



# irba

INDEPENDENT REGULATORY BOARD FOR AUDITORS

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# NEWS

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## MESSAGE FROM THE

# CEO

### A PROFESSION TRANSFORMED?

It is easy to bandy around numbers, especially if you are an accountant. And if you are an auditor as well, it is best to ensure that those numbers add up.

However, if balancing these numbers was as simple as balancing the books, the auditing profession would be smiling all the way to the bank. But nobody is smiling just yet.

If the current scenario was playing against the backdrop of the early nineties, then one could still have expected some imbalance between, let's call it, economically active auditors, and the economically active population. But we are almost 20 years post 1994, and the situation appears largely unchanged. So, naturally, the question on everyone's lips is: what has the profession done to transform itself and the country?

The response may come as a surprise, especially when it is considered what has actually been done in attempts to not only attract and retain more Black auditors, but also to influence the wider South African economy.

Auditing firms invest large amounts each year to support transformation in the profession, and the Institute has implemented endless projects to change the demographics of the Chartered Accountancy Profession. The IRBA has also been running a successful support programme for repeat students for the last couple of years, whereby it delivers programmes to assist candidates who failed the Final Qualifying Exam, to improve their chances with any second or subsequent attempts.

In addition, the IRBA established a Transformation Committee with a specific mandate to address the attraction and retention of Black auditors in the profession. This committee will consider the challenges faced by Black students in entering and remaining in the profession, as well as their experiences in the working environment. But similar research has already been done by other bodies, albeit not necessarily with an audit focus. However, the Transformation Committee will not drive change if it does more of the same, and consequently, its approach will focus mainly on how it can influence projects and processes that can lead to change. And what needs

to be influenced involves schools, teachers, government, education, and curricula, amongst others.

It must also identify opportunities where the IRBA can partner with other initiatives and bodies which have a similar interest to transform the demographic representation of the profession. However, transformation of the profession forms but a small part of the transformation required in the country. So when the opportunity to play a bigger part in achieving government's policy objectives for transformation presented itself in the form of regulating the Broad-Based Black Economic Empowerment (B-BBEE) industry, the IRBA agreed to take on this additional responsibility with not only the required rigour to create the much needed confidence in the B-BBEE verification industry, but also with the required vigour. Subject to the finalisation of the relevant legislative frameworks, the IRBA will soon be regulating the B-BBEE Verification industry and so contribute to the achievement of government's broader policy objectives.

The number of auditors registered with the IRBA to perform B-BBEE Verification services is increasing, and with most of them meeting the requirement to obtain a level 3 rating for their own transformation, there is a clear commitment that the profession itself is serious about transformation.

But quantum, ratings and numbers should not be the only measure of transformation. Quality deserves equal importance. Therefore, any projects and initiatives must necessarily give the required attention to aspects which will make a real difference – not merely increasing the numbers.

So this is the real challenge for a profession which is driven by hard numbers and not necessarily by the context in which those numbers appear, and while a substantial

amount of effort has clearly been put into transforming the profession, there still remains a lot to be done.

Finally, South Africa's number 1 rating in the world by the World Economic Forum for its auditing standards has certainly strengthened the confidence in our financial markets and thereby stimulated local and foreign investment in the country. This in turn stimulates economic growth and job creation – and that on its own should be a good measure of transformation.

So while the profession and the IRBA will continue to influence the numbers coming through, we must bear in mind the difference it makes through setting a high bar, and if the country as a whole has benefitted by such standards, then it can rightfully claim to be agents of change.

This article was first published in Transform SA.

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## THE AUDITOR'S REPORT ON AN ESTATE AGENT'S TRUST ACCOUNTS

The IRBA has received a number of enquiries from Registered Auditors about whether the auditor providing the auditor's report on an Estate Agent's Trust Account, required by the Estate Agency Affairs Board ('the Board'), is required to have conducted an audit on the Estate Agent's financial statements.

### THE FORM OF AUDITOR'S REPORT

Section 32(4) of the Estate Agency Affairs Act (112 of 1978) ('the Act') requires an auditor who has conducted an audit on the balancing of the Estate Agent's trust accounts and trust banking accounts, in accordance with section 32(3)(b) of the Act, to transmit to the Board a report in the form from time to time determined by the Board on the auditor's findings, and a copy thereof to the relevant Estate Agent. It may be interpreted that the auditor reporting on compliance with section 32(3)(b) of the Act in accordance with section 32(4) of the Act need not be the auditor of the Estate Agent's financial statements and those underlying records relating to the trust account and 'business account', more fully described in section 29(a) of the Act.

However, the form of report determined by the Board, a regulator, is a report by the independent auditor, referred to in section 29(b) of the Act, on whether the Estate Agent's Trust Accounts were maintained in compliance with sections 32(1), 32(2) and 32(3) of the Act, whether there was compliance with certain other Acts, and on information extracted from the accounting records of the Estate Agent relating to interest paid to the Fidelity Fund. The Board has thus extended the auditor reporting requirements of the Act beyond sections 32(3)(b) and 32(4) and clarified that the report is to be provided by the auditor of the financial statements.

It should be appreciated that although the trust account, trust banking account and related transactions may not be disclosed in the Estate

Agent's financial statements, the Board is relying on the fact that the underlying trust records were subject to audit procedures as part of the financial statement audit together with those additional procedures referred to in the auditor's report, enabling the auditor to provide assurance on compliance with sections 32(1), 32(2) and 32(3) of the Act (in addition to section 32(3)(b) of the Act).

Section 32(1) of the Act provides the requirements for the opening and keeping of trust accounts and trust banking accounts. Section 32(2) provides the requirements extending to any savings or interest bearing trust banking accounts. Section 32(3) provides the accounting requirements for trust accounts.

### AUDIT REQUIREMENTS

The Registered Auditor needs to be aware that

- An audit is required of the Estate Agent's financial statements within four months after the final date of its financial year in accordance with the Act, regardless of whether or not the Estate Agent is a sole proprietor or a company, and whether or not another Act, such as the Companies Act and Close Corporation Act, may not require audited financial statements in certain circumstances.
- The Board has determined that the auditor of the Estate Agent's Trust Accounts required by the Board is the auditor of the Estate Agent's financial statements.
- While there are ISAs that apply to an audit of financial statements in accordance with a financial reporting framework, there are no IAASB Engagement Standards that apply to an audit of an Estate Agent's Trust Account maintained in compliance with the Act. Accordingly an auditor who has conducted an audit on the financial statements of an Estate Agent, together with such additional procedures as that auditor considers necessary,

as referred to in the auditor's responsibility paragraph in the auditor's report required by the Board, is presumed to have the professional competencies and knowledge required to issue the required report on the Estate Agent's Trust Accounts.

- A report provided by an auditor who is not the auditor of the entity, or who is not engaged to conduct an audit on the financial statements where there is no auditor, is presumed not to have the requisite professional competencies and knowledge and, in fact, a Registered Auditor providing such a report may be subject to a charge of improper conduct.
- The auditor's report is forwarded directly to the Board, with a copy to the Estate Agent.

The IRBA is aware that there are Estate Agents who dispute the need for an audit of their financial statements prior to the audit of the Estate Agent's Trust Accounts, and/or when the Estate Agent is a sole proprietor, a company or a close corporation and whether another Act may not require audited financial statements in certain circumstances. Registered Auditors should be aware that this is not an issue to be taken up with IRBA. Estate Agents disputing the requirements for an audit should be advised to deal with the Estate Agency Affairs Board in the matter.

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## COMMITTEE FOR AUDITING STANDARDS (CFAS)

### CFAS EXPOSURE DRAFTS

#### Proposed South African Preface and Proposed Due Process Policy

The proposed *South African Preface to the Standards on Quality Control, Auditing Assurance and Related Services* (the proposed Preface) and the proposed *Due Process Policy* were issued in December 2012 for a period of 60 days for public comment by 31 January 2013.

The proposed Preface sets out the authority of IAASB standards adopted and prescribed by the IRBA and South African auditing pronouncements developed by the CFAS and issued by the IRBA. The proposed Due Process Policy of the CFAS sets out the statutory composition of and clarifies the formal due process followed by the CFAS.

Comments are due by **31 January 2013** and may be e-mailed, preferably in a Word or pdf document format to the Standards Department at: standards@irba.co.za.

#### JSE Guide

*Guide for Registered Auditors: Reporting on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports*

A CFAS JSE Task Group is working on final changes to the proposed Guide that will replace the existing SAICA Guide. The proposed Guide will be issued on exposure for a period of 30 days with comments due at a date to be advised. The proposed Guide is expected to be issued by the IRBA during the first quarter of 2013. The CFAS is expected to approve the final Guide for issue on exposure at its meeting in May 2013.

### CFAS REPORTS STANDING COMMITTEE (RSC)

The IAASB has prioritised the Auditor Reporting Project to meet demands for a more informative auditor's report responsive to investor needs.

#### Comment Letter on the IAASB's Invitation to Comment (ITC): Improving the Auditor's Report

The IRBA hosted a round table on 18 September 2012 to obtain comments on the ITC from attendees.

The IRBA has submitted its comment letter on the IAASB's ITC. The comment letter was prepared by a task group of the CFAS comprising small, medium and large firms, academia and the public sector.

The IRBA was supportive of the following proposals in the ITC:

- Certain aspects of the auditor commentary, specifically the commentary relating to the intended user's understanding of the audit and the auditor's responsibilities;
- The proposed auditor statement that addresses:
  - the appropriateness of management's use of the going concern assumption;
  - whether management have appropriately considered, identified and disclosed material uncertainties related to going concern;
- The proposed auditor statement in relation to other information;
- The enhanced descriptions of the responsibilities of management, those charged with governance and the auditor;
- The reorganisation of the form and structure of the auditor's report in principle but not when it results in a report that is regarded as too long;

- The building blocks approach that helps to achieve comparable auditors' reports while still allowing jurisdictions the ability to further tailor auditor reporting requirements in the context of national environments; and
- Establishing mandatory ordering of items in the auditor's report unless such ordering is prohibited by law.

However, the IRBA was not supportive of the following aspects of the ITC:

- Certain aspects of the auditor commentary relating to aspects of the financial statements which may be most important to the user's understanding of the financial statements. We do not believe that it is for the auditor to explain the financial statements in the auditor commentary but it is for the auditor to suggest appropriate narrative to those charged with governance so that the financial statements deal with every matter which is material for the appreciation of the state of affairs of the company and its subsidiaries;
- We do not believe that detailed descriptions of audit procedures in the auditor commentary are useful to users. The auditor expresses an opinion on the financial statements as a whole and detailed procedures may be taken out of context by the intended user. However it would not be out of place for the auditor to expand on work performed in a way that does not read as a detailed description of audit procedures or provide some form of expanded summary that will help the intended users understand the nature of the assurance conveyed;



- The IAASB's suggested improvements with respect to the auditor commentary are only relevant to Public Interest Entities as we believe the auditor commentary could be applied to entities of all sizes due to the flexible nature of the IAASB's proposals, and the fact that such commentary should be scalable;
- The suggested disclosure regarding the involvement of other auditors as we believe that this will not add value especially when the main auditor takes responsibility for the financial information reported on; and
- The IRBA is not supportive of a long-form report. We consider the example of the possible improved auditor's report too long. It is not user friendly for users who are not familiar with the International Auditing Standards. The IRBA has suggested that a more appropriate shorter-form report with additional information, including auditor commentary, disclosed by way of an appendix to the auditor's report, be considered.

#### CFAS PUBLIC SECTOR STANDING COMMITTEE (PSSC)

The PSSC met during September 2012 and continues work on the development of the following Guides:

- *Guide for Registered Auditors Regarding Audits Performed on Behalf of the Auditor General of South Africa*; and
- *Guide for Registered Auditors where the Auditor General of South Africa has opted not to perform the Audit of a Public Sector Entity*.

These two guides will further assist private sector auditors in understanding the additional communication, risk management and audit methodology to be followed when auditing public sector entities, as well as the relationship with the AGSA.

#### CFAS SUSTAINABILITY STANDING COMMITTEE (SSC)

A Task Group of the SCC has developed an illustrative sustainability assurance report as well as an illustrative engagement letter to assist auditors undertaking engagements to report on sustainability reports issued by their clients. The illustrative sustainability assurance report and illustrative engagement letter will be issued during the first quarter of 2013 and will be available for download from the IRBA website thereafter.

#### RESEARCH PROJECT FOR THE INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

The IRBA Board has approved a request from the IIRC for the SSC to form a Technical Collaboration Group (TCG) to identify critical assurance issues relating to assurance reporting on integrated reports. The TCG will report its findings and recommendations to the IIRC by February 2013, which will inform the assurance aspects to be included in the second Discussion Paper of the IIRC expected to be issued in May 2013.

This research is intended to provide the Technical Task Force (TTF) of the IIRC with information and analyses in its considerations of the development of the International Integrated Reporting Framework (including the Guiding Principles and Content Elements). The research is also intended to assist the TTF to understand the issues and possible solutions affecting the provision of assurance on information in an integrated report. It is anticipated the findings will inform the assurance elements in the second Discussion Paper on Integrated Reporting to be issued by the IIRC in mid-2013. The research is expected to contribute to the development of a sufficiently robust integrated reporting framework to provide suitable criteria for an assurance engagement and report.

#### CFAS B-BBEE ADVISORY COMMITTEE

The IRBA issued the *South African Standard on Assurance Engagements (SASAE) 3502 Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification* on **1 November 2012**. The SASAE 3502 is the authoritative standard to be applied by all B-BBEE approved registered auditors when providing limited assurance on B-BBEE Verification Certificates in accordance with the Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice (the "Codes of Good Practice") issued by the Department of Trade and Industry ("dti") and is also to be applied by all registered auditors when providing Certificates to Exempt Micro Enterprises (EMEs).

We congratulate those registered auditors who have successfully completed the prescribed B-BBEE MDP programme and have registered with the IRBA as B-BBEE approved registered auditors. To date more than 140 auditors have successfully completed the programme and have been registered as B-BBEE approved registered auditors to provide B-BBEE assurance services and to issue B-BBEE Verification Certificates. A list of the B-BBEE approved registered auditors can be found on the IRBA website.

**PROPOSED REVISED CODES OF GOOD PRACTICE**

The dti released the draft B-BBEE Revised Codes of Good Practice on 5 October 2012 per Government Gazette number 35754 for public comment. Submissions are due within 60 days from date of publication. The dti recently held a workshop and discussion session on the Draft B-BBEE Revised Codes of Good Practice in Pretoria to facilitate the public commentary process. The IRBA held a Roundtable on 28 November 2012 to obtain comments from B-BBEE approved registered auditors. In addition, all registered auditors and their firms were encouraged to submit written comments to the IRBA for consideration for the IRBA comments to be submitted to the dti.

**REQUIREMENT FOR B-BBEE APPROVED REGISTERED AUDITORS TO ACHIEVE A B-BBEE LEVEL 1-3 STATUS**

Section 6.1.1(e) of Statement 005 that stipulates that registered auditors are measured entities from which B-BBEE assurance services are provided must demonstrate transformation and be rated at a Superior Contributor Status (Level 1 to 3). This requirement has now been extended as follows: From 1 November 2012, the dti confirmed the following:

- Registered Auditors (RAs) who have already been approved by the IRBA (i.e., RAs who were approved prior to 1 November 2012), and who have not yet obtained the Level 1 to 3 contributor status, now have an additional 12 months with effect from 1 November 2012 within which to achieve this status.
- RAs who applied to the IRBA for approval after 1 November 2012 will have 12 months from the date of their approval within which to achieve a Level 1 to 3 contributor status.

After this grace period, there will be no further extensions and failure to meet this requirement will result in the B-BBEE approval of the RA being revoked.

If you have any further questions please contact the Director: Standards at 087 940 8871, the Professional Managers in the Standards Department or the Registry Manager.

**THE INTERNATIONAL AUDIT AND ASSURANCE STANDARDS BOARD (IAASB)****2012 IAASB Handbook**

The 2012 IAASB Handbook was issued on 31 July 2012. The electronic version of the IAASB *2012 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* can be downloaded at [www.ifac.org/publications-resources](http://www.ifac.org/publications-resources) and can be purchased from IFAC's Publications and Resources site. The Handbook will also be available in pdf format for download from the IRBA website shortly.

The 2012 Handbook includes:

- The IAASB's Amended Preface;
- ISAE 3420;
- ISA 610 (Revised);
- ISA 315 (Revised);
- ISRS 4410 (Revised); and
- IAPN 1000.

The existing IAPs contained in the 2010 edition of the Handbooks, have all been withdrawn by the IAASB and will not be re-issued.

The new and revised IAASB International Standards issued since publication of the 2010 Handbooks have all been approved by the IRBA Board and are prescribed for use by registered auditors.

**IAASB Engagement Standards issued subsequently**

- ISAE 3410 *Proposed Assurance on a Greenhouse Gas Statement* was issued by the IAASB in June 2012 and is effective for assurance reports covering periods ending on or after 30 September 2013. ISAE 3410 was recommended by CFAS in August 2012 for Board approval to adopt and prescribe.
- ISRE 2400 (Revised) *Engagements to Review Historical Financial Statements* was issued by the IAASB in September 2012 and is effective for reviews of financial statements for periods ending on or after 31 December 2013. ISRE 2400 (Revised) was recommended by CFAS in November 2012 for Board approval to adopt and prescribe.

**Post-Implementation Review of the Clarified International Standards on Auditing**

The IAASB's post-implementation monitoring review plan was issued in October 2011. The IRBA is one of three national standard setters who have agreed to participate and has established an Implementation Task Group that has obtained responses from a broad range of stakeholders. The post-implementation review includes:

- The provision of further information about the main differences (if any) between the clarified ISAs and national auditing standards, submitted in June 2012;
- A survey of audit committees, submitted at the end of July 2012;
- Part 2 of a survey of small and medium practices (SMP survey), submitted in November 2012; and
- A survey of a range of registered auditors on all the clarified standards, submitted in December 2012.

The IRBA thanks those auditors and firms who took the time and trouble to participate in the survey as their responses are important to the IAASB and will inform future changes to the IAASB Standards.

### Other current projects of the IAASB

Details of progress on this and other projects, including comments received can be found at [www.ifac.org/auditing-assurance/projects](http://www.ifac.org/auditing-assurance/projects)

### SMALL AND MEDIUM PRACTICES

The International Federation of Accountants' (IFAC) Small and Medium Practices (SMP) Committee represents the interests of professional

accountants in small and medium practices. The committee develops guidance and tools, and works to ensure the needs of the SMP and small and medium sized entity (SME) sectors are considered by standard setters, regulators, and policy makers. The committee also speaks out on behalf of SMPs to raise awareness of their role and value, especially in supporting SMEs, and the importance of the small business sector overall.

SMPs may find the publications available on the IFAC website useful in running their practices and in the audit of small and medium enterprises (SMEs). These publications have not been issued

as guidance in South Africa as they have not gone through the IAASB's due process for development of International Standards. The guidance may however be of use to SMPs, bearing in mind however that registered auditors are required to apply ISQC 1 and the IAASB International Standards.

The SMP publications may be found at [www.ifac.org/about-ifac/small-and-medium-practices-committee](http://www.ifac.org/about-ifac/small-and-medium-practices-committee) and [www.ifac.org/issues-insights/smps-smes](http://www.ifac.org/issues-insights/smps-smes)

## ETHICS

### COMMITTEE FOR AUDITOR ETHICS (CFAE)

The CFAE met on 18 September 2012 where the following issues were discussed:

- The CFAE's Public Interest Task Group will continue to conduct research into the responsibilities of the IRBA in meeting its public interest mandate as the audit regulator, with a view to possible amendments of the Code and additional guidance for auditors; and
- The *IRBA Code of Professional Conduct - High Level Summary of Prohibitions Applicable to Audits and Reviews* can be downloaded from the IRBA website and provides a quick reference to independence prohibitions in section 290 of the Code.

### IESBA EXPOSURE DRAFTS

The IESBA recently released two exposure drafts for comment:

- *Proposed Changes to the Code for Professional Accountants on the Definition of Those Charged with Governance*. The IRBA submitted comments on this exposure draft.
- *Proposed Changes to the Code for Professional Accountants to Address Illegal Acts*. Comments are being prepared and will be submitted by 15 December 2012.

Copies of the exposure drafts and links to the IESBA website are included on the IRBA Ethics web page: [www.irba.co.za/index.php/ethics-standards-functions-73](http://www.irba.co.za/index.php/ethics-standards-functions-73).

The CFAE also met on 13 November 2012 where the proposed amendments to the IESBA Code of Professional Ethics - *Addressing Suspected Illegal Activity* were a focus of discussions at the meeting. As these proposals

have a far reaching impact for practitioners, auditors are encouraged to submit comments to the IRBA by 30 November 2012 for consideration for inclusion in the IRBA comment letter being prepared by the CFAE.

Comments are due to be submitted to the IESBA by 15 December 2012.

The CFAE Chairman participated as a panellist in a discussion of the proposed amendments for *Addressing Suspected Illegal Activity* in Cape Town during the visit by the IFAC for the IFAC Council meetings and other forum discussions.

**ETHICS WORKSHOPS**

The success of the IRBA ethics workshops held earlier this year resulted in numerous requests for further sessions. A second round of IRBA ethics workshops was held in October 2012. The workshops were presented by Uli Schäckermann (CA(SA) and Registered Auditor) and Professor Martin Prozesky (Ethicist). It comprised 8 workshops of 4 hours each held in Johannesburg, Pretoria, Cape Town and Durban. Seats were limited to 50 attendees per session, allowing for highly interactive sessions.

The workshops once again focused on the Code and the Rules affecting auditors in their daily practice. The implications of the independence requirements were illustrated by way of case studies in the South African multicultural environment encountered by auditors daily. The application of professional ethics in our multicultural environment was a refreshing addition to the session.

Feedback from attendees has been positive. Practitioners appreciated the workshop format and the review of the changes in the new Code.

To date some 1400 auditors have attended these workshops.

It became evident that there was still confusion over the independence requirements in section 90 of the Companies Act versus section 290 in the Code and understanding by auditors as to which apply when. Auditors are advised to refer to sections 290.167 to 290.174 of the IRBA Code that deal with independence for auditors when providing accounting services and preparing financial statements that they may find helpful.

For further information on professional ethical issues you may contact the IRBA by email to [standards@irba.co.za](mailto:standards@irba.co.za) or by telephone on 087 940 8800.

**REPORTABLE IRREGULARITIES****REGULATOR WORKSHOPS**

The IRBA hosted three reportable irregularities (RIs) workshops during September 2012 with various regulators to whom RIs are reported. The purpose of the workshops was for:

- The IRBA to gather information as to whether the RI process is beneficial and a useful enforcement tool;
- Both the IRBA and the regulators to obtain a better understanding of each other's internal processes regarding RIs reported;
- The regulators to provide feedback as to what enforcement action if any was taken on the RIs reported to them by the IRBA; and
- The IRBA to confirm or update the contact details of the relevant persons at the regulator to whom the RIs should be addressed and sent to.

The workshops addressed the following:

- The cost of compliance with Section 45 of the Audit

Professions Act of 2005 (the Act) for both the IRBA and the auditor;

- When the obligation to report an RI arises;
- The process of dealing with RIs in terms of Section 45 of the Act;
- The IRBA's internal processes in respect of RIs reported;
- Action that could be taken against an auditor for failing to report an RI; and
- Specific situations which may require action in terms of Section 45 of the Act.

The regulators have raised concerns that auditors are not always reporting RIs as the regulator's investigations have uncovered unlawful acts or omissions that met the definition of an RI which were not reported by the auditors. These concerns were expressed by the representative from the:

- **Provincial law societies** arising from the audits of attorneys' trust accounts;
- **Estate Agencies Affairs Board** arising from the audits of estate agents' trust accounts and

- **Financial Intelligence Centre ("FIC")** from auditors of entities where contraventions of the FIC, PRECA or POCA legislation are reported, yet there is no RI report received.

The Standards Department will enquire about the reasons why RIs are not reported in these instances and consider any whether any communiqué or guidance is needed for auditors.

The registered auditor, however, has the duty to report the unlawful act or omission as an RI only where, based on the professional judgment of the auditor, he/she has prima facie evidence that causes the auditor to have reason to believe that the unlawful act or omission meets the *definition* of an RI.

Overall the attendees agreed that if the auditors report RIs and the regulators investigate the RIs reported to them, the RI process is a very powerful enforcement tool.

The workshops were well attended and welcomed by the regulators who expressed their appreciation to the



# REPORTABLE IRREGULARITIES

CONTINUED

IRBA for arranging the workshops. They found the workshops were useful as they now better understood the purpose of RIs and the value that these can add to their own enforcement roles. The IRBA agreed to circulate the contact details of the responsible persons at the various regulators among the parties to enhance co-operation between the regulators. Further RI regulator workshops will be planned for 2013.

## RI REPORTING TEMPLATES

Auditors are requested to note the following change:

Templates for the first report, second report and letter to management board of the entity are available on the IRBA website. The template letter for the submission of the second RI letter to the IRBA has been updated, at the request of regulators to whom the reports for continuing RIs are sent, namely, to include the

contact details of relevant persons at the audited entity, to whom the RI relates. The information to be included is:

- Title of person that can be contacted e.g. the CFO;
- Name of contact person;
- Telephone number of contact person; and
- Email address of contact person.

## UPDATE OF THE REPORTABLE IRREGULARITIES GUIDE

The revision of the Reportable Irregularities Guide for changes arising from the Companies Act, 2008 and Regulations pursuant thereto has been delayed due to the potential implications of the proposed amendments to the Auditing Profession Act currently in progress. Proposed changes include:

- Guidance for independent reviewers when reporting irregularities to CIPC;
- Legal advice regarding the interpretation of a part (c) of the definition: *“represents a material breach of a fiduciary duty owed by such a person to the entity or any partner, member, shareholder, creditor or investor of the entity under any law applying to the entity or the conduct or management thereof”*; and
- To provide further illustrative examples of reportable irregularities.

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## REPORTABLE IRREGULARITIES RECEIVED

	Six months ended 30 September 2012		Year ended 31 March 2012	
Number of reports received and files closed within 40 days	258	95%	637	82%
Number of 2nd reports received late (after due date)	13	5%	140	18%
<b>Total number of RIs received</b>	<b>271</b>	<b>100%</b>	<b>777</b>	<b>100%</b>

## LEGAL

### QUARTERLY REPORT FROM THE DIRECTOR: LEGAL FOR THE PERIOD 1 JULY 2012 TO 30 SEPTEMBER 2012

#### INVESTIGATING COMMITTEE

The Investigating Committee met once during this period and referred 10 matters to the Disciplinary Advisory Committee with recommendations.

**DISCIPLINARY ADVISORY COMMITTEE**

The Disciplinary Advisory Committee met twice during this period and disposed of 19 matters, as follows.

**Decisions not to charge**

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

**Decision to charge and matter finalised by consent**

Six practitioners were fined (in relation to seven matters):

- two matters against the same practitioner were consolidated into one charge sheet, as they related to the same entity; they were in respect of-
  - a review opinion on interims which did not comply with IFRS3 business combination disclosure, IAS 7 cash flow statement and IAS 34 disclosure, and
  - a limited assurance report which failed to detect and report that the historical financial information contained a number of anomalies relating to inadequate and incomplete disclosures in terms of IAS, IFRS and the Companies Act (fine of R120,000 was imposed, of which R70,000 was suspended for three years on conditions).
- two matters related to negligence in performing a statutory audit:
  - fine of R100,000 was imposed; in addition a

previously suspended fine of R20,000 was imposed, and

- a fine of R75,000 was imposed, of which R25,000 was suspended for three years on conditions
- two matters related to negligence in performing the audits of attorneys' trust accounts
  - a fine of R75,000 was imposed of which R25,000 was suspended for three years on conditions, and
  - a fine of R100,000 was imposed of which R50,000.00 was suspended for three years on conditions.
- one matter related to issuing an incorrect accounting opinion (a fine of R70,000 the imposition of which was postponed until such time as the respondent applies for re-registration).

**One matter was closed as the respondent had passed away.****DISCIPLINARY COMMITTEE**

The Disciplinary Committee convened three times during this period.

**FIRST MATTER**

On 25 and 26 July the committee convened to hear a case. The matter was not finalised and has been remanded to February 2013.

**SECOND MATTER**

On 25 May the committee had convened in a matter which was already part heard, to hear the evidence of the final witnesses, and argument on finding. The finding was handed down by the chairman on 15 June 2012. The committee convened again to hear argument on sentence on 21 August 2012; sentence was handed down on

14 September 2012. The matter is currently on review so it is not appropriate to publish any further information at this time

**THIRD MATTER**

On 27 August the Committee sat again to hear another matter. This too is part heard and reconvenes in January 2013.

**CERTIFICATES OF EARNINGS**

We are receiving a small but increasing number of complaints relating to what I will generically refer to as ‘Certificates of Earnings’ in one form or another. The complaints are most frequently from female parties in a divorce, the allegation being that the certificate / evidence provided by their husband’s witness is incomplete and misleading as to income. This might be accompanied by allegations of a lack of independence. Complaints have also been received from financial institutions. Practitioners are cautioned to be extremely careful, accurate and professional when issuing documents of this nature.

Queries: **Jane O’Connor**  
 Director: **Legal**  
 Telephone: **087 940 8804**  
 Facsimile: **087 940 8873**  
 E-mail: **legal@irba.co.za**



**REGISTRY**

**TIMELINE FOR 2013 RETURNS**

This timeline is provided so that RAs can diarise due dates for documentation and fees for 2013.

DATE	EVENT
January 2013	Send out Inspection fee billing declaration, spread-sheet and firm update form
31 March 2013	Last date for submission of Inspection fee billing declaration, spread-sheet and firm update form
1st week in April 2013	Send out invoices for RA individual annual fees and individual Annual Returns
31 May 2013	Last date for payment of RA individual annual fees and submission of individual Annual Returns
1st week in June 2013	Send out 1st invoices for Inspection firm fees
31 July 2013	Last date for payment of Inspection firm fees
1st week in December 2013	Send out 2nd invoices for Inspection firm fees
31 January 2014	Last date for payment Inspection firm fees

# REGISTRY

CONTINUED

## INDIVIDUALS ADMITTED TO THE REGISTER OF THE BOARD From 1 JULY To 30 SEPTEMBER 2012

**Baloyi** Vulani Pride  
**Barkhuysen** Marna  
**Bhengu** Fakalicoshwa Mpiyamandla  
Vincent  
**Bhoola** Shirish Mohan  
**Bishop** William Arthur  
**Boshoff** Janica  
**Botha** Madeleen  
**Broodryk** Trevor  
**Butchart** Michael Andrew  
**Cairney** Brent Warrick  
**Calicchio** Pietro  
**Coetzee** Gert Petrus  
**Coetzee** Wayne Craige  
**Cooper** Nicola Anne  
**Cronje** Pieter Arnoldus  
**de Freitas** Lauren Lynn  
**de Villiers** Alison Portia  
**de Villiers** Corniel va Zyl  
**de Wet** Andre  
**de Wet** Anton  
**Diedericks** Carl Fredericks  
**Esterhuizen** Rupert  
**Fajandar** Altaf  
**Faull** Hester Margaretha  
**Ferreira** Ignatius Leopold  
**Goossens** Bram  
**Govender** Darshen  
**Hansjee** Neelash Denas  
**Hassim** Abdul Ganie  
**Hattingh** Phillipus Andries  
**Hudle** Phindile Phikile Purity  
**Jeena** Ridwaan  
**Jhavary** Shenaz  
**Kathan** Verakasrie Harris Theodore  
**Kruger** Pieter Marthinus  
**Kundishora** Jacqueline Elaine Mazrita  
**Lim Ah Tock** Irwin Teck Shin  
**Malan** Annebelle  
**Manser** Renier Daniel  
**Maré** Anri Ramona  
**Marx** Mare Adre  
**Matengambiri** Gift Happymore  
**Mather** Catherine Anne  
**Mdingi** Lundi  
**Meintjes** Nicolette  
**Meyer** Marlene  
**Mitchelson** Clinton Joseph  
**Mkhize** Nsindiso Terrence  
**Mkwanzazi** Fana Johane  
**Mokoka** Phuti Aubrey  
**Moore** Wuanita  
**Moosa** Muhammed Ziyaad  
**Mountfort** Aleina Stephanie  
**Mulaudzi** Tsanwani Comfort  
**Neethling** Estalét  
**Ngema** Nozipho  
**Nortje** Johann Wynand Matthys

**Nyepa** Tigere  
**Padayachee** Bhaveshen  
**Perry** Nicolien Susanna  
**Perumal** Sugentharen  
**Pienaar** Anze  
**Pienaar** Linda  
**Rabothata** Kgotlo Albert  
**Radebe** Ntombenhle Bridget  
**Rathan** Ashwanth  
**Richard** Genevé  
**Rikhotso** Floyd  
**Rockson** John Fifi  
**Rossouw** Jacqueline  
**Sam** Julian  
**Shirinda** Wisani  
**Snyman** Christiaan Philippus  
**Snyman** Clinton  
**Stanham** Ryan David  
**Stols** Jeanne Anine  
**Tshesane** Anastacia Matome  
**Vaghela** Chetan Chhagan  
**van den Berg** Dewald Theo  
**van der Merwe** Hendrik Jacobus  
**van der Merwe** Leandra  
**van der Merwe** Maryke  
**van der Merwe** Riaan  
**van der Walt** Barend Pieter  
**van Deventer** Wilhelm Lodewyk  
**van Rensburg** Johann  
**Venter** Petrus Francois  
**Venter** Stephané Yvonne  
**Vermeulen** Pieter de Preez  
**Wittstock** Penelope Anne

## INDIVIDUALS RE-ADMITTED TO THE REGISTER OF THE BOARD From 1 JULY To 30 SEPTEMBER 2012

**Dada** Mava  
**Fischer** Andrew  
**Jansen** Wayne Errol  
**le Grange** Pierre  
**Mzizi** Mbuyiswa Norman  
**Ngcobo** Linda Rose-Anne  
**Pangwa** Velile  
**Rheeder** Christian Georg  
**Schoombie** Sonja  
**Sikuza** Monwabisi Mandisi  
**Terblanche** Johannes Gerhardus  
**Thomas** Shelley  
**Tsoka** Lepeke Elliot  
**van Niekerk** Johannes Roedolf

## INDIVIDUALS REMOVED FROM THE REGISTER OF THE BOARD From 1 JULY To 30 SEPTEMBER 2012

**Baloo** Dharmesh, *Resigned*  
**Bird** Juan-Stephen, *Resigned*  
**Bolel** David, *Deceased*  
**Carpenter** Sandra, *Deceased*

**Coetzee** Tania, *Resigned*  
**de Lange** Soné Marie, *Resigned*  
**de Villiers** Jacques Francois, *Resigned*  
**Essack** Abdul Kader, *Resigned*  
**Galal** Parimal, *Resigned*  
**Gerber** Marthinus Cornelius, *Resigned*  
**Gordon** Hilton Somah, *Resigned*  
**Holtzhausen** Johan Andries, *Resigned*  
**Lawson** Robert John, *Deceased*  
**Marcov** Heidi Danya, *Resigned*  
**Maré** Marius Ignatius, *Resigned*  
**Prinsloo** Pieter Willem, *Resigned*  
**Rabinowitz** Bennie, *Resigned*  
**Reynolds** Ian Paul, *Resigned*  
**Rossouw** Gabriel Petrus, *Resigned*  
**Rudman** Michael Jonathan, *Resigned*  
**Sithole** Zakhele Johannes, *Deceased*  
**Smith** Ian Frederick, *Resigned*  
**Taylor** Lindsay, *Resigned*  
**van der Watt** Charlotte, *Resigned*  
**von Zwiétring** Hilko, *Resigned*

## INDIVIDUALS LAPSED WITH EFFECT FROM 1 JULY 2012

**Alexander** Donovan Andrew  
**Audibert** Jean Claude Marie Daniel  
**Brand** Charles Robert  
**Brink** Wayne  
**Bruwer** Nadia Marissa  
**Combrink** Hermanus Adriaan  
**Davis** Craig John  
**du Plessis** Jacobus Johannes  
**du Plessis** Johannes Jacobus  
**Ellis** Fredrick Charles  
**Grobler** Elana Eareike  
**Groenewald** Abraham Petrus Johannes  
**Janse van Rensburg** Elia Christiaan  
**John** Nicholas Calvin  
**Katz** Leon Desmond  
**Krog** Manuela Carola  
**Lekaukau** Moathodi Kefentse  
**Mavundla** Msizi Eustace  
**Mc Nair** Clinton Grant  
**Moolman** Hubert Grant  
**Motsweni** Thokozile Mavis  
**Ndukwana** Simon  
**Oosthuizen** Tobias Johannes  
**Pretorius** Pieter Andries  
**Schwartz** Doret  
**Sondiyazi** Mpumela James  
**Uys** Johannes Segismundus  
**Vania** Raschid  
**Venter** Carl Nicolaas  
**Vundla** Kyansambo Ntombi  
**Wilson** Ian

*Caroline Garbutt*  
**Manager: Registrations**  
**Telephone: 087 940 8800**  
**Facsimile: 087 940 8873**  
**E-mail: registry@irba.co.za**



## COMMUNICATIONS

In the interests of improved communication with Registered Auditors and other stakeholders, a list of Communiqués sent by bulk e-mail during the reporting period for this issue is set out below. These communiqués may be downloaded from the IRBA website, under the various "News" tabs.

02/07/2012	SAAPS 2 and SAAPS 3 revised and re-issued
05/07/2012	Estate Agency Affairs Board Audit Requirements: extension for submission
12/07/2012	IRBA Training and Information sessions 2012
16/07/2012	IRBA News June/July issue available online
20/07/2012	Ethics Workshops
30/08/2012	Proposed Future Dates for the National Standardised B-BBEE Management Development Programme
30/08/2012	Invitation to Comment: Improving the Auditor's Report
06/09/2012	ISAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus Illustrative Independent Reporting Accountant's Assurance Report on the Compilation of Pro Forma Financial Information Included in a Prospectus/Pre-Listing Statement/Circular
07/09/2012	South African hat trick as the auditing profession is ranked first again out of 144 countries for the strength of its auditing and reporting standards
10/09/2012	IESBA issues Proposed Changes to the Code of Ethics to Address Illegal Acts
12/09/2012	IESBA issues Proposed Changes to the Definition of "Those Charged with Governance"
13/09/2012	Call for nomination of persons to serve on the Committee for Auditor Ethics
13/09/2012	Call for nomination of persons to serve on the Committee for Auditing Standards
27/09/2012	Annual Report for 2011/12 tabled in Parliament
12/09/2012	IESBA issues Proposed Changes to the Code of Ethics to Address Illegal Acts
12/09/2012	IESBA issues Proposed Changes to the Definition of "Those Charged with Governance"
11/10/2012	IRBA Code of Professional Conduct High Level Summary of Prohibitions Applicable to Audits and Reviews
06/11/2012	SASAE 3502 Assurance Engagements on B-BBEE verification

## GENERAL NEWS

### OBITUARY – RICK COTTRELL

The management and staff of the IRBA were deeply saddened to learn of the recent passing of one of the luminaries of this profession, Mr Rick Cottrell.

Rick was born in Zambia in 1935.

#### Qualifications

He became a Chartered Accountant of South Africa in 1957 and a Financial Chartered Accountant in 1972. He went on to complete the Stanford Executive Programme (SEP) at Stanford University in 1983.

#### Memberships

Rick maintained membership of the Institute of CA's (England & Wales) (ICAE&W) and was an Honorary Life Member of The South African Institute of Chartered Accountants (SAICA).

He was also registered with the IRBA and with its predecessor, the

Public Accountants' and Auditors' Board (PAAB) from 1971.

In addition to his memberships of these organisations, Rick played a significant role on numerous committees for both SAICA and the IRBA, including a term as President of SAICA. He served as Chairman of the Accounting Practices Committee and the Consultative Advisory Group (CAG) to the Auditing and Assurance Standards Board (AASB). He also served as Chairman of the Accounting Standards Board (ASB). He was one of two South African representatives of the then International Accounting Standards Committee. On retirement from active practise he took up the position of CEO of the FSB.

#### Previous Positions

Executive Officer | Financial Services Board, Pretoria | 1996 - 2000

Managing Partner | Coopers & Lybrand South Africa, Johannesburg | 1984 - 1995

Partner | Coopers & Lybrand South Africa, Johannesburg | 1971 - 1995

Partner | Coopers & Lybrand Iran, Teheran | 1965 - 1971

Most recently he was a Non-Executive Director at the following organisations:

Nedcor Ltd, Johannesburg;  
Nedbank Ltd;

Munich Reinsurance Co of Africa Ltd; and  
Afrox Healthcare Ltd

On the non-professional level Rick also served as Governor of the Unizul Foundation from 1995.

## THE NEW FATF INTERNATIONAL AML/CFT STANDARDS: BENEFITS OF THE RISK-BASED APPROACH FOR THE REGISTERED AUDITOR

(Part 1 of 2)

### INTRODUCTION

The objective of this article is to provide an update on the relevance of the new international standards issued by the Financial Action Task Force (FATF) in February 2012 and why, or how, it could have an impact on the professional environment of the Registered Auditor (RA). In this article, the background will be provided and in part two more details will be discussed on the applicability in this regard, in line with the International Standards on Auditing (ISA), as well as International Standards on Quality Control (ISQC).

The requirements for compliance with anti-money laundering (AML) and counter terrorism financing (CFT) standards in respect of the registered auditor (RA) have changed significantly since 2003. The initial document on AML which was issued by IRBA, called "Money Laundering Control: A Guide for Registered Accountants and Auditors" was issued in 2003. At the time the definition of an Accountable Institution (AI) included the word "public accountant". After the amendment of the Financial Intelligence Centre Act 38/2001 (FICA) the definition, "public accountant" was removed, which assisted in creating more clarity on the applicability of an accountable institution to the position of the RA.

The 2011 Guide "Combating Money Laundering and Financing of Terrorism, a guide for registered auditors" (the Guide) replaced the 2003 Guide. The 2003 Guide mainly dealt with FICA whilst the 2011 Guide expanded the level of compliance to include the Prevention and Combating of Corrupt Activities Act 12/2004 (PRECCA), the Protection of Constitutional Democracy Against Terrorist and Related Activities Act 33/2004 (POCDATARA), the applicable International Standards on Auditing (ISA), and the international AML/

CFT standards (the FATF International Standards).

In assessing the level of compliance with the implementation of the Guide, a total of 200 inspections were conducted at RA's country wide, including big, medium and small firms. This article will not deal with the outcome with those inspections suffice to say that the general perception found was that FICA does not really apply to RAs who are not accountable institutions. This article does not deal with the application of the FIC Act. It deals with the new International Standards on AML and why it could be relevant for the registered auditor, be it in local or international context.

### REGULATORY REQUIREMENTS OR RISK-BASED APPROACH?

The assessment of the level of compliance with AML/CFT standards worldwide is directed by the Financial Action Task Force (FATF) which was established through the Organisation for Constitutional and Economic Development (OECD). South Africa is one of the 96 members of the FATF and as such needs to comply with the directives given by the FATF in implementing minimum standards for combatting AML/CFT.

The international standard for AML compliance had always been known as the Forty Recommendations together with the additional Nine special recommendations on counter terrorism financing. These had now been updated and combined into the new international standards<sup>1</sup> issued in February 2012. In the new standards, the FATF recommend a risk-based approach which is based on the principle that enhanced measures for Customer Due Diligence (essentially know your client (KYC) procedures) are to be taken to manage and mitigate identified risks. It means that clients would be approached differently, both

in terms of take-on procedures or on-going monitoring, depending on whether they are high or low risk clients. Therefore, implementing a risk-based approach means that the RA understands his/her risk which enables him/her to exercise sound judgment. Categorising clients according to risk is no new area for the RA, but in the context of client acceptance and on-going monitoring, the FATF standards can assist in improving this approach.

The risk-based approach goes beyond the requirements currently used by audit firms in terms of the International Standards on Auditing (ISA) and in part 2 of this article a few recommendations will be made in line with the applicable ISAs as normally applied. It must be noted that the risk-based approach is an international standard and as such it goes beyond the audit environment: where the RA plans to expand his/her practice into other areas of business this could be particularly beneficial in taking on new clients. The FATF in particular regard trust and company services as areas in which the risk-based approach is to be applied. Also, audit firms who have separate entities which fall within the definition of an accountable institution, would be required by the FIC to follow the risk-based approach in terms of clients within these entities. The FIC is still to issue guidance on this.

The benefit in using the risk-based approach, according to the FATF, is that where RA's devise their AML/CFT policies and procedures in a way that harmonises with other regulatory or professional requirements, it should help ensure that one's clients can access the services provided but should create barriers to those who seek to misuse those services.

The FATF summarised the potential benefits and challenges in adapting a risk-based approach, as follows:<sup>2</sup>

<sup>1</sup> This can be downloaded from the IRBA website: [www.irba.co.za/index.php/anti-money-laundering](http://www.irba.co.za/index.php/anti-money-laundering)

<sup>2</sup> See the FATF Guidance note for Accountants available on [www.irba.co.za/index.php/anti-money-laundering](http://www.irba.co.za/index.php/anti-money-laundering)

Potential benefits:

- Potential management of risks
- Efficient use and allocation of resources
- Focus on real and identified threats
- Flexibility to adapt to risks that change over time

Potential challenges:

- Identifying appropriate information to conduct a sound risk analysis
- Addressing short term transitional costs
- Greater need for more expert staff capable of making sound judgments
- Developing appropriate regulatory response to potential diversity of practice

**ENHANCED DUE DILIGENCE:  
WHAT DOES THIS MEAN?**

In considering the risk-based approach the RA should firstly determine whether a client is a high risk client, and in addition, if the client is an accountable institution. The criteria of the risk-based approach can assist the RA in its assessment of the client (as set out in the FATF Guidance note mentioned). This is particularly important since, in a country with high levels of corruption, the risk of money laundering increases. It is no secret that corruption is an extensive problem in South Africa.

In this regard, also, one of the concepts which has become more prominent in discussion and application, particularly in the new international standards, is the concept of beneficial owner, particularly if the beneficial owner is not known. Corporate vehicles such as trusts, companies (including shelf companies) and partnerships with limited liability, can be used for illegal activities such as ML, bribery and corruption, improper insider dealings, tax fraud, etc. Of particular concern is where, with relative ease, such corporate vehicles can be created and dissolved and then misused by those involved in financial crime to conceal the sources of funds and their ownership of the corporate vehicles.

The FATF Methodology Glossary defines a beneficial owner (BO) as the natural person *“who ultimately owns or controls a customer and/ or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement”*.

In addition to this, the compliance obligations regarding politically exposed persons (PEP) also need to be mentioned: a PEP is not necessarily a person involved in politics. The FATF definition of a PEP is as follows:

*“Foreign PEPs are individuals who are or have been entrusted with prominent public functions by a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.*

*Domestic PEPs are individuals who are or have been entrusted domestically with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.*

*Persons who are or have been entrusted with a prominent function by an international organisation refers to members of senior management, i.e. directors, deputy directors and members of the board or equivalent functions. The definition of PEPs is not intended to cover middle ranking or more junior individuals in the foregoing categories.”*

From an AML perspective, it means that a person of influence could be vulnerable to the risk of receiving money, or could abuse his or her position to get money into the legal system.

The purpose in following a risk-based approach is to have a strategy and mitigate the risk of

ML/FT through deterrence (appropriate CDD measures), detection (monitoring and STR) and record-keeping (eg to facilitate investigations). Depending on what risk, or what level of risk is identified, measures should be proportionately applied. In countries with high risks of corruption and money laundering criminals may be more likely to target DNFPB sectors where other avenues have been closed. This refers to sectors identified as such by the FATF and includes designated non-financial businesses and professions (DNFBP) which include the accountancy and auditing professions. This means that RA’s who, depending on the risk assessments they had undertaken or not undertaken in respect of their firms, may be more or less vulnerable depending on how efficient their AML/CFT procedures are applied. It is also important to acknowledge that new ML/FT methods are identified on an on-going basis as criminals find new ways to abuse the system.

In applying the components in focussing on customer due diligence such as the identification and verification of identify of customers and beneficial owners, obtaining information on the purposes and intended nature of the business relationship, and conducting on-going due diligence, the applicability of ISA 220<sup>3</sup> comes to mind: currently the standard applied in implementing the international standards on auditing do not specifically include reference to the risks specified in the international AML standards.

3 To be addressed in part two of this article

## TYPES OF RISK

The FATF have identified a number of potential risk areas, in respect of the accountancy profession, which could be most useful to potential launders: three categories of risk have been identified: geographic risk, client risk and service risk. (The guidance on these types of risk is very detailed and it is suggested to rather consult the FATF Guideline on this, than discussing it here.) These risks should not be viewed as separate and distinct but in practice, should be viewed as inter-related.

Two risk areas that are to be emphasized are Beneficial Owner and PEP risks: it is anticipated that a stronger emphasis will be placed (via the FIC) on awareness of risk in respect of these risks. In respect of accountable institutions it would be required but for the RA, though, it would be prudent to take reasonable measures to assess risk and to determine whether a client falls into any of these categories. The potential risk created by not asking the right questions in respect of such persons, is that particularly PEP's may have influence to get dirty money into the system, for example via a corrupt relationship. Corrupt PEPs will be very careful to disguise the identity and source of money in order to place it into the system without suspicion. Therefore, the application of an effective AML Policy will require an assessment of this type of corruption-related risk and the protection of the RA against the laundering of corruption proceeds.

It follows that, in applying the provisions of ISA 220, the RA would need to determine the business profile of the client. Bearing this in

mind, the RA would be assessing clients according to high or low risk during the client acceptance phase. Also, depending on the industry in which the client operates, some clients sectors and operational structures are regarded as potentially posing high risk. In addition, the RA should be alert to the existence of fraudulent transactions or transactions which are improperly accounted for, knowing the client's industry- in relation to identifying potential areas for money laundering.

## PRACTICAL APPLICATION: ENHANCED DUE DILIGENCE

Once the risk in respect of a client had been identified, appropriate measures must be implemented to mitigate the potential ML / FT risks: such measures and controls may include:

- Increased awareness of higher risk clients and transactions, across all departments with a business relationship with the client including the possibility of enhanced briefing of audit teams;
- Increased knowledge of clients
- Escalation for approval of the establishment of a business engagement, or involvement in client service

In part two this will be expanded on by way of explanation on applying the ISA and ISCQ in the context of AML.

## CONCLUSION

No risk can be excluded completely. By taking reasonable measures, however, the RA would reduce his/her exposure to the risk of ML/FT and equally important, the risk of legal exposure to the allegations of being negligent in respect of applicable standards. The new international FATF standards take a "substance over form" approach and are more practical than the typical regulatory standards based on legislation only. AML awareness and compliance is here to stay and cultivating an alertness to possible risk areas will only be to the benefit of the RA's profession.

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## Season's Greetings

The staff of the IRBA wish all readers a very blessed,  
safe and happy holiday season.  
The IRBA offices will close on Friday 21 December 2012  
and re-open on Wednesday 2 January 2013.

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