



irba

INDEPENDENT REGULATORY BOARD FOR AUDITORS

NEWS

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ETHICAL BEHAVIOUR IS A CHOICE

***Prioritising profits and compromising
on professional principles is a recipe
for disaster***

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FROM THE CEO'S DESK

I spent a weekend recently perusing some literature in a bid to make sense of the hysteria that has catapulted the auditing profession into the court of public opinion in the latter half of this year.

Every day there's been a new headline suggesting that KPMG's current woes are the inevitable result of a corrupted system that has failed to protect the public.

While there are many good auditors doing good work and delivering excellent audit quality, these just don't make the headlines. So, to say we have a failed system is a misguided perception; however, that doesn't mean our profession doesn't have issues to address.

In their book, *The Balanced Company: A Theory of Corporate Integrity*, ethics experts Muel Kaptein and Johan Wempe write: "The attention corporations are paying to ethics is driven by more than idealism and a sense of duty; it is often also motivated by enlightened self-interest ... Sound corporate ethics can improve a corporation's public image, empower stakeholders and boost profits. It is possible to conceive of situations where ethical decisions come at a cost of profits."

At the audit regulator, we have always maintained that audit practices have to walk a tightrope between profitability and professionalism. At audit firms, profitability must follow professionalism — not the other way around.

Paying too much attention to the bottom line creates the risk of compromising professional or ethical principles. This might be okay in other industries, but it can never be acceptable in the highly regarded world of auditors. The auditor is that professional in whom the public and investors place their hard-earned confidence.

This stems from a certain level of trust, integrity and belief that he or she will do the right thing. "Doing the right thing" isn't as difficult as some would have you believe. As human beings, we know when this has been achieved because of a certain feeling deep down, and a good night's sleep.

But we do not live in a perfect world. It is human to be distracted by social evils, power and self-interest, which can

change good people into arrogant and egotistical Machiavellis.

True leaders, including those in charge of our audit firms, have a responsibility to do what is best for all stakeholders — including employees, investors and those who rely on our professional services — to instil confidence.

I am reminded of two dilemmas referred to by Kaptein and Wempe. The first, the "dirty hands dilemma", refers to the assumption that to make profits, leaders may have to break the law. The second, the "entangled hands dilemma", refers to a situation in which the interests of the individuals to whom certain responsibilities have been delegated are at odds with the interests of the corporation.

Again, resolving these dilemmas should not be impossible: there's a reason why we have laws; and we should not have conflicting interests.

Conflicting interests blur our judgment, as we often don't even know we are conflicted. We become so entangled in relationships that we forget that the very *raison d'être* for the association is based on objectivity and independence.

The literature also reminds us of the dangers of "unconscious bias", another human trait. This is precisely why auditors must exercise professional scepticism — a behavioural competence requiring them to question information and not just accept what they are told.

So let me rephrase Kaptein and Wempe in appealing to those who have the power to steer corporations in the right direction: unethical behaviour will attract bad press, if a corporation inflicts damage on someone or something. Also, it will abolish a corporation's public image, disempower its stakeholders and extinguish profits.

In closing off the year, I wish to leave you with these thoughts. In 2017, we've learnt that hard-won reputations can quickly be lost; and the power of social media and pressure from activism can close down the likes of Bell Pottinger. We've learnt that not everything is as it seems and that taking things at face-value is no longer wise.

FROM THE CEO'S DESK cont.

We've learnt that auditing really matters and that doing a good job of holding entities to account matters even more. Consequently, the importance of applying professional scepticism in all that we do is absolutely non-negotiable.

Above all, we've learnt how important it is to be committed to doing the right thing. As such, I encourage all our registered auditors to make 2018 the year in which we all recommit to doing the right thing. Maybe then everyone will sleep well at night.

May auditing reclaim its respected position in 2018.

Have a blessed holiday; and if you are travelling, travel safely.



Bernard Peter Agulhas
Chief Executive Officer

STANDARDS

The following topics are discussed in this issue:

- Audit of Public Schools;
- Reports to Strate;
- Exposure Draft: *Proposed South African Auditing Practice Statement (SAAPS) 2 (Revised 2017), Financial Reporting Frameworks and the Auditor's Report*;
- Exposure Draft: *Proposed Revised Guide for Registered Auditors: Access to Working Papers*;
- Revision of the illustrative report to be used by reporting accountants when reporting on pro forma financial information as required by the JSE Limited (JSE) Listings Requirements;
- Exposure Draft: *Proposed South African Assurance Engagements Practice Statement (SAAEPS) 1, Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria*;
- Revision of the Guide for Registered Auditors: *Auditing in the Public Sector Vol 1*;
- IAASB projects in progress;
- IRBA Frequently Asked Questions on NOCLAR; and
- IESBA Survey on Level of Fees Charged by Audit Firms.

Audit of Public Schools

With issues around the financial reporting and audit of schools becoming a matter of growing public concern, the Standards Department met with the Department of Basic Education (DBE). At that meeting the DBE raised concerns regarding the audit of schools, particularly the perceived lack of consistency in scope and audit quality between the provinces, the lack of segregation of duties between the auditor and the bookkeeper, and the changing of audit opinions.

We would like to direct auditors to the following circulars on the DBE [website](#):

- Circular M1 of 2017 – Measures to Improve Management of School Finances, Preparation and Auditing of Financial Statements.
- Circular M2 of 2017 – Measures to Strengthen and Improve Personnel Administration of Educators in Order to Improve Findings Raised on Record Management.
- Circular M3 of 2017 – Measures to Strengthen Compliance to Section 42 and 43 of the South African Schools Act (SASA).
- Circular M4 of 2017 – Measures to Strengthen Compliance

with Section 30(1) of the Public Service Act and Section 43(3) of the South African Schools Act Relating to Disclosure of Interest.

- Circular M5 of 2017 – Clarity on Paragraph 1 of M1 of 2017 Relating to the Utilisation of the New South African Schools Act (SASA) No. 84 of 1996 (as amended by BELA Act 15 of 2011).

Reports to Strate

Agreed Upon Procedures and Assurance Reports on Controls at a Service Organisation performed by the registered auditor reporting in terms of the Strate Central Securities Depository (Strate) Rules and the Financial Markets Act (FMA)

In November 2017, the Controlling Body of Strate Supervision issued Circular 12P/2017, which replaces Circular 11P/2016.

Auditors are alerted to the fact that the Committee for Auditing Standards was not involved in updating or approving the circular for use by auditors. The report is available on the Strate [website](#).

Committee for Auditing Standards (CFAS)

Exposure Draft: Proposed South African Auditing Practice Statement (SAAPS) 2 (Revised 2017), Financial Reporting Frameworks and the Auditor's Report

The IRBA issued the *Proposed SAAPS 2 (Revised 2017), Financial Reporting Frameworks and the Auditor's Report* (the proposed SAAPS 2 (Revised 2017)), on 31 August 2017 for exposure for public comment. The 90-day exposure period closed on **30 November 2017**.

The proposed SAAPS 2 (Revised 2017) provides guidance to registered auditors on the application of ISAs in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements.

The CFAS is in the process of considering comments received. It is anticipated that the CFAS will approve the final SAAPS 2 (Revised 2017) in March 2018 and issue it in April 2018, with such approval and issue being noted at the subsequent meeting of the IRBA Board.

STANDARDS cont.

Exposure Draft: Proposed Revised Guide for Registered Auditors: Access to Working Papers

The CFAS approved the release of the *Proposed Revised Guide for Registered Auditors: Access to Working Papers* (this proposed Revised Guide) in November 2017, for exposure for public comment until **28 February 2018**.

This proposed Revised Guide deals with the circumstances in which registered auditors or firms are requested or required to grant access to working papers that support an auditor's opinion, conclusion and/or report on financial statements or other financial or non-financial information, where such engagements are governed by auditing pronouncements, as prescribed or issued by the IRBA and which include the Standards of the International Auditing and Assurance Standards Board (IAASB).

Guidance is provided in respect of access requested in the following circumstances:

- Access required by law;
- Access required in compliance with the International Standards on Auditing and the IRBA's Code of Professional Conduct for Registered Auditors;
- Access requested by SARS; and
- Access requested by third parties.

The guide is updated for:

- Changes to legislation;
- Relevant revisions of the International Standards on Auditing, International Standards on Assurance Engagements and the IRBA's Code of Professional Conduct for Registered Auditors; and
- Other matters:
 - o Added paragraphs relating to the confidentiality of client information; and
 - o Clarification that the Guide is also applicable to joint engagements (contractual agreement).

A copy of the exposure draft is available on the exposure drafts page of the IRBA [website](#). Should you have any other queries, please do not hesitate to contact the Standards Department by sending an email to standards@irba.co.za.

A warning statement has been included on the IRBA website and on the front page of the extant IRBA Guide alerting registered auditors that the extant Guide has not been amended to include current legislation.

CFAS Regulated Industries and Reports Standing Committee (RIRSC)

Revision of the illustrative report to be used by reporting accountants when reporting on pro forma financial information as required by the JSE Limited (JSE) Listings Requirements

The IRBA's Chief Executive Officer approved a project proposal for the revision of the illustrative report to be used by reporting accountants when reporting on pro forma financial information as required by paragraphs 8.16 to 8.33, 8.45(c), 8.46, 8.47, 8.48(b) and 8.51 of the JSE Listings Requirements – Independent reporting accountant's assurance report on the compilation of pro forma financial information included in a <prospectus/pre-listing statement/circular> (the Illustrative Independent Reporting Accountant's Assurance Report).

The IRBA issued the Illustrative Independent Reporting Accountant's Assurance Report that replaced Appendix A in the International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus* (ISAE 3420), in September 2012 to cater for the JSE Listings Requirements.

The Illustrative Independent Reporting Accountant's Assurance Report will be updated for:

- Amendments to ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and consequential amendments to ISAE 3420, effective for assurance reports dated on or after 15 December 2015.

The revised Illustrative Independent Reporting Accountant's Assurance Report is expected to be issued next year.

STANDARDS cont.

CFAS Sustainability Standing Committee (SSC)

Exposure Draft: Proposed South African Assurance Engagements Practice Statement (SAAEPS) 1, Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria

The CFAS approved the issuing of the Proposed South African Assurance Engagements Practice Statement (SAAEPS) 1, *Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria* (the proposed SAAEPS), in November 2017 for exposure for a period of 120 days.

The proposed SAAEPS provides practical assistance to practitioners on evaluating certain aspects of the rational purpose of the sustainability assurance engagement, the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information and the documentation thereof when requested to accept a sustainability assurance engagement in accordance with the requirements of the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Section 3 of the Explanatory Memorandum in the proposed SAAEPS contains the significant issues that were deliberated on by the CFAS, and these are as follows:

- Practical assistance on certain aspects of ISAE 3000 (Revised);
- Focus on certain aspects of the preconditions for a sustainability assurance engagement;
- Evaluation of the rational purpose;
- Underlying subject matter, subject matter information and criteria;
- Practical examples, questions to consider and a flowchart contained in the proposed SAAEPS; and
- Documentation.

The CFAS welcomes comments on all matters addressed in the proposed SAAEPS, especially those identified in the

Request for Specific Comments section (Section 4) of the Explanatory Memorandum.

Depending on comments received, the expectation is that the final SAAEPS may be approved and issued by the CFAS in June 2018, with such approval and issue being noted at the subsequent meeting of the IRBA Board.

It is expected that the proposed SAAEPS will be effective for the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement for periods beginning on or after 15 December 2018.

We invite registered auditors and other interested parties to submit any comments regarding the proposed SAAEPS to the IRBA by **8 March 2018**. Comments, in Word format, should be submitted by e-mail to standards@irba.co.za. All comments will be considered a matter of public record.

A copy of the exposure draft is available on the exposure drafts page on the [IRBA website](#). Should you have any other queries, please do not hesitate to contact the Standards Department by sending an email to standards@irba.co.za.

CFAS Public Sector Standing Committee (PSSC)

Revision of the Guide for Registered Auditors: Auditing in the Public Sector Vol 1

The process to update the *Guide for Registered Auditors: Auditing in the Public Sector Vol 1* (the Guide) is continuing. The Guide is being updated for:

- Changes made to the AGSA's audit methodology;
- Further guidance on how political governance structures in the public sector should be engaged with;
- Expanding/enhancing the sections dealing with legislation, guidance and key stakeholders/role players in the public sector;
- A new section on the role and powers of the Auditor-General;
- Changes to the financial reporting frameworks applicable to the public sector; and
- Changes to the International Standards of Supreme Audit Institutions (ISSAIs).

STANDARDS cont.

IAASB Projects in Progress

Below are the IAASB projects in progress:

- Accounting estimates (ISA 540).
- Quality control at engagement level (ISA 220).
- Quality control at firm level (ISQC 1).
- Engagement Quality Control Review (EQCR) (ISQC 2) – NEW STANDARD – more information is available [here](#).
- Group audits (ISA 600) – the IAASB’s Group Audits Task Force has issued an *ISA 600 Project Update, Enhancing Audit Quality Focusing on Group Audits* – more information is available [here](#).
- Professional scepticism.
- Auditor risk assessments (ISA 315 (Revised)).
- Agreed-upon procedures.
- Data analytics.
- Integrated reporting (emerging forms of external reporting).

More information on these projects is available on the IAASB [website](#).

ETHICS

Committee for Auditor Ethics (CFAE)

IRBA Frequently Asked Questions on NOCLAR

The CFAE has approved for issue the *IRBA Frequently Asked Questions on Non-Compliance with Laws and Regulations for Registered Auditors* (IRBA FAQs on NOCLAR).

The IRBA FAQs on NOCLAR addresses the link between NOCLAR obligations and other legislative reporting obligations applicable to auditors, such as reportable irregularities (RI) under Section 45 of the Auditing Profession Act. Registered auditors are reminded that an RI imposes a reporting obligation (to the IRBA), while NOCLAR is a response framework that includes a discussion with management as well as a consideration to disclose the matter to an appropriate authority.

NOCLAR amendments were effective as of 15 July 2017. (Refer to the IRBA communique and Board Notice regarding Final Amendments to the IRBA Code of Professional Conduct for Registered Auditors Responding to Non-Compliance with Laws and Regulations issued on 1 December 2016).

The IRBA FAQs on NOCLAR does not constitute an authoritative pronouncement from the IRBA, nor does it amend or override the IRBA Code of Professional Conduct, International Standards on Auditing, South African Auditing Practice Statements or South African Guides (collectively called pronouncements). Further, it is not meant to be exhaustive. Reading it is not a substitute for reading the abovementioned pronouncements, as they are the authoritative texts.

The IRBA FAQs on NOCLAR is available on the IRBA [website](#).

International Ethics Standards Board for Accountants (IESBA)

IESBA Seeks Your View on the Level of Fees Charged by Audit Firms

The IESBA is exploring a number of matters related to fees charged by firms, with a view to determine whether there is a need for further enhancements to the IESBA Code of Ethics for Professional Accountants or the commissioning of staff guidance.

As part of its fact finding, the IESBA has released a survey to seek views and information from stakeholders (investors and other users of financial statements, the corporate governance community, the regulatory and audit oversight community, preparers, firms, national standard setters, IFAC member bodies, academics and others). The responses will help inform the IESBA's consideration of the relevant matters.

The closing date for completion of the survey is **1 February 2018**.

The survey can be accessed on the IFAC [website](#).

IRBA Communications

Please advise Lebogang Manganye (lmanganye@irba.co.za) if you would like to receive IRBA communications, or if you are aware of a non-auditor who would like to receive these.



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INVESTIGATIONS

Notification of Changes Regarding Sanctions for Improper Conduct by Registered Auditors

Purpose

1. The purpose of this notification is to alert registered auditors (RAs) to the following:
 - The change in the current practice of implementing sanctions on an RA for improper conduct; and
 - Future changes regarding sanctions to be introduced after the necessary amendments to the Auditing Profession Act, 2005 (APA).

Introduction

2. The objectives of the IRBA are to create the framework and principles to contribute to the protection of the public who rely on the services of RAs, and to support RAs who carry out their duties competently, fearlessly and in good faith.
3. The IRBA regulates all RAs who provide professional services to both public interest and non-public interest entities.
4. The IRBA enforces compliance with the professional standards and the Code of Conduct through administering sanctions that act as a penalty for past transgressions; act as a deterrent to future improper conduct; and which will promote public confidence in the regulation of the audit profession and the way in which improper conduct is addressed.
5. Sanctions, as per the APA, include:
 - Section 51(3) – Penalties, being cautions, reprimands, fines, suspension of the right to practice for a specific period and the cancellation of an RA's registration.
 - Section 51(4) – Payment of costs incurred by the Investigating Committee and the Disciplinary Committee.
 - Section 51(5) – Publication of the finding and sanction imposed.

Background

6. In 2013, at the request of the Minister of Finance, the World Bank conducted and concluded its second Report on the Observance of Standards and Codes – Accounting and Auditing (ROSC A&A) for South Africa.
7. The ROSC A&A was conducted to assess progress in the

implementation of policy recommendations from the previous ROSC A&A; assess the institutional framework underpinning accounting and auditing practices in comparison with international standards and good practices to identify any emerging issues that require strengthening; share good practices adopted in the country; and propose policy recommendations addressing areas that require improvement.

8. One of the recommendations from the ROSC A&A was that although the audit quality reviews contribute to strengthening the quality of financial statements, “the disciplinary process and sanctioning requires independence, rigor and timely resolution”.
9. The ROSC A&A specific policy recommendations in relation to the above were:
 - The monetary penalty available under the law should be increased from its current level of R100 000 to at least R150 000 per charge; new levels should probably be aligned to those of the Financial Services Board (FSB); and
 - Names of auditors who are sanctioned through a “settlement order” should be published. This would serve as a deterrent and also increase the visibility of the IRBA. The public has an interest in knowing the names of the auditors who have been found guilty of misconduct, through consent or otherwise.
10. There have been negative media reports regarding the following aspects of the sanctions:
 - The low level of fines imposed;
 - The harshest sanctions available, as per the APA, are rarely used; and
 - When publishing, the auditors' identities and misconduct are almost never exposed to public scrutiny.
11. The IRBA has undertaken research into the sanctions applied by other regulators both nationally and internationally. As a result, it has concluded that two actions are necessary, and these are:
 - To make certain amendments to the APA to strengthen and improve the sanctions for improper conduct by an RA; and
 - To change the current practice of implementing sanctions for improper conduct by an RA. These are dealt with in more detail below.

INVESTIGATIONS cont.

Amendments to the APA

Section 48

12. In line with global audit regulator practice, the IRBA is of the view that it should primarily focus its investigations on complaints that involve RAs providing services to public interest entities [as per the definition of public interest entities in the IRBA Code of Professional Conduct in paragraphs 290.25, 290.26 and 290.26(a)]. Section 48 of the APA will, therefore, need to be amended to allow the Board, at its discretion, to consider alternative processes that will deal with certain non-audit and non-assurance matters that do not relate to public interest. Implementation details and the necessary general public education regarding this change will still be undertaken.

Section 51(3)(a)(ii)

13. In terms of Section 51(3)(a)(ii) of the APA, the fine may not exceed the amount calculated according to the Adjustment of Fines Act, and currently this is R200 000 per charge.
14. As mentioned above, it is believed that the quantum of this penalty is not sufficient to effectively act as a deterrent against improper conduct.
15. In this light, Section 51(3)(a)(ii) will need to be amended to remove the link to the Adjustment of Fines Act and rather allow the Board to determine the maximum fine to be imposed.

Changes to the current practice of implementing sanctions for improper conduct

Imposition of sanctions, Section 49(1)

16. The practice at the IRBA over the years has been to sanction the individual RA or the CEO of the firm in instances where systemic issues have been identified. The reason for this approach is that in terms of ISQC1 the CEO takes ultimate responsibility for quality in the firm. This is, however, no longer in line with practice by global audit regulators.
17. The definition of an RA includes both a firm and an individual. In terms of Section 49 of the APA, the Board must charge an RA for improper conduct, meaning that both a firm and/or an individual can be charged.

18. Going forward, in addition to sanctioning the individual RA guilty of improper conduct, a sanction will also be applied to the implicated firm, if the following criteria are present:
- There are systemic issues; and/or
 - There has been tacit approval of the noncompliance by firm management.

Caution or reprimand, Section 51(3)(a)(i)

19. In terms of the APA, the Board may caution or reprimand an RA when found guilty of improper conduct. The Board will, in future, utilise this sanction in conjunction with other sanctions, as permitted in terms of Section 51(3)(b).

Suspension of the right to practice, Section 51(3)(a)(iii)

20. In terms of the APA, the Board may suspend the RA's right to practice as an RA for a specific period. The Board will, in future, utilise this sanction where it has determined that a monetary penalty alone will not suffice, but removal from the register is not warranted.

Removal from the register, Section 51(3)(a)(iv)

21. In terms of the APA, the Board may cancel the registration of an RA and remove them from the register. Where this sanction is applied, in future it will include the pre-conditions that the RA needs to comply with, as well as the timeframe, prior to being eligible to apply for re-registration with the IRBA. Disciplinary Rule 12.2 allows for conditions to be included in a sanction.

Publication of the finding and sanction imposed, Section 51(5)

22. In terms of Section 51(5) of the APA, the Regulatory Board may, if it deems it appropriate, publish the finding and sanction imposed.
23. In terms of Disciplinary Rule 12.3, if a respondent is found guilty of a charge of improper conduct, an order of publication made may include:
- The name of the respondent; and/or
 - The name of the respondent's firm (if applicable); and/or
 - The charge against and the finding in respect of the respondent; and/or
 - Any other information that is considered appropriate to be published.

INVESTIGATIONS cont.

24. Matters are currently published in IRBA News either in general or in specific terms.
25. The ROSCA&A recommended that the names of auditors who are sanctioned should be published, as this serves as a deterrent. The public has an interest in knowing the names of the auditors who have been found guilty of misconduct, through consent or otherwise.
26. Going forward, the Board has determined that practice will be as follows:
 - Where a matter is finalised via a consent order and the RA is found guilty of unprofessional conduct in connection with a:
 - public interest entity, the publication will be in specific terms.
 - non-public interest entity, specific publication will be reserved for consent orders on repeat offenders; and on all other matters, publication will be general.
 - Where a matter is finalised at a disciplinary hearing, publication will be in specific terms.

Non-monetary sanctions, Section (4)(1)(b)

27. In line with global audit regulator practice and in terms of the APA requiring the Board to take steps it considers necessary to protect the public in their dealings with RAs, going forward, non-monetary sanctions will be imposed where relevant, in conjunction with other sanctions, such as:
 - Additional professional education or training;
 - Presentation on specified topics to other auditors and/or clients;
 - Re-issuance of an audit opinion at no additional cost to the client; and
 - Improved systems, controls and procedures implemented.
28. The RA will be given 60 days, from the date of the imposition of the sentence, to implement the non-monetary sanction; and within 90 days of the imposition of the sentence they will be required to provide the IRBA with written evidence of compliance in the form of a narrative supported by exhibits sufficient to demonstrate compliance. Failure to comply with the non-monetary sanction will result in a new charge of improper conduct being brought against the RA.

Postponement of a sanction

29. Disciplinary Rule 12.2 allows for a sanction to be suspended for a specific period. The Board has previously adopted a practice of postponing the payment of fines in instances where the RA is no longer on the register. The conditions attached to the postponement are that the fine is payable on the RA's re-registration with the IRBA.
30. The Board will, in future, impose a percentage of the fine to be payable immediately in all instances, including matters where the RA is no longer on the register. Furthermore, disciplinary hearings pertaining to RAs who are no longer on the register will proceed so as to reach finalisation on the matters.

Implementation dates

31. The amendments to the APA will be effective for transgressions reported from the date that the amended Act is enacted by the legislature.
32. The change to the current practice of implementing sanctions for improper conduct will be implemented with immediate effect to all transgressions already reported to the IRBA and to future matters reported.

Investigating Committee

The Investigating Committee met once during this period and referred 11 matters to the Disciplinary Advisory Committee with recommendations.

Disciplinary Advisory Committee

The Disciplinary Advisory Committee met twice during this period and concluded on nine matters.

Decisions not to charge

One matter in terms of Disciplinary Rule 3.5.1.4 – there are no reasonable prospects to succeed with a charge of improper conduct against the respondent.

INVESTIGATIONS cont.

Decisions to charge and matters finalised by consent order

Seven matters were finalised by consent order.

Matter 1

The respondent accepted an appointment as the auditor for five financial years to an entity with a unique legal structure and a legally complex operating model. The respondent failed to modify the audit reports for a number of reasons, including the misleading use of different terminology to describe the same contractual arrangement regarding the property; going concern disclosure requirements not met; uncertainty regarding proposed changes in accounting treatment; and presenting a change in accounting treatment as a change in policy and not a prior period error.

The respondent was sentenced to a fine of R100 000, of which R50 000 has been suspended for three years on condition that the respondent is not found guilty of any unprofessional conduct relating to work done during the period of suspension, costs of R25 000 and publication by the IRBA in general terms.

Matter 2

The respondent did not document sufficient appropriate audit evidence to support the audit opinion on an attorney's trust account. In addition, the respondent did not declare all assurance work to the IRBA in the annual declaration.

The respondent was sentenced to a fine of R100 000, of which R50 000 has been suspended for three years on condition that the respondent is not found guilty of any unprofessional conduct relating to work done during the period of suspension, no costs and publication by the IRBA in general terms.

Matter 3

The respondent did not perform sufficient audit procedures to support the audit opinions on three attorneys' trust accounts. In addition, the respondent did not modify two of the audit opinions for the non-compliance identified.

The respondent was sentenced to a fine of R100 000, of which

R50 000 has been suspended for three years on condition that the respondent is not found guilty of any unprofessional conduct relating to work done during the period of suspension, no costs and publication by the IRBA in general terms.

Matter 4

The respondent did not document sufficient appropriate audit evidence to support the audit opinion on an attorney's trust account. In addition, the respondent did not declare all assurance work to the IRBA in the annual declaration.

The respondent was sentenced to a fine of R100 000, of which R50 000 has been suspended for three years on condition that the respondent is not found guilty of any unprofessional conduct relating to work done during the period of suspension, no costs and publication by the IRBA in general terms.

Matter 5

The respondent falsely altered a client's VAT return that was submitted to the South African Revenue Service. In addition, the respondent entered into an agreement with the client which lacked integrity, as the terms of the agreement did not represent fair dealings.

The respondent was sentenced to a fine of R150 000, of which R50 000 has been suspended for three years on condition that the respondent is not found guilty of any unprofessional conduct relating to work done during the period of suspension, no costs and publication by the IRBA in general terms.

Matter 6

The respondent failed to detect deficiencies in the annual financial statements relating to misallocations, misstatements and inadequate disclosure. As a result, the audit opinion issued by the respondent was inappropriate.

The respondent was sentenced to a fine of R100 000, of which R20 000 has been suspended for three years on condition that the respondent is not found guilty of any unprofessional conduct relating to work done during the period of suspension, no costs and publication by the IRBA in general terms.

INVESTIGATIONS cont.

Matter 7

The respondent did not document sufficient appropriate audit evidence to support the audit opinion of a dormant attorney's trust account. In addition, the respondent did not modify the audit opinion for the non-compliance relating to the late submission of the report.

The respondent was sentenced to a fine of R60 000, of which R30 000 has been suspended for three years on condition that the respondent is not found guilty of any unprofessional conduct relating to work done during the period of suspension, no costs and publication by the IRBA in general terms.

Decision to charge and matter referred for a disciplinary hearing

One matter was referred to the Legal Department for a disciplinary hearing.



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LEGAL

Disciplinary Committee

The Committee sat once during the period, with another sitting scheduled for the 4th and 5th of December 2017. However, as this quarterly report was compiled before the December sitting, the second matter will only be reported in the next issue of *IRBA News*.

On 26 October 2017, the committee heard the matter of Mr P. The practitioner was charged with contravening Rules 2.12 and/or 2.13 of the Rules regarding Improper Conduct. The essence of the charge was that the practitioner had failed to answer or deal appropriately with certain correspondence from the Regulatory Board that reasonably required a reply, and he failed to comply, within a reasonable time, with a request from the Regulatory Board. The correspondence related to the Regulatory Board's investigation into a complaint lodged by a member of the public against the practitioner. Over a prolonged period during the investigation, the practitioner failed to respond to the merits of the complaint, despite several requests being granted, at the practitioner's request, for an extension to respond. In the absence of a response to the complaint, the matter had to be referred for a disciplinary hearing.

The practitioner was found guilty of contravening Rules 2.12

and 2.13 and was sanctioned as follows:

1. In terms of Section 51(3)(a)(iii) of the Auditing Profession Act 26 of 2005, the practitioner was suspended from the right to practice as a registered auditor for a period of three years, meaning he is not permitted to do audit or assurance work. This, in turn, was suspended for three years on condition that the practitioner is not subsequently found to be in contravention of Rules 2.12 and/or 2.13 of the Rules regarding Improper Conduct in relation to conduct and/or work performed during that period.
2. The practitioner was ordered to pay a fine of R50 000, of which R25 000 was suspended for three years on condition that he is not subsequently found to be in contravention of Rules 2.12 and/or 2.13 of the Rules regarding Improper Conduct in relation to conduct and/or work performed during that period.
3. He was ordered to pay the suspended portion of a previous fine with the Regulatory Board, and this amounted to R5 000.
4. He was ordered to contribute R15 000 towards the Regulatory Board's legal costs.

In respect of publication, the committee ordered the Regulatory Board to publish in *IRBA News* a summary of the charge, the facts, findings and sentence, without naming the practitioner or his firm.

Reportable Irregularities

Reportable Irregularities (RIs) for the quarter July-September 2017

(Note that RIs are reported on quarterly in arrears)

218 second reports were received, of which:

RIs were continuing	112
RIs were not continuing	104
RIs did not exist	2

Of the 112 continuing RIs received, the top six types of RIs most frequently reported, categorised by nature, were:

(Note that in many cases a second report received would identify more than one RI)

Unlawful Act or Omission	Reporting Frequency	Regulator(s) Informed
Tax and VAT-related contraventions (e.g. non-submission of tax returns, failure to register for tax, non-payment of PAYE, etc.).	26.5%	The South African Revenue Service (SARS).
Financial statements not prepared/not approved within the allotted timeframe.	22.1%	SARS, the Financial Services Board, the Companies and Intellectual Property Commission (CIPC), etc.

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Various Companies Act Contraventions, e.g. claims of reckless trading, breach of directors' fiduciary duties, irregular financial assistance to directors, inadequate accounting records kept, etc.	19.1%	CIPC.
Contraventions of the Estate Agency Affairs Act (e.g. trading without a valid firm fidelity fund certificate, shortfalls in trust bank accounts, etc.).	8.8%	The Estate Agency Affairs Board.
Non-registration for and non-payment of UIF and Skills Development Levies.	5.9%	The Department of Labour (UIF).
Contraventions of the Financial Intelligence Centre Act (e.g. no FIC-related training undertaken, suspicious transactions not reported to FIC, etc.).	2.9%	The Financial Intelligence Centre.
Other (e.g. contraventions of the PFMA and of PRECCA, the Nonprofit Organisations Act, the National Credit Act, the Compensation for Occupational Injuries and Diseases Act, etc.)	14.7%	The Directorate for Priority Crime Investigations (DPCI), National Treasury, the Department of Social Development, the National Credit Regulator, the Compensation Commissioner, etc.

The 2017 Gauteng Ethics and Anti-Corruption Indaba

An IRBA delegation recently attended the 2017 Gauteng Ethics and Anti-Corruption Indaba that was held at the Birchwood Hotel and OR Tambo Conference Centre in Boksburg. In his keynote address, Gauteng Premier David Makhura invited delegates to unreservedly share their thoughts and experiences regarding the challenges facing not only Gauteng but the country at large when it comes to combatting corruption.

He emphasised that the Gauteng Provincial Government shares civil society's concerns regarding the current levels of corruption and inequality that threaten the freedom of all South Africans to be able to prosper and thrive within an inclusive economy. Corruption, he said, is an enemy of economic transformation and the provincial government does not entertain any degree of complacency when it comes to proactively tackling the problem of corruption. In this regard, he referred to the province's open tender system as an example of its efforts to open up government processes for public scrutiny so as to achieve a culture of transparency.

Other speakers included academics, religious leaders and representatives from various civil society organisations. Professor Wendy Chapple from the UK-based Nottingham Business School shared information that her team obtained

from research conducted on factors that either act as enablers of or as barriers to the creation of successful governance systems throughout the world. These factors include the degree to which market forces are aligned with national and international laws and the extent to which a country is able to enforce such applicable laws and regulations.

Christian Ougaard, Senior Legal Advisor at the Parliamentary Ombudsman in Denmark, shared some insights on the path Denmark followed to ultimately achieve the accolade of being the least corrupt country in the world. Denmark shares this distinction with New Zealand in the Transparency International's Corruption Perceptions Index 2016. A critical factor that has put Denmark at the top of the rankings has been its ability to instil a culture of ethics among its citizens, with the public showing zero tolerance for any form of corruption or lawlessness.

The delegates then discussed various topics in five separate breakaway commissions. These ranged from discussions about the degree to which the private sector should be held liable for corruption to ways in which to raise the standards of integrity within society, with the aim of promoting inclusive economic growth. The IRBA delegation attended the commission on the various threats that regulators, law enforcement agencies, competition authorities and supreme audit institutions are currently facing in terms of their ability to

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act independently and without political interference.

The Premier then also used the Indaba to formally announce the launch of the civil society-led Gauteng Ethics and Anti-Corruption Advisory Council, an independent watchdog to oversee the affairs of Gauteng's provincial administration and its various municipalities. The council members are:

- Dr Terence Nombembe from SAICA;
- Advocate Fariyal Mukaddam from 4 Africa Exchange;
- David Lewis from Corruption Watch;
- Prof Deon Rossouw from the Ethics Institute;
- Nonkululeko Gobodo from Nkululeko Leadership;
- Father Smangaliso Mkhathshwa from the Moral Regeneration Movement;
- Puseletso Madumise from the South African Non-Governmental Organisation Coalition;
- Dennis George from FEDUSA; and
- Lerata Joel Motsiri from POPCRU.

The important role that the council will play, according to the Premier, will be to help ensure that Gauteng is never allowed to be captured by any private interest group. He said the council represents the mobilisation of civil society for the promotion of values upon which a corruption-free society must be built.

More information on the programme followed and on the presentations made during the Indaba is available on the provincial [website](#).

Holding Outs

Practitioners should ensure that they (and their staff) use only designations and descriptions to which they are entitled. The Investigating Committee recently considered a matter regarding a manager, not registered with the IRBA, who was describing herself in her email signature as "Junior Partner". Though she had been engaged with partnership in mind, she was not a partner yet.

The IRBA issued a circular, Guidance for Registered Auditors – Signing Authority, Naming Conventions and Stationery, that deals with this issue and sets out what descriptions may be used. Registered auditors are urged to read it again.

This circular is also in the *IRBA Manual of Information 2014/2015* and can be found on the IRBA [website](#).



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REGISTRY

INDIVIDUALS ADMITTED TO THE REGISTER OF THE IRBA FROM 2 OCTOBER 2017-27 NOVEMBER 2017

Motholo, Vincent Mohau	Vere, Nancy	Mtema, Bongani Tinashe Sonani
Van Der Merwe, Joseph Cornelius	Nxasana, Nselelo Lindani	Robertson, Garry
Mahasha, Presly Thabo	Conway, Rebekah Sharon	Van Der Walt, Marius
Mabaso, Nelisile Agnes	Ndimande, Chawulani Papa	Moralo, Ofentse
Clegg, Deighton Andrew	Saloojee, Bilal	Mbali, Mkululi
Opie, Jennifer Anne	Khoza, Busisiwe Ziningi	James, Sitembele

INDIVIDUAL RE-ADMITTED TO THE REGISTER OF THE IRBA FROM 2 OCTOBER 2017-27 NOVEMBER 2017

Roos, Hendrik Lukas

INDIVIDUALS REMOVED FROM THE REGISTER OF THE IRBA FROM 2 OCTOBER 2017-27 NOVEMBER 2017

Thomas, Shelley	Resigned	Hurwitz, Nadine Simone	Resigned
Wootton, Annerie	Emigrated	Nel, Stephanus Johannes	Resigned
Bestbier, Petrus Johannes	Resigned	Els, Frans Sarel Jacobus	Resigned
Kujenga, Cheryl-Jane	Resigned	Venter, Suzette	Emigrated
Kalmin, David	Deceased	Quayle, Leo Jonathan	Resigned
Hattingh, Phillipus Andrias	Emigrated	Haarhoff, Willem	Resigned
Defries, Louis Edward	Resigned	Huppert, Richard Nicholas Curtis	Resigned

COMMUNICATIONS

In the interest of improved communication with registered auditors and other stakeholders, a list of communiques sent by bulk e-mail during the reporting period for this issue is set out

below. These communiques may be downloaded from the IRBA website at www.irba.co.za under the News section.

01 December 2017	Monitoring Group Consultation Paper: Call for comments on reforms to the global audit standard-setting process
30 November 2017	Proposed Revised Guide for Registered Auditors: Access to Working Papers
30 November 2017	South African Reserve Bank Issues Directive D5/2017 – Reporting Responsibilities for Auditors of Banks
29 November 2017	Exposure Draft: Proposed SAAEPS 1, Sustainability Assurance Engagement Concepts – Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria
13 November 2017	Amendments to the Disciplinary Rules
10 November 2017	JSE Accreditation of Auditors – New Listings Requirements
02 November 2017	Call for the Nomination of RA Member to Serve on the Committee for Auditor Ethics
17 October 2017	IRBA Frequently Asked Questions on NOCLAR

GENERAL NEWS

Happy Holidays

The CEO and staff of the IRBA wish you and your family a blessed, safe and happy holiday season.

The IRBA offices will close on Friday, 22 December 2017, and reopen on Monday, 8 January 2018.