEO congratulating candidates after receiving their results



## Chairpersons' Reports

Committee for Auditing Standards  
- Frank Timmins

01

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Members	Meetings attended
F Timmins (Chairperson)	3 of 4
PSF Austin (Resigned 5 June 2008)	1 of 1
K Bowman	3 of 4
M Bourne	4 of 4
L de Beer	2 of 4
WH de Jager	4 of 4
M Engelbrecht	4 of 4
DB Heymans	3 of 4
D Manana (Appointed 17 November 2008)	2 of 2
J Makwakwa (Resigned 5 June 2008)	0 of 1
A Ramakosi (Appointed 1 September 2008)	3 of 3
M Petros	1 of 4
FE Prinsloo	3 of 4
EM Southey	4 of 4
D Spavins	4 of 4
J van Schalkwyk	4 of 4
G Tweedy (Appointed 17 November 2008)	1 of 2
SD van Esch (Seconded to the IRBA from 1 July 2008 as Acting Director: Standards)	1 of 1

This report covers the period from 1 April 2008 to 31 March 2009. During this period two committee members resigned, namely Phillip Austin and Jonas Makwakwa, the South African Revenue Services (SARS) representative. Avashoni Ramakosi was nominated by SARS as their new representative and two new registered auditors, Dumisani Manana and George Tweedy, were appointed through the nominations process. Following the appointment of Bernard Agulhas as Acting Chief Executive Officer from 1 June 2008, Sandy van Esch, CFAS member, was seconded to the IRBA as Acting Director: Standards from 1 July 2008 for the remainder of the year under review and therefore resigned as a CFAS member.

### 1. Meetings Held

During the period under review, the CFAS held four meetings and numerous Task Group meetings.

### 2. CFAS Sub-Committees

In order to deal with demands for guidance for audi-

tors, the CFAS has established the following Standing Sub-Committees comprised of CFAS members and industry experts:

- The CFAS Steering Committee which guides the CFAS Agenda and considers proposals for new projects.
- The CFAS Reporting Advisory Committee which addresses financial statement and regulatory reporting matters and maintains the currency of SAAPS 2 and SAAPS 3.
- The Regulated Industries Standing Committee (RISC) which engages with any Regulator having regulatory reporting requirements of registered auditors.

### 3. Participation in International Projects

In line with one of the key strategies of the CFAS to influence and participate in international standard-setting activities, the three International Standards on Auditing (ISAs) redrafted by the IRBA as part of the IAASB's Clarity project were approved in 2007 for issue as exposure drafts in 2008. Following the

## Chairpersons' Reports - Committee for Auditing Standards (continued)

expiry of the comment periods in March 2008 and April 2008 respectively, the remaining two - ISA 520, Analytical Procedures and ISA 710 Comparative Information-Corresponding Figures and Comparative Financial Statements in the Clarity Format – were presented to the IAASB and approved for issue as Standards at their meeting in September 2008. The Acting CEO attended these IAASB meetings during 2008 to present the Clarified ISAs drafted by the IRBA.

CFAS also participated in an IAASB Task Force together with the members from the United Kingdom, United States, Denmark, France, Hong Kong, Australia and the EU – CESR representative to develop an Issues Paper on Reporting Accountants Assurance Reports on Pro Forma Information in Circulars and Prospectuses required by Securities Exchanges proposing the development of a new ISAE 3XXX Assurance Standard. The Issues Paper and Proposal were submitted to and approved at the March 2009 meeting of the IAASB. CFAS has been invited to continue participating in the IAASB Task Force tasked with developing the proposed International Standard on Assurance Engagements ISAE 3XXX - Assurance Reports on Pro Forma Financial Information in a Prospectus to be submitted to the IAASB in September 2009 for approval as an exposure draft.

### 4. Board Projects

CFAS members are currently assisting the Board and the IRBA with two major projects:

- Proposed amendments to the Auditing Profession Act, No. 26 of 2005; and
- A project to research and evaluate the present auditor liability regime in South Africa to recommend possible options for the capping of auditor liability.

The IRBA is also engaged in negotiations with the JSE Limited to seek amendments to the JSE Limited

Listing Requirements for "Registration of Auditors" in consultation with the Financial Services Board, the Regulator of the JSE Limited, and National Treasury. It is hoped these negotiations will be concluded during 2009.

### 5. CFAS Exposure Drafts

The Proposed Access to Audit Working Papers: A Guide for Registered Auditors, was issued for public comment, of which the comment period expired on 20 September 2008. As a consequence of comments received on the Guide on Access to Audit Working Papers, the CFAS Task Force recommended revisions to the Proposed Guide and the CFAS approved the Guide for re-exposure at its meeting in November 2008. The revised Proposed Guide was re-exposed in January 2009 with a comment period closing on 30 April 2009. The final Guide is to be considered by the CFAS and is expected to be approved and issued during 2009.

Further to enactment of the Corporate Laws Amendment Bill the CFAS drafted guidance for auditors attending the annual general meeting of a widely held company to respond to questions relating to the audit as a result of the Corporate Laws Amendment Bill being enacted. The exposure period of the guide expired in February. The CFAS revised SAAPS 2, Financial Reporting Frameworks and Audit Opinions for changes arising from the Corporate Laws Amendment Act. The SAAPS was approved by the Board at its meeting in April 2008.

### 6. Auditing Pronouncements Approved by the Board

#### *a) Practice statements, guidance and circulars issued or in progress during the period under review:*

- The Auditor attending the Annual General meeting: A Guide for Registered Auditors was approved by the Board and issued in April 2008;
- South African Auditing Practice Statement

- (SAAPS) 2, Financial Reporting Frameworks and Audit Opinions, amended for Split Opinions issued in September 2008;
  - South African Auditing Practice Statement (SAAPS) 3 - Illustrative Independent Auditor's Reports updated issued in September 2008;
  - Assurance engagement in respect of Attorneys Trust Accounts - Interim Transitional Assurance Report was issued in July 2008 in agreement with the Provincial Law Societies and Attorneys Fidelity Fund. The Proposed Guide on the assurance engagement in respect of Attorneys Trust Accounts is still in progress;
  - Proposed Access to Audit Working Papers: A Guide for Registered Auditors: Due to changes arising from comments on the original exposure CFAS decided to re-expose the Proposed Guide in January 2009 with a closing comment date of 30 April 2009. The final Guide is expected to be approved and issued during the second half of 2009; and
  - The IAASB Staff Practice Alerts – Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment in October 2008 and Audit Considerations in Respect of Going Concern in the Current Market Environment in February 2009 were circulated to assist registered auditors in dealing with the present global financial crisis in the performance of their audits.
- b) Clarified International Standards on Auditing (ISAs)**
- The Clarity Project of the IAASB for the Clarified ISAs has been completed. The Clarified ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009. The 2008 ISAs remain effective for the remainder of 2008<sup>1</sup>. During the period under review, the CFAS recommended for issue and the Board approved and prescribed for application by registered auditors in South Africa, the following Redrafted and Revised and Redrafted International Standards on Auditing (ISAs).

Clarified ISAs	Approved by IAASB	Approved by IFAC Public Interest Oversight Board	Approved by IRBA
<b>Recommended by CFAS at meeting 7 June 2008</b>			
ISA 560 (Redrafted), Subsequent Events	Dec 07	Mar 08	June 2008
ISA 580 (Revised and Redrafted), Written Representations	Dec 07	Mar 08	June 2008
<b>Recommended by CFAS at meeting 1 September 2008</b>			
ISA 550 (Revised and Redrafted), Related Parties	Mar 08	July 08	Sept 2008
ISA 250 (Redrafted), Consideration of Laws and Regulations in an Audit of Financial Statements	Mar 08	July 08	Sept 2008
ISA 510 (Redrafted), Initial Engagements – Opening Balances	Mar 08	July 08	Sept 2008
ISA 570 (Redrafted), Going Concern	Mar 08	July 08	Sept 2008
<b>Recommended by CFAS at meeting 17 November 2008</b>			
ISA 200 (Revised and Redrafted), Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	Jun 08	Sept 08	Nov 2008

<sup>1</sup> The 2009 Handbooks were published by the IAASB on 30 April 2009 and will be available for download from the IRBA website and on CD ordered from the IRBA.

## Chairpersons' Reports - Committee for Auditing Standards (continued)

Clarified ISAs	Approved by IAASB	Approved by PIOB	Approved by IRBA
ISA 320 (Revised and Redrafted), Materiality in Planning and Performing an Audit	Jun 08	Sept 08	Nov 2008
ISA 450 (Revised and Redrafted), Evaluation of Misstatements Identified during the Audit	Jun 08	Sept 08	Nov 2008
ISA 530 (Redrafted), Audit Sampling	Jun 08	Sept 08	Nov 2008
ISA 610 (Redrafted), Using the Work of Internal Auditors	Jun 08	Sept 08	Nov 2008
ISA 705 (Revised and Redrafted), Modifications of the Opinion in the Independent Auditor's Report	Jun 08	Sept 08	Nov 2008
ISA 706 (Revised and Redrafted), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Jun 08	Sept 08	Nov 2008
<b>Recommended by CFAS at meeting 5 March 2009</b>			
ISQC 1 (Redrafted), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Related Service Engagements	Sept 08	Dec 08	Mar 2009
ISA 210 (Redrafted), Agreeing the Terms of Audit Engagements	Dec 08	Feb 09	Mar 2009
ISA 220 (Redrafted), Quality Control for an Audit of Financial Statements	Sept 08	Dec 08	Mar 2009
ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	Dec 08	Feb 09	Mar 2009
ISA 402 (Revised and Redrafted), Audit Considerations Relating to an Entity Using a Service Organisation	Dec 08	Feb 09	Mar 2009
ISA 500 (Redrafted), Audit Evidence	Sept 08	Dec 08	Mar 2009
ISA 501 (Redrafted), Audit Evidence – Specific Considerations for Selected Items	Sept 08	Dec 08	Mar 2009
ISA 505 (Revised and Redrafted), External Confirmations	Sept 08	Dec 08	Mar 2009
ISA 520 (Redrafted), Analytical Procedures	Sept 08	Dec 08	Mar 2009
ISA 620 (Revised and Redrafted), Using the Work of an Auditor's Expert	Sept 08	Dec 08	Mar 2009
ISA 700 (Redrafted), Forming an Opinion and Reporting on Financial Statements	Sept 08	Dec 08	Mar 2009
ISA 710 (Redrafted), Comparative Information – Corresponding Figures and Comparative Financial Statements	Sept 08	Dec 08	Mar 2009
ISA 800 (Revised and Redrafted), Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	Sept 08	Dec 08	Mar 2009
ISA 805 (Revised and Redrafted), Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	Sept 08	Dec 08	Mar 2009
ISA 810 (Revised and Redrafted), Engagements to Report on Summary Financial Statements	Sept 08	Dec 08	Mar 2009

## 7. Regulated Industries Standing Committee (RISC)

The following projects have been completed and are in progress:

### *Completed projects:*

- The Financial Advisory and Intermediary Services Audit Guide 2008 was issued jointly with the Financial Services Board in September 2008;
- The Auditor's Reasonable Assurance Report on part 4 to 10 of medical schemes' Regulatory Return and the Auditor's Limited Assurance Report on medical schemes compliance with certain sections of the Medical Schemes Act is issued in March 2009;
- Auditor's Reports for the Department of Private Further Education and Training Colleges
- Suite of annual regulatory reports of auditors on the BA Returns to be issued by Bank Auditors to the South African Reserve Bank in terms of BASEL II Draft 6 Regulations to the Banks Act effective for Reports issued on BA Returns after 1 January 2008; and
- The completed "Verification of and Reporting on Broad-Based Black Economic Empowerment in Terms of the Codes of Good Practice: Guide for Verification Agencies" commissioned by the DTI was submitted to the DTI in December 2007. The Guide was subsequently revised by SANAS and published by the DTI as a Government Gazette in June 2008. As a consequence the Guide developed by the CFAS was not issued by the Board.

### *In progress and ongoing:*

- Medical Schemes Audit Guide;
- Guide on the Auditor's Assurance Engagement and Report on Attorneys' Trust Accounts;
- Revision of South African Practice Statement SAAPS 1100, Bank Confirmations;
- Guidance on compliance procedures to be performed for the Bond Exchange of South Africa;

- Reporting requirements for auditors in terms of the Home Loan and Mortgage Disclosure Act;
- Auditors Report on the Solvency Certificates to the Intermediary Guarantee Facility;
- Agreed-upon Procedures reports in terms of section 15 of the Pension Funds Act for reporting to the Financial Services Board on smaller umbrella funds, retirement annuity funds, general funds and preservation funds;
- Auditor's Report on Credit Bureaus in terms of section 52(6) and section 73 of the National Credit Act;
- Guidance and Auditor's report on Estate Agents Trust Account audit engagements;
- Guidance for auditors on the Department of Trade and Industry Small/Medium Manufacturing Development Programme;
- Factual findings report on the income and expenditure statements to the Department of Trade and Industry for the Film Incentive – Film and Television Production Rebate; and
- Assist the DTI in developing a Guide for accountants and auditors on the requirements of the Co-operatives Act.

## 8. Comment Letters

The following comment letters were issued during the period under review on the following:

- JSE Ltd Proposed Listing Requirements for "Registration of Auditors of Issuers Listed on the JSE" was issued in March 2008;
- The South African Companies Bill (B61-2008) followed by a submission presented at Public Hearings in Parliament during August 2008; and
- King III Draft Report on Corporate Governance issued in April 2009.

Comment letters were issued on the final remaining International Standards on Auditing issued on exposure as part of the ISASB Clarity Project as follows:

## Chairpersons' Reports - Committee for Auditing Standards (continued)

- Proposed ISA 210 (Redrafted), Agreeing the Terms of Audit Engagement – 15 April 2008;
- Proposed ISA 265 (Revised and Redrafted), Communication Deficiencies in Internal Control – 30 April 2008;
- Proposed ISA 402 (Revised and Redrafted), Audit Considerations Relating to an Entity Using a Third Party Service Organisation – 30 April 2008;
- Proposed ISA 501 (Redrafted), Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures – 15 April 2008;
- Proposed ISA 520 (Redrafted), Analytical Procedures – 30 April 2008; and
- Proposed ISA 710 (Redrafted), Comparative Information - Corresponding Figures and Comparative Financial Statements -- 15 April 2008.

### 9. Appreciation

I wish to express my appreciation to the members of CFAS, its standing Committees, the Task Force tasked with the Board Projects, and the staff of the Standards Department for their commitment and support in delivering on the mandate of CFAS.

I also express my appreciation to KPMG Inc. for seconding Sandy van Esch, CFAS member, as Acting Director: Standards on an 80% of time basis from July 2008 to the end of the period under review. This secondment followed the appointment of the former Director: Standards, Bernard Agulhas to the position of Acting CEO, and ensured that the Standards Department was able to continue to meet its responsibilities to CFAS and the Auditing Profession.





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## Chairpersons' Reports

Committee for Auditor Ethics  
- Edward Kieswetter

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Members	Meetings Attended
E Kieswetter (Chairperson)	3 of 3
S Davies	3 of 3
V Jack	1 of 3
J Kuzwayo	0 of 3
NN Malefane	2 of 3
P Naidoo	3 of 3
G Paris	2 of 3
U Schäckerman	3 of 3
N van Graan	1 of 3
AK Hoosain (from January 2009)	0 of 0

### 1. Development of the New IRBA Code for Registered Auditors

The Committee for Auditor Ethics (CFAE) is mandated in terms of section 21(2) of the Auditing Profession Act, No. 26 of 2005 to determine what constitutes improper conduct by registered auditors by developing rules and guidelines for professional ethics, including a code of professional conduct. The CFAE delegated the task of developing a new code to a sub committee which was formed earlier during the year under review. For the period under review, the sub committee held numerous meetings and workshops as part of an interactive process involving consultants from the Ethics Institute of South Africa, the sub committee members and the secretariat in the drafting and development of various chapters which will be included into the new code.

A decision was taken at earlier CFAE meetings that the basis for the new IRBA Code will be the International Federation of Accountants (IFAC) Code of Professional Ethics for Accountants. To this end, the sub committee has also been widely involved in the process of revising the content of the IFAC to suit the context of registered auditors in South Africa. It is anticipated that the Proposed IRBA Code of Professional Conduct will be exposed during 2009 with an exposure period for comment of three months and is expected to become effective early in 2010.

### 2. Progress on Guidance for Network Firms

The sub committee on network firms has presented its draft guidance to the CFAE at the meeting of 5 October 2007. This draft guidance will be incorporated into the Proposed IRBA Code of Professional Conduct.

### 3. Participation on the IESBA and International Meetings

The former IRBA CEO is a member of the International Ethics Standards Board for Accountants (IESBA) and he attends the international meetings set up by this board. His appointment as a member on the IESBA also serves as a useful conduit for bringing the South African perspective within the international standard setting arena. The following IESBA meetings were attended by South Africa during the period under review:

- 15 - 17 April 2008 in New York, USA
- 24 - 25 June 2008 in Brussels, Belgium
- 10 - 11 December 2008 in London, UK
- 23 - 25 February 2009 in San Francisco, USA

### 4. Participation in Process to Comment on International Exposure Drafts

The CFAE actively participated in the process of commenting on international exposure drafts issued by the IESBA. These included submitting our comment

## Chairpersons' Reports - Committee for Auditor Ethics (continued)

letter on 15 October 2008 on the Proposed Revised IFAC Code of Ethics for Professional Accountants.

### 5. Appointments to the CFAE

Given the resignation of the section 21(1)(d) member, the CFAE advertised for a replacement. At the CFAE meeting held on 8 June 2008, the committee also decided to include an additional member for the position of a person who is experienced in the study of ethics. The Board approved 2 appointments in April 2008, namely to fill the position of the section 21(1)(d) member and an additional person with experience in ethics, and Adv. NN Malefane and Mr P Naidoo were duly appointed.

In addition Mr K Hoosain who has been the South African Representative on the International Ethics Standards Board and a member of the IESBA Task Force working on the Revision of the IFAC Code of Ethics for Professional Accountants was appointed with effect from January 2009.

### 6. Appreciation

I wish to express my appreciation to the members of CFAE and its sub-committee tasked with the drafting of the Proposed IRBA Code and the staff of the Standards Department for their commitment and support in delivering on the mandate of the CFAE.



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## Chairpersons' Reports

Inspections Committee  
- Deepak Nagar

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Members	Meetings Attended
DD Nagar (Chairperson)	4 of 4
T Abdool-Samad	4 of 4
PJ Brink	2 of 4
RP Brussow	4 of 4
N Griffith	2 of 2
E Hamman	3 of 3
BJ Olivier	4 of 4
FF Scheepers	3 of 4

Practice Reviews are performed in terms of Section 47 of the Auditing Profession Act, No. 26 of 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. As at 31 March 2009 the Practice Review Department employed 10 Chartered Accountants, 1 Lawyer, 1 Human Resource Specialist and 4 Administrative staff. 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 pre-determined 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 pro-

fessional 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 3-year or a 6-year review cycle, depending on the classification of the RAs attest portfolio. An engagement review assesses the sufficiency and appropriateness of evidence obtained and the appropriateness of key audit judgments made. Verbal representations on review findings are not accepted.

To date a total of 8651 engagement reviews have been performed. During the current financial year 718 engagement reviews were performed. A total of 15 practitioners were referred to the Investigating Committee. The major reason for review results not being rated as satisfactory relates to documentation being insufficient and/or inappropriate. Non-documentation of audit evidence does not necessarily imply that an inappropriate audit opinion was expressed.

### 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 3-year review cycle. Firm reviews commenced in February 2006. The objectives of the firm review process are to inspect the design and implementation of a firm's quality control system, organised under the follow-

# Chairpersons' Reports - Inspections Committee (continued)

ing elements: leadership responsibilities, ethical requirements, client acceptance and continuance, human resources, engagement performance and monitoring. To date a total of 37 firm reviews have been performed. During the period April 2008 to March 2009, 24 firm reviews were performed. No firms were referred to the Investigating Committee.

During the course of the year the firm review process was inspected by a foreign audit regulator. The draft report indicated no significant shortcomings in the current process for firm reviews other than the present funding model and the composition of the Inspections Committee. We anticipate an increase in our interactions with foreign regulators in the future.

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 cooperation.

Lastly my sincere appreciation for the work performed the past 8 years by the previous Practice Review Director, Jillian Bailey, who resigned effective 30 November 2008. Paul van Helden, who has been with the department for 12 years, has been appointed as her successor and I wish him well with this task.



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## Chairpersons' Reports

Investigating Committee  
- Kishore Kooverjee

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Members	Meetings Attended
KN Kooverjee (Chairperson)	7 of 7
AR de Valence	7 of 7
IJ de Villiers	7 of 7
EH du Plooy	7 of 7
MI Khan	7 of 7
R Morar	6 of 7
CM Read	5 of 7
M Sindane	6 of 7
BW Smith	7 of 7
TP van der Mescht	6 of 7
H Wadiwala	7 of 7

### Investigations

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

#### 1. Externally Originated

Complaints lodged by a member of the public, or matters referred by a court or other regulators; and

#### 2. 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.

Complaints lodged with the IRBA are required (by the Disciplinary Rules) to be on affidavit. This requirement is an indication of the seriousness of lodging a complaint. Furthermore it is essential where the information is solely within the knowledge of the complainant. If the information which forms the subject of the investigation is a matter of public record, it is not necessary for this to be on affidavit. The Disciplinary Rules also stipulate that the affidavit should make it perfectly clear exactly what it is that is being complained of.

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 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 §48(1) whether or not to refer the matter to the Investigating Committee ('Invesco'). Most cases will be referred and Invesco must then investigate the matter in terms of §48(3).

### Period Under Review

During the course of the twelve months under review 108 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 across a wide spectrum of conduct.

## Chairpersons' Reports - Investigating Committee (continued)

Of these complaints the following were finalised after a case file had been opened but before the matter was tabled before Invesco:

- 1 respondent died
- 12 were withdrawn

Invesco met on 6 occasions to consider complaints brought forward from the previous year, as well as the remaining 95 new complaints.

### Investigations Concluded

102 investigations were finalised during the period. Of these 6 were disposed of as follows –

- 1 was postponed until the finalisation of concurrent litigation;
- 3 complaints were withdrawn;
- 1 matter was discharged under the old dispensation (in terms of the transitional arrangements) in terms of (Old) Rule 3.9.3 [the Committee being satisfied that there was no reasonable prospect of proving the practitioner guilty of the conduct imputed]; and
- 1 practitioner died.

The balance of 96 matters were referred to DAC with recommendations.

### Concluding Remarks

The specific requirement of the Auditing Profession Act, No. 26 of 2005, that every guilty finding requires a charge sheet, besides being cumbersome, continues to impact negatively on the cost of investigations. The committee is of the view that future amendments to the Act will address this.

The case load of the Investigating Committee requires a significant contribution by members of the committee. I record my appreciation to all the Committee members for their commitment and especially their willingness to contribute many hours of preparation before each meeting.

Finally, I wish to record my sincere gratitude to Jane O' Connor and her staff in the legal department, without whose able assistance and support the Committee would be unable to function effectively.







## Chairpersons' Reports

Disciplinary Advisory Committee  
- Wynand du Plessis

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Members	Meetings Attended
WP du Plessis (Chairperson)	7 of 7
LER de Vries	1 of 1
CR Emslie	7 of 7
DCM Gihwala	4 of 7

In terms of the Act, the Investigating Committee (Invesco) investigates all complaints and then recommends to the Board whether or not to charge the practitioner.

Invesco meets every 6 weeks, but the Board does not meet frequently enough to consider recommendations from Invesco after each of their meetings. Therefore, the Board has delegated this function to the Disciplinary Advisory Committee (DAC). This committee consists of Board members only. It was decided during the course of the year to increase the number of members from three to four.

DAC meets three weeks after each Invesco meeting and considers all matters where Invesco has made a recommendation upon finalisation of its investigation. DAC may not act contrary to a recommendation but may refer matters back to Invesco if it does not agree with the recommendation. DAC will therefore either not charge, charge by consent order or refer the case to the Disciplinary Committee for a full hearing in line with Invesco's recommendations, or refer it back to Invesco for re-consideration.

#### Period Under Review

During the 12 months under review, there was a slight decrease in the number of matters considered by the committee, although the number remains substantial. This is indicative of the continued awareness regarding the disciplinary processes amongst users of services provided by registered auditors. Furthermore, I believe, it is an indication of trust in the Auditing Profession Act, and the ability of the Board effectively to discipline its members.

DAC met 7 times during the reporting period to consider files brought forward from the previous year, as well as 96 new referrals.

#### Matters Finalised

During this period 81 cases were finalised. Of these:

- 32 were not prosecuted:
  - 11 in terms of Rule 3.5.1.1 (The practitioner is not guilty of unprofessional conduct);
  - 10 in terms of Rule 3.5.1.2 (The practitioner having given a reasonable explanation for the conduct.);
  - 5 in terms of Rule 3.5.1.4 (There being no reasonable prospect of proving the practitioner guilty of the conduct in question); and
  - 6 in terms of Rule 3.5.1.5 (In all the circumstances it is inappropriate to charge the practitioner with unprofessional conduct).
- 37 were found guilty by consent:
  - 3 Practitioners were cautioned;
  - 1 Practitioner was reprimanded; and
  - 33 Practitioners were fined.
- 1 matter was postponed *sine die* until the finalisation of concurrent litigation.
- 11 matters were referred to Disciplinary Committee. Some of these have been heard and are reported on in the report of the Chairperson of the Disciplinary Committee, and others still await set down.

#### Concluding Remarks

The disciplinary process is complicated but very effective and the time and effort put into it by Jane O'Connor and her Department is invaluable. I record my appreciation to them and to my fellow Committee members.



## Chairpersons' Reports

Disciplinary Committee  
- Willem van der Linde

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Members	Representing	No. of sessions attended
WHG van der Linde SC	Johannesburg bar	6 (all as chairperson)
A Dodson	Johannesburg bar	11 (5 as chairperson)
T Bruinders SC	Johannesburg bar	2
A Jagga	Deane & Thresher	6
CF Reid	Moore Stephens CJL Inc	11
CR Qually	Deloitte	9
S Naidoo	Grant Thornton	4
H Griffiths	PricewaterhouseCoopers	0
H Goga	Hussan Goga & Co	11
LJ Lekale	Israel Sackstein Matsepe (Goldfield) Inc	11
AJ de Wet	Crowie Holdings	2

During the period under review the committee comprised of the chairperson, Adv. WHG van der Linde, SC, and two vice-chairpersons, Adv. A Dodson and Adv. T Bruinders, SC.

Messrs A Jagga, CF Reid, CR Qually, H Griffiths, and S Naidoo served as Registered Auditors. The non-auditor members were two lawyers, H Goga, and LJ Lekale, and AJ De Wet CA(SA).

The following table reflects the number of sessions attended by these persons. A session may extend over more than one day.

During the period under review six matters were dealt with. In the first matter the hearing took place on 7 April 2008, 17 June 2008, 8 October 2008 and 12 November 2008. There were four charges. The practitioner was found guilty of the first and third charges and not guilty on the second and fourth charges. The sanction included that the findings and the sanction be published in IRBA News, and this has occurred. The fine imposed by the committee was R30 000 of which R10 000 was suspended. Apart from publication of the facts, the findings and the sanction in IRBA News, the respondent was directed also to bear 25% of the costs of the proceedings.

The second matter was finalised on 9 and 10 June 2008. Two practitioners were charged on two charges of improper conduct. They were found guilty of both charges and the sanction included that the facts, the finding and the sanction were to be published in IRBA News, without disclosing details of the practitioner's name or their firm. This has occurred. The fine imposed was R70 000 on each of the two practitioners, half of which was suspended for a period of three years, and they were ordered to pay 30% of the costs jointly and severally.

The third matter was heard on 27 and 28 October 2008, and again on 9 and 10 February 2009. The practitioner was found not guilty of the charges brought against him.

The fourth matter was heard on 10 November 2008 and was to be finalised on 16 March 2009, but was postponed then because of the ill health of the practitioner. It resumes on 20 July 2009.

The fifth matter involved charges of improper conduct against Messrs Paruk and Gering. The practitioners pleaded guilty to three charges. The sanction of the committee included that the charges and the respondent's names were to be published in IRBA News, without disclosing the name of their



## Chairpersons' Reports - Disciplinary Committee (continued)

firm. This has occurred. The sanction included a fine of R70 000 in respect of each practitioner. In addition, their right to practice as registered auditors was suspended for six months, in turn suspended for five years. Each of the respondents was directed to pay 10% of the costs of the prosecution.

The sixth matter was finalised on the 4th of February 2009. It involved charges of improper conduct on the part of a practitioner for repeatedly failing practice reviews. The practitioner was found guilty and a sanction imposed. The practitioner is seeking to "appeal" the decision, presumably by making submissions to the board itself under section 19(4) of the Auditing Profession Act, No. 26 of 2005, read with section 19(3), and section 19(1) of the Act.

Last year we reported that the disciplinary committee was seeking to attain two objectives. The first was to dispose of matters *ex tempore*, and the other was to strive for parity in sentencing. This year we report on the following four issues that arose during the course of the year regarding the functioning of the disciplinary committee: whether the committee acts too much like a court; whether its sentences are too light; whether the prosecution should be "losing" cases; and finally, the role of lawyers on the committee.

It is necessary to stress that the disciplinary committee welcomes analysis and criticisms of its findings. Criticism is a good thing, and if it is informed, it is at its most valuable.

Concerning the question whether the disciplinary committee acts too much like a court, members should bear the following in mind. The disciplinary committee's proceedings are relatively informal. It sits in shirt sleeves, and invites everyone else to do so. Despite the fact that Rule 6.3.14 requires the permission of the Chair before a member of the disciplinary committee may put questions to any witness, the enquiries are run on the basis that anyone may put questions to any person at any time. We

allow as much examination as the questioner wants. Internally, the disciplinary committee functions strictly on consensus. There are of course rules according to which it is obliged to operate, and the disciplinary committee is only supposed to deviate from these rules, in terms of Rule 6.1.1, "upon good cause shown and in the interests of justice." Yet the disciplinary committee does not stick rigidly to these rules, and its approach is as relaxed as the circumstances require and permit. But it is important that substantive rules of fairness are scrupulously adhered to. They are there to ensure that the respondent gets a fair hearing, and the committee is at pains to ensure this result.

Concerning the issue whether sentences are too light, the following observations are pertinent. First, whether or not a sentence is too light is heavily subjective. That is generally the reason why courts of appeal are inclined not to interfere in sentences handed down by lower courts. Second, the disciplinary committee must be assisted by the pro forma prosecutor being able to tell it what sentences were handed down in comparable matters. Third, the Act might have to be re-looked at in order to give the disciplinary committee a jurisdiction that is more commensurate with that of the other regulatory authorities in whose jurisdiction our members practice, such as the FSB and JSE. Fourth, on the disciplinary committee the sentence is arrived at by often compromising the divergent views of the members on the committee. Fifth, there should be a natural upward progression in sentencing. As a general proposition, the disciplinary committee sentences should be heavier than those imposed by the lower committees in the structure.

Concerning the issue of the pro forma prosecution "losing" cases, I would stress that the pro forma prosecution is not there to "win" cases. Its function is to place the facts before the disciplinary committee as best it can. Its further duty is to act fairly. Its position in this respect is different from that of counsel representing a respondent. But the second and



overarching point to be made is that the more sophisticated one's disciplinary process- such as ours is under the new Act – the more one will find that some cases go one way and others go the other way. That is the very definition of fairness. In fact, if the pro forma prosecution were to “win” all cases, there would be something materially wrong. The disciplinary committee prides itself on the independence of approach and intellectual integrity of each of its members. Every single one of its members is there for altruistic reasons only, bona fide to get it right. Each one freely speaks his/her mind in the internal debates. Each one of them would have earned much more on the day had they remained in their

practices, and not come out to sit on the committee. Also, the committee gives relatively detailed – and hopefully sufficiently clear – reasons, and relatively quickly too, for the conclusions to which it comes. If the committee errs in a particular case, this ought to be capable of being illustrated with reference to those reasons.

Finally, again during the past year, the workings of the disciplinary committee were wholly dependent upon the usual and proven efficiency of Jane O'Connor and Prema Pillay. We remain deeply grateful to them.

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## Report of the Audit and Risk Management Committee

Members	Meetings Attended
HG Motau (Chairperson – resigned 1 September 2008)	3 out of 3
N Anderson (Chairperson – appointed 30 October 2008)	2 out of 5
C Qually	5 out of 5
S Sono (Appointed May 2008)	3 out of 3
J Modise (Appointed January 2009)	1 out of 1

We are pleased to present our report for the financial year ended 31 March 2009.

The Audit and Risk Management Committee met five times during the year under review as per its approved terms of reference.

### Responsibility

The committee reports that it has complied with its responsibilities arising from section 38(1)(a) of the Public Finance Management Act of 1999 (PFMA) and Treasury Regulation 3.1.13.

The committee also reports that it has operated within the terms of reference of the Audit and Risk Management Committee, has regulated its affairs in compliance with the terms of reference and has discharged its responsibilities as contained therein.

### Internal Controls

A risk assessment was performed and the significant risks have been identified and reviewed by Internal Auditors. 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.

Due to top management resignation and the fact the positions could not be filled within a reasonable period the various reports of the internal auditors, the audit report on the annual financial statements and management letter of the Auditor-General report certain non-compliance with prescribed policies and procedures. These items reported did not have a material effect on the IRBA and with new appointed management will be corrected going forward.

### Financial Statements

The Audit and Risk Management Committee has reviewed and discussed the audited 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.

**Natasha Anderson**  
Chairperson

# Corporate Governance Statement

for the year ended 31 March 2009

## Governance Structures

### *The Board*

The Board is the designated accounting authority and governs the Independent Regulatory Board for Auditors (IRBA) in accordance with the provisions of the Auditing Profession Act, No. 26 of 2005 (the Act), the Public Finance Management Act, 1999 (PFMA) and good corporate governance principles.

The Board met six 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 in place. No instances occurred during the year that needed the required disclosure in terms of the PFMA and Treasury Regulations to the National Treasury of certain defined transactions, losses through criminal conduct, or fruitless or wasteful expenditure.

### *Audit and Risk Management 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 overseeing the preparation of the annual financial statements. The 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 committee met five times during the period to review the matters arising from internal risk analy-

sis, 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.

### *Human Resources and Remuneration Committee*

The objective of the committee is to assist the Board with its responsibility regarding the following:

- the annual review of the performance and remuneration of the CEO;
- annually make recommendations on the performance bonus of the CEO and senior staff;
- regularly assess staff benefits plans, including trends, and review changes to personnel policies of the Board;
- monitor trends for remuneration and benefits for senior management and staff;
- review succession plans for senior management; and
- review the overall results of staff performance appraisals.

The Human Resources and Remuneration Committee met six times in respect of the period under review.

### *Nominations Committee*

The Nominations committee receives nominations for appointments to all IRBA committees. After consideration it makes the appropriate recommendations to the Board.

### *Internal Audit*

Internal Audit performed the activities as per their three year rolling audit plan. The risk assessment was reviewed and updated and new significant risks have been identified and will be reviewed by Internal Audit in the subsequent year. A new three year rolling audit plan has been developed.

# Corporate Governance Statement

for the year ended 31 March 2009 (continued)

## Responsibility

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 prepares 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. Quarterly reports are submitted to National Treasury as per the requirements of the PFMA and Treasury Regulations.

# Report of the Auditor-General

## for the year ended 31 March 2009

### 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 2009

#### REPORT ON THE FINANCIAL STATEMENTS

##### *Introduction*

1. I have audited the accompanying financial statements of the Independent Regulatory Board for Auditors (IRBA) which comprise the statement of financial position as at 31 March 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 64 to 94.

##### *The Accounting Authority's Responsibility for the Financial Statements*

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No.1 of 1999)(PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

##### *The Auditor-General's Responsibility*

3. 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)(PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. 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.

5. 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 and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

##### *Opinion*

7. 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 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements and in the manner required by the PFMA.

##### *Emphasis of Matters*

Without qualifying my opinion, I draw attention to the following matters:

##### *Basis of Accounting*

8. The public entity's 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.

# Report of the Auditor-General

for the year ended 31 March 2009 (continued)

## Irregular Expenditure

9. As disclosed in note 25 to the financial statements, the IRBA incurred irregular expenditure to the value of R11 352 482. This was as a result of non-compliance with Treasury Practice Notes and the entity's own procurement policies.

## Other Matter

I draw attention to the following matter that relates to my responsibilities in the audit of the financial statements:

## Governance Framework

10. The governance principles that impact the au-

ditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

## Key Governance Responsibilities

11. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines. Section 55 of the PFMA.	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	• The public entity had an audit committee in operation throughout the financial year.	✓	
	• The audit committee operates in accordance with approved, written terms of reference.	✓	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
7.	Internal audit		
	• The public entity had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	



No	Matter	Y	N
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2	✓	
12.	Delegations of responsibility are in place, as set out in section 56 of the PFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA resolutions have been substantially implemented.	n/a	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Financial Intelligence Centre against its mandate, predetermined objectives, outputs, indicators and targets. Treasury Regulation 30.1.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### *Report on Performance Information*

12. I have reviewed the performance information as set out on pages 14 to 21.

### *The Accounting Authority's Responsibility for the Performance Information*

13. 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.

### *The Auditor-General's Responsibility*

14. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.
15. In terms of the foregoing my engagement included performing procedures of an audit na-

ture to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

16. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

### *Appreciation*

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

Auditor-General  
<

Pretoria  
21 August 2009



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## section 16 Annual Financial Statements

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## Statement of Responsibility by the Accounting Authority

for the year ended 31 March 2009

The Accounting Authority is responsible for the preparation 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 2009, 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 Annual 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 (SA GAAP) issued by the Accounting Practices Board, and 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 the Annual 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 account-

ing and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are 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 and Risk Management Committee.

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

### Approval of Financial Statements

The Annual Financial Statements of the IRBA set out on pages 64 to 94, were approved by the Accounting Authority on 18 August 2009 and signed on its behalf by:



**DCM Gihwala**  
Chairman

# Report of the Accounting Authority

at 31 March 2009

## 1. Introduction

The Accounting Authority presents its report, which forms part of the Annual Financial Statements of the IRBA for the year ended 31 March 2009, to the Minister of Finance, the Executive Authority in terms of section 55 (1)(d) of the Public Finance Management Act No. 1 of 1999 as amended (PFMA).

## 2. Principle Activities of the IRBA

The IRBA is established in terms of section 3 of the Auditing Profession 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 provide for the establishment of an Independent Regulatory Board for Auditors;
- to protect the public in the Republic by regulating audits performed by registered 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.

## 3. Analysis of Financial Statements

### Revenue

The operations of the IRBA are funded by revenue from exchange transactions and government grants.

### Revenue from Exchange Transactions

Revenue from exchange transactions is prima-

rily comprised of licence fees, examination fees, practice review fees, registration fees and revenue derived from the administration of training contracts. During the year under review, practice review fees decreased from R 11,323,326 to R10,582,623 as a result of the shortage of staff to perform engagement reviews. In addition, a considerable amount of time is necessarily invested to train newly appointed reviewers in the review process which resulted in a further loss of income. Registration fees increased from R769,560 to R802,009 due to the increase in the number of auditors registering with the IRBA. Revenue from training contracts and levies increased from R5,875,436 to R6,776,348 because of the increase in the training contract fees.

### Government Grants

During the year, the IRBA received government grants amounting to R20,258,000 (2008: R17,095,000). The funding from National Treasury was primarily used to continue with the implementation of the Auditing Profession Act (the Act) and also to ensure delivery on the IRBA's mandate in terms of the Act.

### Expenses

Operating expenses increased from R45,387,992 to R56,602,792. The increase was as a result of the relocation to a new leased building, with the leased cost for the period amounting to R2,646,984 and the building operating expenses increasing from R416,844 to R795,282. Committee expenses increased from R2,264,998 to R3,123,082 as a result of the increase in the number of committee meetings resulting from a substantial increase in technical and board projects. The increase in consulting fees from R1,131,312 to R2,086,984 was due to senior management resignations and the resultant use of consultants to fulfill some of the tasks and positions.



**Assets**

The relocation to the new premises resulted in an increase in property, plant and equipment from R5,551,827 to R8,365,578. R3,640,839 relating to land and building which was sold after the year end was reallocated to non-current assets held for sale. The increase in Intangible assets from R181,877 to R1,309,651 was mainly due to the first phase of the development cost of a workflow system which will integrate the IRBA processes.

A major portion of current assets are comprised of trade receivables. Most of the outstanding balance was collected subsequent to year end. The classification and recoverability of debtors are detailed in Note 7.

The cash balance decreased from R5,443,345 to R1,553,192 mainly due to the spend on leasehold improvements.

**Liabilities**

Non-current liabilities include the operating lease incentive of R2,507,801 which represents an amount received from the landlord for leasehold improvements to be amortised over the lease, as well as accounting for lease instalments on the straight line basis.

Trade and other payables consist primarily of trade payables, fees received in advance and accruals, including an accrual for leave pay.

**Deficit**

The deficit of R2,417,894 (2008: surplus of R3,338,417) arose from exchange transactions and additional expenses in the year. This was primarily made up as follows:

**Decrease in Income**

Income from practice reviews was less than budgeted due to a shortage of practice reviewers and income lost as a result of training interventions.

**Increase in Expenses**

The increase in expenses resulted mainly from the lease cost of the new building and related building operation expenses, legal expenses for investigations and disciplinary expenses and consulting costs.

**Reserves**

Reserves include two funds, the Disciplinary Fund and Education Fund. The Disciplinary Fund was established to protect the operating capacity of the IRBA against the impact of unforeseen, exceptional disciplinary costs. The Education Fund was established to fund education activities of Registered Auditors and students.

**4. Business and Registered Address****Physical address:**

Building 2  
Greenstone Hill Office Park  
Emerald Boulevard  
Modderfontein

**Postal address:**

IRBA  
P O Box 751595  
Garden View  
2047



## 5. Board Members

The Board Members and Alternate Members of the IRBA are as follows: (Board appointed for the term 1 April 2007 to 31 March 2009)

## 6. Ministerial Representative

SF Nomvalo

Member	Alternate Member
DCM Gihwala (Chairman)	Vacant
LER de Vries (Deputy Chairman)	Vacant
WP du Plessis	SP Claassen
CR Emslie	Vacant
G Marcus	C Koornhof
JRD Modise	RC Andersen
HG Motau (resigned September 2008)	N Anderson (Full member from November 2008)
DD Nagar	T Kentane
SE Sono (resigned December 2008)	SD Msomi
T Zakuza	L de Koker

## Statement of Financial Position

for the year ended 31 March 2009

	Notes	2009 R	2008 R
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	8,365,578	5,551,827
Intangible assets	6	1,309,651	181,877
		<b>9,675,229</b>	<b>5,733,704</b>
<b>Current Assets</b>			
Trade receivables	7	4,735,374	4,835,804
Other receivables	8	1,364,538	884,671
Loans receivable	9	173,576	130,567
Cash	10	1,553,192	5,443,345
		<b>7,826,680</b>	<b>11,294,387</b>
Non-current assets held for sale	11	3,640,839	-
<b>Total Assets</b>		<b>21,142,748</b>	<b>17,028,091</b>
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net assets</b>			
Reserves		7,125,896	6,670,997
Accumulated surplus		4,018,189	6,158,922
		<b>11,144,085</b>	<b>12,829,919</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Finance lease obligation	12	535,426	392,255
Operating lease incentive	13	2,507,801	-
		<b>3,043,227</b>	<b>392,255</b>
<b>Current Liabilities</b>			
Finance lease obligation	12	243,798	302,972
Trade and other payables	14	6,711,638	3,502,945
		<b>6,955,436</b>	<b>3,805,917</b>
<b>Total Liabilities</b>		<b>9,998,663</b>	<b>4,198,172</b>
<b>Total Net Assets and Liabilities</b>		<b>21,142,748</b>	<b>17,028,091</b>

# Statement of Financial Performance

for the year ended 31 March 2009

	Notes	2009 R	2008 R
Revenue	2	<b>33,639,237</b>	31,311,904
Government grants		<b>20,258,000</b>	17,095,000
Other income		<b>2,150</b>	36,125
Operating expenditure	3	<b>(56,602,792)</b>	(45,387,992)
<b>Operating (deficit)/surplus</b>		<b>(2,703,405)</b>	3,055,037
Interest income		<b>353,658</b>	394,846
Finance costs		<b>(68,147)</b>	(111,466)
<b>(Deficit)/surplus for the year</b>		<b>(2,417,894)</b>	3,338,417

## Statement of Changes in Net Assets

for the year ended 31 March 2009

	Education Fund R	Disciplinary Fund R	Reserves R	Accumulated Surplus R	Net Assets R
<b>Balance at 1 April 2007</b>	<b>1,935,578</b>	<b>4,412,580</b>	<b>6,348,158</b>	<b>3,143,344</b>	<b>9,491,502</b>
Transfer from education fund	(405,161)	-	(405,161)	405,161	-
Transfer to disciplinary fund	-	728,000	728,000	(728,000)	-
Surplus for the year	-	-	-	3,338,417	3,338,417
Opening balance as previously reported	1,530,417	5,140,580	6,670,997	6,158,922	12,829,919
Adjustments					
Prior period adjustments	-	-	-	732,060	732,060
<b>Balance at 1 April 2008 as re-stated</b>	<b>1,530,417</b>	<b>5,140,580</b>	<b>6,670,997</b>	<b>6,890,982</b>	<b>13,561,979</b>
Transfer to disciplinary fund	-	834,571	834,571	(834,571)	-
Transfer from education fund	(379,672)	-	(379,672)	379,672	-
Deficit for the year	-	-	-	(2,417,894)	(2,417,894)
<b>Balance at 31 March 2009</b>	<b>1,150,745</b>	<b>5,975,151</b>	<b>7,125,896</b>	<b>4,018,189</b>	<b>11,144,085</b>

# Cash Flow Statement

for the year ended 31 March 2009

	Notes	2009 R	2008 R
<b>Cash flows from operating activities</b>			
Cash receipts from contributors and other sources		54,321,833	44,917,346
Cash paid to suppliers and employees		(52,130,908)	(43,823,846)
Cash generated from operations	15	2,190,925	1,093,500
Interest income		353 658	394,846
Finance costs		(68,147)	-
<b>Net cash generated from operating activities</b>		<b>2,476,436</b>	<b>1,488,346</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	5	(7,983,590)	(511,876)
Proceeds on disposal of leased assets		259,938	-
Acquisition of intangible assets	6	(1,234,736)	(6,456)
<b>Net cash used in investing activities</b>		<b>(8,958,388)</b>	<b>(518,332)</b>
<b>Cash flows from financing activities</b>			
Movement in operating lease obligation		2,507,801	-
Increase/(Decrease) in finance lease payments		83,998	(397,143)
<b>Net cash from financing activities</b>		<b>2,591,799</b>	<b>(397,143)</b>
<b>Total cash movement for the year</b>		<b>(3,890,153)</b>	<b>572,871</b>
Cash at the beginning of the year		5,443,345	4,870,474
<b>Total cash at end of the year</b>	10	<b>1,553,192</b>	<b>5,443,345</b>

# Accounting Policies

for the year ended 31 March 2009

## 1. Basis of Preparation

The Annual Financial Statements are presented in South African Rand. They are prepared on the historical cost basis.

The accounting policies have been consistently applied to the results, assets, liabilities and cash flow of the entity in the Annual Financial Statements and are consistent with the prior financial year.

The Annual Financial Statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board and the Act with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent SA GAAP Statements as follows:

Standard of GRAP	Replaced Statement of SA GAAP
GRAP 1: Presentation of financial statements	AC 101: Presentation of 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 SA GAAP Statements do not differ or result in material differences in items presented and disclosed in the Annual Financial Statements. The implementation of GRAP 1, 2 and 3 has resulted in the following significant changes in the presentation of the Annual Financial Statements:

Terminology differences:

Standard of GRAP	Replacement Statement of SA GAAP
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets	Statements of Changes in Equity
Net Assets	Equity
Surplus / Deficit for the period	Profit / Loss for the period
Accumulated Surplus / Deficit	Retained Earnings
Reporting date	Balance Sheet date

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
- (c) trade and other payables from non-exchange transactions

must be presented separately in the Statement of Financial Position.

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



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

Paragraph 11 to 15 of GRAP 1 has not been implemented as International Public Sector Accounting Standard (IPSAS 24), *Presentation of Budget Information in Financial Statements*, has been issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) 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 Annual Financial Statements, non-disclosure will not affect fair presentation.

### 1.1 Property, Plant and Equipment

Property, plant and equipment, excluding land, are carried at cost less accumulated depreciation and any impairment losses. Land is stated at cost.

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

Item	Years
Buildings	30 years
Leasehold Improvements	7 years
Furniture and fixtures	10 years
Motor vehicles	5 years
Computer equipment	3 - 5 years
Equipment held under finance lease	3 years

The IRBA has reviewed the residual values and useful lives used for the purpose of depreciation calculations in light of the amended definition of residual value. The review highlighted a need for an adjustment to the residual values and useful lives of property, plant and equipment during the current period. Residual values and useful lives are reviewed annually.

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).

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.

### 1.2 Intangible Assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software and development cost	3 - 5 years

## Accounting Policies

for the year ended 31 March 2009 (continued)

### 1.3 Financial Assets, Investments and Liabilities

#### 1.3.1 Initial Recognition

Financial instruments are recognised initially when the IRBA becomes a party to the contractual provisions of the instruments.

The IRBA 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 instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

#### 1.3.2 Trade 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 surplus and deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable 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.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

#### 1.3.3 Trade and Other Payables

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

Trade and other payables are classified as financial liabilities at amortised cost.

#### 1.3.4 Cash

Cash and cash equivalents comprise 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. Significant financial difficulties of the bank, probability that the bank will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that cash and cash equivalents are impaired.

### 1.4 Leases

#### Finance Leases

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- the lease transfers ownership of the asset to IRBA by the end of the lease term;

- IRBA has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonable certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications;
- if IRBA can cancel the lease, the lessor's losses associated with the cancellation are borne by IRBA;
- gains or losses from the fluctuation in the fair value of the residual accrue to IRBA (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent;
- a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

An operating lease is a lease other than a finance lease.

#### **Finance Leases – Lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease liability.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

#### **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.

#### **1.5 Non-current Assets Held for Sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

## Accounting Policies

for the year ended 31 March 2009 (continued)

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in profit or loss.

### 1.6 Employee Benefits

#### 1.6.1 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.

Payments to defined contribution retirement plans are charged as an expense as they accrue.

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### 1.7 Reserves

#### 1.7.1 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.

#### 1.7.2 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.

### 1.8 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 that these benefits can be measured reliably.

### 1.9 Government Grants

Government grants are recognised 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 and is excluded from revenue from exchange transactions.

### 1.10 Interest Income

Interest income is accrued on a time proportioned basis, taking into account the principal

outstanding and the effective interest rate over the period to maturity.

#### **1.11 Irregular and Fruitless & Wasteful Expenditure**

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

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 PFMA, the details are included in a note to the Annual Financial Statements. Any irregular and fruitless & wasteful expenditure is charged against the respective class of expenses in the period in which it occurred.

#### **1.12 Related Parties**

The IRBA operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. 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. Other related party transactions are also disclosed in terms of the requirements of the accounting standard.

#### **1.13 Significant Judgements, Estimates and Assumptions**

##### **Significant Judgements**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information

and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Trade and Other Receivables**

The entity assesses its trade and other receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of financial performance, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### **Fair Value Estimation**

The fair values of revenue, trade and other receivables, trade and other payables (at initial recognition) are determined using valuation techniques. These techniques involve discounting the cash flows, expected from the items, over the period (discounting period) that the items are expected to materialise into cash. The discounting period is determined based on the entity’s revenue collection practices and also with reference to historical trends evidenced by the counter party. The discount rate used to determine the fair value is based on the risk free rate, adjusted for the risk attached to the counter party based on prior experience with the counter parties and counter parties in similar industries.

##### **Impairment Testing**

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The following are considered to be indicators of impairment for the various classes of assets:

## Accounting Policies

for the year ended 31 March 2009 (continued)

Property, plant and equipment - Deterioration in the condition of the asset, increased repairs and maintenance of the asset and changes in the manner in which the asset can be utilised.

Intangible assets - Deterioration in the condition of the asset, increased repairs and maintenance of the asset and changes in the manner in which the asset can be utilised.

Financial assets - The credit quality of financial assets that are neither past due nor impaired are monitored by reference to historical information about counterparty default rates. The following are the criteria and indicators that are applied to assess whether or not financial assets may be impaired:

- financial difficulties identified from an analysis of the counter party's financial position that would indicate that the recoverability of the outstanding balance of cash and cash equivalents are doubtful.
- counter party has evidenced a trend of defaults that indicates that the recoverability of the outstanding balance of financial assets are doubtful.

### Useful Lives and Residual Values

The entity re-assesses the useful lives and residual values of property, plant and equipment on an annual basis. These assessments require judgements and assumptions to be made by management, related to the condition and expected use of the asset.

### Effective Interest Rate

An impairment loss in respect of trade receivables measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

### Provisions

Provisions are measured at the present value at the reporting date. In arriving at the present value management estimates the period over which it expects the provision to be settled and discounts the provision using the effective interest rate.

The effective interest rate applied uses the risk free rate as the base of the rate, which is then adjusted for the risks related to the specific provision. This rate is a pre-tax rate.



# Notes to the Annual Financial Statements

for the year ended 31 March 2009

	2009 R	2008 R
<b>2. Revenue</b>		
License fees	9,103,315	8,455,705
Disciplinary expense contributions	454,890	117,000
Disciplinary fines	834,571	728,000
Examination fees	3,629,770	3,305,175
Monitoring fees	730,916	250,000
Practice review fees	10,582,623	11,323,326
Registration fees	802,009	769,560
Sundry income	-	43,520
Support programme	724,795	444,182
Training contracts and levies	6,776,348	5,875,436
	<b>33,639,237</b>	<b>31,311,904</b>

Classes of revenue stated above constitute revenue from exchange transactions and exclude government grants.

<b>3. Operating Expenditure</b>		
Auditors' remuneration - External audit	651,420	415,436
Auditors' remuneration - Internal audit	522,384	388,713
Bad debts	8,406	65,862
Building operating expenses	795,282	416,844
Committee expenses	3,123,082	2,264,998
Consulting fees	2,086,410	1,313,312
Amortisation charge	87,119	90,928
Depreciation	1,085,577	609,483
Lease of building	2,646,984	-
Employment cost - Refer to note 17.3	27,745,657	24,766,279
Examination expenses	2,832,067	2,262,057
Workmans Compensation	76,373	-
Information technology	399,861	835,050
Loss on scrap of assets	90,498	-
Legal expenses - General	729,675	266,130
Legal expenses - Investigations and disciplinary	2,550,612	1,531,501
Other expenses	2,598,143	2,011,608
Placement fees	1,075,092	1,240,629
Printing and stationery	1,009,953	1,335,128
Publications	533,057	501,068
Public relations and advertising	1,809,849	1,213,542
Staff welfare & training	787,334	627,337
Support programme costs	1,104,467	849,343
Travel and accommodation - overseas	642,684	917,535
Travel - local	1,610,806	1,465,209
	<b>56,602,792</b>	<b>45,387,992</b>

## Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

### 4. Taxation

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

### 5. Property, Plant and Equipment

	2009			2008		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	-	-	-	990,000	-	990,000
Building	-	-	-	2,945,375	(146,995)	2,798,380
Leasehold improvements	4,844,758	(108,979)	4,735,779	-	-	-
Furniture and fixtures	1,439,636	(84,974)	1,354,662	321,088	(43,247)	277,841
Motor vehicles	228,796	(79,405)	149,391	204,762	(43,822)	160,940
Equipment held under finance lease	834,169	(78,420)	755,749	1,050,963	(555,412)	495,551
Computer equipment	2,130,843	(760,846)	1,369,997	1,233,343	(404,228)	829,115
<b>Total</b>	<b>9,478,202</b>	<b>(1,112,624)</b>	<b>8,365,578</b>	<b>6,745,531</b>	<b>(1,193,704)</b>	<b>5,551,827</b>

#### Reconciliation of Property, Plant and Equipment - 2009

	Opening Balance	Additions	Disposals	Depreciation	Useful life adjustment	Total
Land	990,000	-	(990,000)	-	-	-
Building	2,798,380	-	(2,650,838)	(147,542)	-	-
Leasehold property	-	4,844,758	-	(108,979)	-	4,735,779
Furniture and fixtures	277,841	1,254,307	(89,936)	(87,812)	262	1,354,662
Motor vehicles	160,940	24,034	-	(34,065)	(1,518)	149,391
Equipment held under finance lease	495,551	834,169	(318,451)	(255,520)	-	755,749
Computer equipment	829,115	1,026,322	(35,037)	(469,815)	19,412	1,369,997
<b>Total</b>	<b>5,551,827</b>	<b>7,983,590</b>	<b>(4,084,262)</b>	<b>(1,103,733)</b>	<b>18,156</b>	<b>8,365,578</b>

#### Reconciliation of Property, Plant and Equipment - 2008

	Opening Balance	Additions	Disposals	Depreciation	Useful life adjustment	Total
Land	990,000	-	-	-	-	990,000
Building	2,798,380	-	-	-	-	2,798,380
Furniture and fixtures	233,180	71,735	-	(71,644)	44,570	277,841
Motor vehicles	194,765	-	-	(32,548)	(1,277)	160,940
Equipment held under finance lease	773,257	-	-	(277,706)	-	495,551
Computer equipment	659,852	440,141	-	(584,531)	313,653	829,115
<b>Total</b>	<b>5,649,434</b>	<b>511,876</b>	<b>-</b>	<b>(966,429)</b>	<b>356,946</b>	<b>5,551,827</b>

## 5. Property, Plant and Equipment (continued)

The disposals of Land and building represent the Non-current assets held for sale.

Equipment held under finance lease is encumbered by the finance leases in terms of which they are leased. Please refer to note 12 in this regard.

## 6. Intangible Assets

	2009			2008		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software and development cost	1,570,501	(260,850)	1,309,651	409,600	(227,723)	181,877

### Reconciliation of Intangible Assets - 2009

	Opening Balance	Additions	Disposals	Amortisation	Useful life adjustment	Total
Computer software and development cost	181,877	1,234,736	(19,843)	(88,655)	1,536	1,309,651

### Reconciliation of Intangible Assets - 2008

	Opening Balance	Additions	Disposals	Amortisation	Useful life adjustment	Total
Computer software and development cost	272,805	-	-	(90,928)	-	181,877

### Other Information

Computer software and development cost include the license and first phase of the development cost of a workflow software programme that will support the IRBA statutory and operational processes.

## 7. Trade Receivables

	2009 R	2008 R
Gross trade receivables	5,079,649	5,183,804
Fines, penalties and legal cost recoveries outstanding	858,887	534,000
Sundry	1,383,923	-
Practice review	2,836,839	4,649,804
Less Impairment provision	(344,275)	(348,000)
	4,735,374	4,835,804

### Credit quality of trade receivables

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

## Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

	2009 R	2008 R
<b>7. Trade Receivables</b> (continued)		
None of the financial assets that are fully performing have been renegotiated in the current financial year.		
<b>Fair Value of Trade Receivables</b>		
The fair value of trade receivables (at initial recognition) is equal to the invoice amounts related to these receivables.		
<b>Trade Receivables</b>		
The carrying amount of trade receivables approximates their fair value. There is no foreign currency exposure at the reporting date.		
1 month past due (Medium Grade)	\$ 5,079,214	5,183,804
<b>Reconciliation of Impairment Provision</b>		
Opening balance	(348,000)	(282,138)
Additional (Reduction)/provision for impairment made	3,725	(65,862)
	<b>(344,275)</b>	<b>(348,000)</b>
 \$ - These debtors are past due but are not considered to be impaired.		
 Low credit grade – The counter party has evidenced high occurrences of defaults and / or re-negotiations of contractual terms in prior periods. As such the counter parties included in the low credit grade category pose a high credit risk to the entity.		
 Medium credit grade – The counter party has evidenced instances of defaults and / or re-negotiations of contractual terms in prior periods on the repayment of outstanding amounts. As such the counter parties included in the medium credit grade category pose a medium credit risk to the entity.		
 High credit grade – The counter party has evidenced no or minimal instances of defaults and / or re-negotiations of contractual terms in prior periods. As such the counter parties included in the high credit grade category pose a low credit risk to the entity.		

2009  
R

2008  
R

## 7. Trade Receivables (continued)

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The company does not hold any collateral as security.

## 8. Other Receivables

Prepaid expenses and deposits

VAT

Net sundry receivables

Total sundry receivables

Provision for impairment

50,000

219,099

1,167,421

-

147,117

665,572

223,157

-

(76,040)

-

1,364,538

884,671

The provision for impairment is an amount that needs to be recovered for over payment of rental charges on machines.

## 9. Loans Receivable

Loans receivable consist of staff loans and travel advances paid to staff members. The staff loans are not interest bearing. The effect of discounting the staff loans is not material.

114,976

54,967

Staff loans

58,600

75,600

Travel advances

173,576

130,567

## 10. Cash

The credit quality of cash and cash equivalents that are neither past due nor impaired are assessed / monitored by reference to historical information about counterparty default rates. Furthermore the credit quality of cash and cash equivalents are ensured by only contracting with highly reputable financial institutions, as endorsed by National Treasury.

The credit quality rating of these cash and bank balances are as follows:

Cash on hand (High Grade)

Cash at bank (High Grade)

Restricted Cash

4,000

4,000

650,726

5,439,345

898,466

-

1,553,192

5,443,345

## Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

### 10. Cash (continued)

High credit grade – The counter party has evidenced no or minimal instances of defaults and / or re-negotiations of contractual terms in prior periods. As such the counter parties included in the high credit grade category pose a low credit risk to the entity.

#### *Fair Value of Cash and Cash Equivalents*

The carrying value, which the cash and cash equivalents are disclosed, approximate their fair values. The maximum exposure to credit risk, as a result of carrying cash and cash equivalents is limited to the carrying value of the cash as disclosed above.

#### *Impairment of Cash and Cash Equivalents*

None of the cash and cash equivalents are considered to be impaired and consequently no provision was raised for the ir-recoverability of these financial assets.

#### *Restriction on the Use of Cash and Cash Equivalents*

The cash and cash equivalents held by the entity may only be used in accordance with its mandate; as such no restrictions have been placed on the use of cash and cash equivalents for the operations of the entity. An amount of R 898 466 has been pledged as a guarantee in terms of the lease agreement for the new premises.

### 11. Non-current Assets Held for Sale

Approval was received from the Minister of Finance to sell the land and building at stand 201 Bruma Township for R10 Million. The funds from the sale will be held in trust and the interest income should be used for the development of previously disadvantaged students who aspire to be Registered Auditors and a programme to raise awareness of the Auditing profession. The carrying amount of these assets is R3,640,839.



## 12. Finance Lease Obligation

Minimum lease payments due

- not later than one year
- later than one year and not later than five years
- later than five years

less: future finance charges

**Present value of minimum lease payments**

Non-current liabilities

Current liabilities

**2009**  
**R**

2008  
R

**354,238**

373,972

**619,917**

429,879

-

-

**974,155**

803,851

**(194,931)**

(108,624)

**779,224**

695,227

**535,426**

392,255

**243,798**

302,972

**779,224**

695,227

It is IRBA's policy to lease certain office equipment under finance leases.

The average lease term is 5 years and the average effective borrowing rate is 13.0% (2008: 13.0%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent. The fair value of the IRBA's lease obligations approximates their carrying amount. The IRBA's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 5.

### *Defaults and Breaches*

The procurement policy of the entity makes provision for the settlement of trade and other payables within 30 days after the receipt of the invoice. During the period the entity has not renegotiated any of the contractual terms of any of the creditors. Also, during the period the entity has not defaulted on any of the principal capital or interest repayments.

### *Finance Lease Cancellation*

The finance lease on the copier machines was cancelled and the contracts agreed to be settled by the new vendor. After the submission of the correct invoices the settlement was not done in time by the vendor and three months rental was still paid. IRBA is in the process to recover the amounts incorrectly paid over.

## Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

	2009 R	2008 R
<b>13. Operating Lease Incentive</b>		
The lessor gave an incentive on occupation of the new building. The incentive will be off-set against the rent payable over the term of the lease.		
Operating lease incentive consists of:		
Total lessor incentive	2,225,050	-
Less: Current Liabilities	(351,322)	-
Lessor incentive	1,873,728	-
Operating lease accrual	634,073	-
<b>Total</b>	<b>2,507,801</b>	<b>-</b>
<b>14. Trade and Other Payables</b>		
Trade payables	2,109 018	616,537
Fees received in advance	-	749,720
VAT accrued on payment basis	519,007	126,100
Operating lease incentive	351,322	-
Accrual for leave pay	947,394	775,770
Other accruals	2,784,897	1,234,818
	<b>6,711,638</b>	<b>3,502,945</b>
Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken is less than 30 days. The IRBA considers that the carrying amount of trade and other payables approximates their fair value.		
Included in trade and other payables is an accrual for leave pay. Employees' entitlement to annual leave is recognised when it accrues to the employee. A provision is made for the estimated liability for annual leave due as a result of services rendered by employees up to the reporting date.		
Revenue received in advance consists of membership fees.		
There was no foreign currency exposure at the reporting date. Interest rate risk is detailed in note 16.		
<b>Defaults and Breaches</b>		
The procurement policy of the entity makes provision for the settlement of trade and other payables within 30 days after the receipt of the invoice. During the period the entity has		

#### 14. Trade and Other Payables (continued)

not renegotiated any of the contractual terms of any of the creditors. Also, during the period the entity has not defaulted on any of the principal capital or interest repayments.

#### 15. Cash Generated from Operations

(Deficit)/Surplus for the year

2009  
R

2008  
R

(2,417,894)

3,338,417

##### Adjustments for:

Depreciation and amortisation

1,172,695

700,411

Interest income

(353,658)

(394,846)

Finance costs

68,147

111,466

Loss on scrapping of assets

90,498

-

##### Changes in working capital:

Trade receivables

422,446

(3,281,839)

Trade and other payables

3,208,691

619,891

2,190,925

1,093,500

#### 16. Risk Management

##### General

In the course of the IRBA's operations it is exposed to credit, liquidity and market risk. The IRBA has developed a comprehensive risk strategy in terms of Treasury Regulation 28.1 in order to monitor and control these risks. Internal audit function reports quarterly to the Audit and Risk Management Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures. The risk management process relating to each of these risks is discussed under the headings below.

##### Operational Risk

Operational risk is the risk of loss arising from system failure, human error or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The IRBA cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risk, the IRBA is able to manage the risk. Controls include effective segregation of duties, access control, authorisation and reconciliation procedures, staff education and assessment processes.

# Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

	2009 R	2008 R
<b>16. Risk Management</b> (continued)		
<i>Categories of Financial Instruments</i>		
<b>Financial assets</b>		
Trade receivables	4,735,374	4,835,804
Other receivables	1,364,538	884,671
Loans receivable	173,576	130,567
Cash	1,553,192	5,443,345
<b>Financial liabilities</b>		
Finance lease obligation	779,224	695,227
Trade and other payables	6,711,639	3,502,945

	2009		2008	
	Rate %	Effect on surplus	Rate %	Effect on surplus
<b>Floating rate financial assets</b>				
Trade receivables	1 %	47,353	1 %	48,358
Bank balances	1%	15,531	1%	54,433
Other receivables	1%	1,735	1%	8,847
Loans receivables	1 %	13,645	1 %	1,306
<b>Floating rate financial liabilities</b>				
Finance lease obligation	1 %	11,171	1 %	6,952
Trade and other payables	1 %	67,116	1 %	35,029

## Price Risk

As the IRBA has no significant interest-bearing assets, the IRBA's income and operating cash flows are substantially independent of changes in market interest rates.

## Cash Flow Interest Rate Risk

Financial instrument	Current interest rate	Due in less than a year R	Due in 2 to 5 years R
Trade and other receivables - interest bearing	14.50 %	4,735,374	-
Trade and other receivables - non-interest bearing	-%	1,538,114	-
Trade and other payables - normal credit terms and non-interest bearing	- %	(8,596,358)	-
Cash	9.25 %	1,553,192	-
Finance lease obligations	13.00 %	(243,798)	(535,426)

## Interest Rate Risk

This risk is the potential financial loss as a result of adverse movement in interest rates that affects the value of receivables and bank balances. Nominal interest rate risk can be split into real interest rate risk and inflation risk. Interest rate risk is managed by investing funds in highly liquid call accounts, at reputable financial institutions, earning market related interest.

## 16. Risk Management (continued)

### *Market Risk*

No significant fluctuations in the market occurred during the year that affected the IRBA.

### *Credit Risk*

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

The IRBA limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by National Treasury.

Trade receivables consist of auditors spread over a wide geographical area. Ongoing credit evaluation is performed on the financial condition of trade receivables.

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

### *Liquidity Risk*

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

## 17. Emoluments

### *17.1. Senior Management Salaries*

2009	Salary	Medical aid	Pension fund	Bonus	Travel	Total
K Hoosain - CEO until 31 July 2008	522,123	30,788	-	-	-	552,911
B Agulhas – Director Standards until 31 August 2008, Acting CEO until 30 November 2008 and CEO from 1 December 2008.	1,114,336	18,660	178,485	-	3,328	1,314,809
R Ally – Director Operations until 30 November 2008	466,603	32,144	87,256	-	-	586,003
J Bailey – Director Practice Review until 30 November 2008	501,252	-	119,744	-	9,028	630,024
J O'Connor- Director Legal	708,519	118,260	188,022	-	1,870	1,016,671
U Naidoo –Director Education, Training and Professional Development until 30 October 2008	407,743	25,312	76,255	-	-	509,310
	3,720,576	225,164	649,762		14,226	4,609,728

# Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

## 17. Emoluments (continued)

### 17.1. Senior Management Salaries (continued)

2008	Salary	Medical aid	Pension fund	Bonus	Travel	Total
K Hoosain, CEO	1,516,967	55,236	-	250,000	48,000	1,870,203
B Agulhas, Director Standards	681,000	11,730	73,790	-	60,000	826,620
R Ally, Director Operations	671,593	4,588	71,819	-	48,000	796,000
J Bailey, Director Practice Review	701,794	-	113,481	-	24,725	840,000
J O'Connor, Director Legal	620,396	31,845	103,759	-	44,000	800,000
U Naidoo, Director Education, Training and Professional Development	651,557	26,628	69,815	-	48,000	796,000
	4,843,307	130,027	432,664	250,000	272,725	5,928,823

### 17.2. Non-Executive Board Members' Fees

	2009 R	2008 R
DCM Gihwala	53,500	63,750
LER De Vries	78,000	37,500
WP Du Plessis	92,750	71,400
CR Emslie	-	37,250
JRD Modise	13,000	9,500
HG Motau	3,250	30,500
DD Nagar	26,250	36,750
SE Sono	46,850	20,750
T Zakuza	58,000	42,250
G Marcus	13,000	12,000
	384,600	361 650

### 17.3. Employment Cost

Salary	22,606,061	20,039,478
Medical aid	1,208,432	953,604
Pension fund	3,747,787	3,357,413
Social contributions: UIF	183,377	165,784
Bonus	-	250,000
	27,745,657	24,766,279

## 18. Contingencies

In terms of the PFMA, all surplus funds as at the reporting date may be forfeited to National Treasury. Approval has been obtained from National Treasury to retain prior year surplus funds. The current total accumulated funds as at 31 March 2009 is R4,018,189.



## 19. Related Parties

### Related party balances

#### *Amounts included in Trade Payables regarding related parties*

South African Revenue Services	-	126,100
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#### *Amounts included in Trade Receivables regarding related parties*

Auditor-General	163,390	554,725
South African Revenue Services	1,148,484	-

### *Related party transactions*

The following transactions pertaining to the major related parties to the IRBA are disclosed:

The following transactions were carried out with related parties:

#### *Services provided to related parties*

Auditor-General	664,454	557,005
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#### *Services provided by related parties*

Auditor-General	675,751	415,436
City of Johannesburg Metropolitan Municipality	197,213	165,500
Government Printing	-	365,062
National Treasury	20,258,000	17,095,000
South African Broadcasting Corporation	450	225
Telkom	126,052	281,636

## 20. Going Concern

The Annual Financial Statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 21. Events after the Reporting Date

The Accounting Authority is not aware of any matter or circumstance arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosure in the Annual Financial Statements, other than as disclosed in Note 26.

2009  
R

2008  
R

# Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

	2009 R	2008 R
<b>22. Prior Period Error</b>		
The prior period error relates to income that was not accounted for relating to practice reviews performed but for which the income has not been accrued. The effect of the restatement is summarised below:		
<b>Statement of Financial Position</b>		
Increase in income and reserves	-	732,060
Increase in trade receivables	-	(732,060)
<b>Total</b>	-	-
<b>23. Commitments</b>		
<b>Operating Leases</b>		
<i>Total future minimum lease payments under non-cancellable leases</i>		
• within one year	4,055,587	-
• in second to sixth year inclusive	21,629,799	-
	<b>25,685,386</b>	-
The IRBA leases its office accommodation in terms of an operating lease. The operating lease is for a period of seven years. The operating lease rentals include a charge for rental, parking, operational costs, electricity, rates and taxes.		
The rental agreement started in August 2009 but due to delays the move only took place in December 2009.		
<b>24. Reclassification of Comparative Figures</b>		
Certain comparative figures have been reclassified to facilitate a more meaningful comparison.		
<b>25. Irregular Expenditure</b>		
Opening balance	-	-
Add: Irregular Expenditure – current year	11,352,482	-
Less: Amounts condoned	11,352,482	-
	-	-

## 25. Irregular Expenditure (continued)

### Analysis of expenditure per age classification

	2009 R	2008 R
Current year	11,352,482	-
Prior years	-	-
Total	11,352,482	-

### Details of Irregular Expenditure

Not obtaining valid tax clearance certificates	3,385,854	-
Orders or contracts not pre-authorised	380,968	-
Procurement without obtaining three quotations or bids	7,585,660	-

The irregular expenses are due to non-compliance with the Treasury Regulations regarding Supply Chain Management Procedures. Where non-compliance occurred in more than one category it was disclosed only once. The detailed circumstances regarding the irregular expenses are contained in the Chief Executive Officers report, and can be summarised as follows:

The IRBA was established on 1 April 2006 and immediately became subject to the Public Finance Management Act, Act 1 of 1999 as amended by Act 29 of 1999 (PFMA), being listed as a Schedule 3A public entity. The predecessor body, the Public Accountants' and Auditors' Board, was not subject to the PFMA. The IRBA spent the first two years developing policies and procedures to enable it to comply with the PFMA.

One of the most critical policies, Supply Chain Management, was approved by the Board in July 2008, and only after such approval could the necessary systems, procedures and capacity be established. During this period, however, the IRBA commenced with its move to new leased premises, which consisted only of the shell and which was required to be fitted out by IRBA. The contract was signed in December 2007 and the Board approved the total costs for the new building in June 2008. Rentals became payable in August 2008 and it therefore became urgent to appoint the necessary contractors to avoid wasteful expenditure. In terms of its Supply Chain Management Policy, it was decided to follow a process

## Notes to the Annual Financial Statements

for the year ended 31 March 2009 (continued)

### 25. Irregular Expenditure (continued)

whereby we obtained 3 quotations, supported by the necessary processes to ensure proper controls around procurement, and not follow the tender process, which is permitted by the Supply Chain Management Policy in urgent situations. The Auditor-General classified these costs, together with some other expenses where the Supply Chain Management policy had not yet been followed, as Irregular Expenses. The policy will be followed in future and capacity and resources have already been put in place to ensure compliance.

Other expenses which were classified as irregular resulted from the IRBA not obtaining three quotations, for example, where it was not practical and where the technical expertise could only be contracted from certain individuals, and not obtaining valid tax clearance certificates.

### 26. Post Balance Sheet Event

The management of the Board completed and submitted draft unaudited financial statements as at 31 March 2009 on 31 May 2009. Subsequent to the completion of the audit by the Auditor-General South Africa, the accounting authority condoned the irregular expenditure amounting to R11,352,482 due to inadequate procurement procedures.

## Notes

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09	10	11	12	13	14	15	16
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