

**Proposed Revised Guide**  
**November 2018**  
**Comments requested by 7 March 2019**



*Proposed Revised Guide for Registered Auditors*

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**Assurance Engagements on Financial Service Providers'  
Separate Accounts (Section 19(3)) and Reporting  
Requirements (Section 19(4)) of the Financial Advisory  
and Intermediary Services Act**

***WARNING TO READERS***

***The content of this proposed Revised Guide should under  
no circumstances be used or relied upon until it is issued  
as a pronouncement by the IRBA.***

## REQUEST FOR COMMENTS

The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS) approved this proposed *Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements (Section 19(4)) of the Financial Advisory and Intermediary Services Act* (this proposed Revised Guide) in November 2018 for exposure for a period of 90 days for comment. Before being issued in its final form, this proposed Revised Guide may be modified in light of comments received.

This proposed Revised Guide has been updated by a CFAS Task Group (Task Group) that comprised technical staff representatives from auditing firms, the South African Institute of Chartered Accountants (SAICA), the Financial Sector Conduct Authority (the Authority) and the IRBA.

This proposed Revised Guide may be downloaded free of charge from the IRBA website at: <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/exposure-drafts-and-comment-letters>.

Respondents are requested to submit their comments electronically in Word and PDF formats to [standards@irba.co.za](mailto:standards@irba.co.za). All comments will be considered a matter of public record and will be posted on the IRBA website ([www.irba.co.za](http://www.irba.co.za)).

Comments should be submitted by **7 March 2019**.

Should you have any queries, or experience any technical difficulties in downloading the documents, please e-mail the Standards Department at [standards@irba.co.za](mailto:standards@irba.co.za).

The mission of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.

In line with the IRBA's legislative mandate, the IRBA's objectives are to create the framework and principles to contribute to the protection of the public who rely on the services of registered auditors, and to support registered auditors who carry out their duties competently, fearlessly and in good faith. The goal is to help create an ethical, value-driven financial sector that encourages investment and confidence, and also promotes sound practices by *developing and maintaining auditing standards which are internationally comparable*. The statutory responsibility of the CFAS is to assist the IRBA to:

- Develop, maintain, adopt, issue or prescribe auditing pronouncements;
- Consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and
- Promote and ensure the relevance of auditing pronouncements.

Proposed Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements ((Section 19(4)) of the Financial Advisory and Intermediary Services Act

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## **EXPLANATORY MEMORANDUM**

### **Introduction**

This memorandum provides background to and an explanation of this proposed *Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements (Section 19(4)) of the Financial Advisory and Intermediary Services Act* (this proposed Revised Guide).

The Committee for Auditing Standards (CFAS) approved this proposed Revised Guide for exposure in November 2018 for a period of 90 days.

### **Background**

This proposed Revised Guide provides guidance to registered auditors (auditors) on various matters relating to the audit, limited assurance engagement and other reporting obligations for authorised financial services providers (Providers) in compliance with the requirements of the Financial Advisory and Intermediary Services Act, 2002, Act No. 37 of 2002 as amended (the Act), and its subordinate legislation.<sup>1</sup>

The purpose of this proposed Revised Guide is to provide assistance to auditors of Providers with respect to the auditor's responsibilities:

- (a) To report to the Provider in terms of Section 19(3) of the Act;
- (b) To report to the Financial Sector Conduct Authority (Authority) in terms of Section 19(4) of the Act; and
- (c) Relating to his/her other reporting obligations.

This proposed Revised Guide has been updated for the following:

- (a) Clarifying that the limited assurance engagement (Section 19(3)) is conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*;
- (b) Changes to legislation and the IRBA *Code of Professional Conduct for Registered Auditors (Revised November 2018)*;
- (c) Assurance related guidance in this regard; and
- (d) The auditor's other reporting responsibilities.

### **The extant Guide**

The extant Guide remains effective until it is formally withdrawn and replaced by this proposed Revised Guide. Auditors are reminded that the extant Guide has not been amended to include recent/new legislation since it was issued.

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<sup>1</sup> Subordinate legislation includes applicable notices issued by the Financial Sector Conduct Authority (Authority) from time to time.

### **Project timetable and effective date**

Subject to comments received on exposure of this proposed Revised Guide, the CFAS intends to finalise this proposed Revised Guide in the second quarter of 2019. This proposed Revised Guide will be effective for engagements commencing on or after 1 July 2019.

### **Guide for respondents**

The CFAS welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with the proposals in this exposure draft, it will be helpful for the CFAS to be made aware of this view.

### **Request for specific comments**

Respondents are requested to comment on the following:

1. Are there any aspects of this proposed Revised Guide with which respondents disagree? Please provide details and suggestions for correction and/or improvements.
2. Are there aspects of this proposed Revised Guide that are unclear and require further guidance? If so, please list those aspects and the guidance required.
3. Are there further aspects that should be included in this proposed Revised Guide? If so, please list those aspects and the guidance required.

**EXPOSURE DRAFT**

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This proposed *Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements (Section 19(4)) of the Financial Advisory and Intermediary Services Act* (this proposed Revised Guide) provides guidance to registered auditors (auditors) on various matters relating to the audit, limited assurance engagement and other reporting obligations for authorised financial services providers (Providers) in accordance with the requirements of the Financial Advisory and Intermediary Services Act, 2002, Act No. 37 of 2002 as amended (the Act), and its subordinate legislation.

Guides are developed and issued by the IRBA to provide guidance to auditors in meeting specific legislative requirements imposed by a regulator. Guides do not impose requirements on auditors beyond those included in the international or South African Standard/s or South African regulatory requirements; and they do not change an auditor's responsibility to comply, in all material respects, with the requirements of the international or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance services or related services engagements.

An auditor is required to have an understanding of the entire text of every Guide to enable the auditor to assess whether or not any particular Guide is relevant to an engagement; and if so, to enable the auditor to apply properly the requirements of the particular international or South African Standard(s) to which the Guide relates.

In terms of Section 1 of the Auditing Profession Act, 2005, Act No. 26 of 2005 (the APA), a Guide is included in the definition of "auditing pronouncements" in the APA; and in terms of the APA, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.



## Introduction

1. In terms of the Financial Advisory and Intermediary Services Act 2002, Act No. 37 of 2002 as amended (the Act), registered auditors (auditors) of authorised financial services providers (Providers) are required to:
  - (a) Perform an audit of the financial statements of the Provider (Section 19(2)).
  - (b) Issue a report to the Provider confirming, in the form and manner determined by the Financial Sector Conduct Authority (the Authority) (in terms of Board Notice 85 of 2008 the auditor is required to express a limited assurance conclusion on the Provider's separate accounts, designated "for client funds") (Section 19(3)):
    - (i) The amount of money and/or assets, which includes financial products (hereafter referred to as money and/or assets) held on behalf of clients by the Provider at year-end;
    - (ii) That such money and/or assets were, throughout the financial year, kept separate from those of the business of the Provider; and report any instance of non-compliance identified in the course of the engagement and the extent thereof; and
    - (iii) Any other information required by the Authority (in terms of Board Notice 85 of 2008 this requirement is addressed in the form of Schedule A<sup>2</sup> and Schedule B<sup>3</sup> that are attached to the report to be submitted to the Authority).
  - (c) Report any irregularities or suspected irregularities identified in the course of the audit and the limited assurance engagement to the Authority (Section 19(4)).
  - (d) In the event of the auditor's services being terminated by the Provider, submit a statement to the Authority setting out what the auditor believes to be the reasons for the termination of the auditor's appointment (Section 19(5)).
2. The auditor should conduct the audit of the Provider's financial statements in terms of the auditing pronouncements as issued or prescribed by the Independent Regulatory Board for Auditors (IRBA), which include the Standards of the International Auditing and Assurance Standards Board (IAASB).
3. This proposed Revised Guide has been prepared to provide guidance to auditors on matters relating only to:
  - (a) The limited assurance engagement in respect of money and/or assets held on behalf of clients or held in the name of the Provider, as described in Section 10 of the *General Code of Conduct for Authorised Financial Services Providers and Representatives* (General Code of Conduct), and to report thereon to the Authority (Section 19(3)); and
  - (b) The reporting of any irregularities or suspected irregularities identified in the course

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<sup>2</sup> Schedule A sets out money and assets held on behalf of clients by the Provider at year-end.

<sup>3</sup> Schedule B sets out the work to be performed in respect of the Provider's key controls and procedures to meet the objectives of Section 19(3) of the Act and Section 10 of the General Code of Conduct.

of the audit and the limited assurance engagement to the Authority (Section 19(4)) in accordance with the requirements of the Act and its subordinate legislation.<sup>4</sup>

4. The auditor of a Provider, in conducting the limited assurance engagement, would apply the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000 (Revised)). Accordingly, this proposed Revised Guide has been developed to clarify the auditor's responsibilities when performing such an engagement, and to provide guidance regarding additional factors that the auditor may consider when planning and conducting the limited assurance engagement and reporting on the separate accounts controlled by the Provider.
5. It is important to note that this proposed Revised Guide does not impose any responsibilities on the auditor of a Provider beyond those which are imposed by ISAE 3000 (Revised) and the requirements of the Act and its subordinate legislation. This proposed Revised Guide does not relieve auditors who perform assurance engagements of Providers of their responsibility to have a working knowledge of ISAE 3000 (Revised), the Act and its subordinate legislation, in so far as it may affect the Provider, and the responsibility to comply with those requirements of the Act and its subordinate legislation affecting the auditor.
6. An auditor of a Provider that is a public interest entity (PIE), as defined in the *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)* (IRBA Code), will be subject to more onerous independence requirements. In terms of paragraph R400.8a SA of the IRBA Code, a Provider with assets under management in excess of R50 billion is presumed to generally satisfy the condition of having a large number and wide range of stakeholders and thus is likely to be considered a PIE.
7. Furthermore, the mandatory rotation of the audit firm, as required in terms of the Rule on Mandatory Audit Firm Rotation published by the IRBA, would need to be adhered to.<sup>5</sup>

## Scope

8. The purpose of this proposed Revised Guide is to provide assistance to auditors of Providers with respect to the auditor's responsibilities:
  - (a) To report to the Provider in terms of Section 19(3) of the Act;
  - (b) To report to the Authority in terms of Section 19(4) of the Act; and
  - (c) Relating to his/her other reporting obligations.
9. In terms of Section 45 of the Act certain intermediaries providing financial services are exempt from the application of the Act, and by implication from the guidance provided in this proposed Revised Guide in respect of Sections 19(3) and 19(4) of the Act, as their activities and responsibilities are governed by other statutes. These individuals and/or entities are:
  - (a) Any "authorised user", "clearing member", "licensed clearing house", "licensed

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<sup>4</sup> Subordinate legislation includes applicable notices issued by the Authority from time to time.

<sup>5</sup> Refer to the [IRBA website](#) for further information in this regard.

- central securities depository”, “licensed exchange” or “participant”, as defined in Section 1 of the Financial Markets Act, 2012, Act No. 19 of 2012, that is authorised by that Act to render those financial services;
- (b) A manager, as defined in Section 1 of the Collective Investment Schemes Control Act, 2002, Act No. 45 of 2002;
  - (c) A person performing the functions referred to in Section 13B of the Pension Funds Act, 1956, Act No. 24 of 1956, if such person complies with the requirements and conditions contemplated in that section;
  - (d) A person carrying on the business referred to in Section 58 of the Medical Schemes Act, 1998, Act No. 131 of 1998, if such person complies with the requirements contemplated in that section to the extent that the rendering of financial services is regulated by or under those Acts, respectively;
  - (e) The executor, administrator or trustee of any deceased or insolvent estate, or a person acting on behalf of such executor, administrator or trustee;
  - (f) The curator of a person under curatorship, or a person acting on behalf of such curator;
  - (g) The liquidator of a company in liquidation, business rescue practitioner of a company subject to business rescue proceedings, or a person acting on behalf of such liquidator or business rescue practitioner;
  - (h) The trustee of an inter vivos trust, as defined in Section 1 of the Trust Property Control Act, 1988, Act No. 57 of 1988, not being a business trust created for the purpose of profit-making that is achieved through the combination of capital contributed by the beneficiaries of the trust and through the administration or management of the capital by trustees on behalf of and for the benefit of the beneficiaries, or a person acting on behalf of such first-mentioned trustee;
  - (i) The parent, tutor or guardian of a minor, or a person acting on behalf of such parent, tutor or guardian, unless the financial services are rendered as a regular feature of any such person's business; or
  - (j) Any other trustee or custodian appointed under any law to the extent that the rendering of such services is regulated by or under such law.
10. However, if the individuals and/or entities listed above have been granted a Financial Advisory and Intermediary Services (FAIS) licence, they would have to comply with all the requirements of the Act, including compliance with the requirements of Section 19 of the Act.

### **Effective Date**

11. This proposed Revised Guide is effective for engagements commencing on or after 1 July 2019. Early adoption is encouraged.

## Definitions

12. For purposes of this proposed Revised Guide, the following terms have the meanings attributed below:
- (a) Authorised financial services provider<sup>6</sup>: A person who has been granted an authorisation as a financial services provider by the issue to that person of a licence under Section 8 of the Act, and referred to as the “Provider”.
  - (b) Auditing pronouncements<sup>7</sup>: Those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board which a registered auditor must comply with in the performance of an audit.
  - (c) Financial services provider<sup>8</sup>: Any person, other than a representative who, as a regular feature of the business of such person: (a) furnishes advice; or (b) furnishes advice and renders any intermediary service; or (c) renders an intermediary service.
  - (d) Financial statements<sup>9</sup>: A structured representation of historical financial information, including disclosures, intended to communicate an entity’s economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.
  - (e) Limited assurance engagement<sup>10</sup>: An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgement, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.

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<sup>6</sup> As defined in the Act.

<sup>7</sup> As defined in the Auditing Profession Act, 2005, No. 26 of 2005 (the APA).

<sup>8</sup> As defined in the Act.

<sup>9</sup> *Financial Statements* is defined in the *Glossary of Terms in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements 2016-2017 Edition Volume Part I* (as updated) (the Glossary).

<sup>10</sup> As defined in ISAE 3000 (Revised).

- (f) IRBA Code: *The IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)*.
- (g) Limited assurance report: The assurance report contemplated in ISAE 3000 (Revised), which is prepared and signed off by a registered auditor and provides a limited assurance conclusion.
- (h) Professional judgement: The application of relevant training, knowledge and experience within the context provided by assurance, financial reporting and ethical standards in making informed decisions about the courses of action that are appropriate in the circumstances of an assurance engagement on a Provider's separate accounts.
- (i) Professional scepticism: An attitude that includes a questioning mind, being alert to conditions, which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
- (j) Prudential Authority: This has the meaning as defined in the Financial Sector Regulation Act, 2017, No. 9 of 2017.
- (k) Registered auditor: A registered auditor as defined in the Auditing Profession Act, 26 of 2005, referred to as the "auditor".

## Regulatory Requirements for Providers

### Section 19(2)

13. Section 19 of the Act requires a Provider to maintain full and proper accounting records on a continual basis; and these records must be brought up to date monthly. A Provider must prepare financial statements annually in a manner appropriate to the business of the Provider, in accordance with an acceptable financial reporting framework.<sup>11,12</sup> These financial statements must reflect the financial position of the business as at the last day of its financial year; and the Provider must have the financial statements audited and reported on by the auditor. Note that the auditor's report referred to here is known as a Section 19(2)(a) report.
14. The Provider must submit the financial statements to the Authority within four months<sup>13</sup> after the year-end. Note that non-submission of financial statements is seen in a serious light and may attract penalties and other remedial actions from the Authority.<sup>14</sup>
15. Application for an extension to submit financial statements can be submitted to the Authority in terms of Section 279 of the Financial Sector Regulation Act 2017, Act No. 9 of 2017 (the FSR Act).

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<sup>11</sup> Refer to the South African Practice Statement (SAAPS) 2 (Revised 2018), *Financial Reporting Frameworks and Audit Opinions* (SAAPS 2 (Revised)), for further guidance.

<sup>12</sup> Section 19(1)(iii) of the Act makes reference to the South African Generally Accepted Accounting Practices (SA GAAP) and the International Financial Reporting Standards (IFRS) as acceptable reporting frameworks. However, auditors should note that SA GAAP was withdrawn for financial years commencing on or after 1 December 2012.

<sup>13</sup> Refer to Section 19(2)(b)(iii) of the Act.

<sup>14</sup> Refer to Section 36(1)(a) of the Act.

16. The Provider is to fix a date on which, in each year, its financial year will end.

### **Section 19(3)**

17. Section 19(3) of the Act requires Providers who hold money and/or assets on behalf of their clients to maintain full and proper accounting records on a continual basis in respect of such monies and/or assets and to have the monies and/or assets held on behalf of clients audited by an auditor.
18. The limited assurance report, widely known as the Section 19(3) report, must be submitted by the Provider together with the audited financial statements of the Provider to the Authority within four months after the year-end of the Provider.
19. The purpose of the Section 19(3) report is to confirm the amount of monies and/or assets held on behalf of clients by a Provider and that such monies and/or assets were kept separate from the Provider's business funds. The report is also for the auditor to express a limited assurance conclusion and to report on any instances of non-compliance with the requirements of the Act, based on the work performed.

### **Appointment of an Auditor**

20. All Providers receiving client funds or holding monies and/or assets on behalf of clients are required to appoint an auditor.<sup>15</sup> The Provider appoints an auditor to audit the financial statements (this is the case even where the entity does not require an audit in terms of its founding document, as Section 19(2)(a) of the Act requires that the financial statements be audited and reported on) and to undertake a limited assurance engagement on the compliance of the Provider's separate accounts with Section 19(3) of the Act.
21. Auditors of Providers must be approved by the Authority to act as such, in terms of Section 19(2)(a) of the Act. Upon application to seek approval to act as an auditor of a Provider, the Authority requires the auditor to confirm the following:<sup>16</sup>
  - (a) Details of the audit firm and the office that will be responsible for the audit, if the audit firm has more than one location of operation;
  - (b) Details of the auditor responsible for the audit;
  - (c) Whether the audit firm/auditor is independent from the Provider, or the group of which it is a part of; and whether the audit firm/auditor is able to maintain an objective frame of mind in accomplishing their responsibilities;
  - (d) Whether the audit firm/auditor ensures that the audit approach is kept up-to-date with regard to developments in the auditing profession and within the financial services industry;
  - (e) Whether the auditor has sufficient and relevant knowledge of the industry for the

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<sup>15</sup> Form FSP 9, External Auditor – Refer to Board Notice 98 of 2003, Application by Financial Services for Authorisation by the Financial Services Board (Gazette No. 25523 of 3 October 2003).

<sup>16</sup> Form FSP 9, External Auditor – Refer to Board Notice 98 of 2003, Application by Financial Services for Authorisation by the Financial Services Board (Gazette No. 25523 of 3 October 2003).

- engagement;
- (f) Whether the auditor responsible for the audit is registered with the IRBA, as required by the Auditing Profession Act, 26 of 2005 (APA);
  - (g) Whether the audit firm has access to a library with up-to-date sources of relevant statements, standards, legislation, regulation, literature, trends and developments within the financial services industry; and
  - (h) The date of appointment of the audit firm/auditor.
22. The Authority also considers the audit firm/auditor's reputation during/from prior dealings with the Authority.

### **Conducting the Limited Assurance Engagement and Reporting to the Authority as Required by Section 19(3)**

23. Section 15 of the Act provides for the publication of a General Code of Conduct for Authorised Financial Services Providers and Representatives. Section 10 of the General Code of Conduct, relating to the "custody of financial products and funds", details the records that a Provider who receives or holds money and/or assets of, or on behalf of, clients is required to maintain and account for such monies and/or assets properly and promptly.
24. The Provider must maintain full and proper accounting records on a continual basis, brought up to date monthly in respect of the money and/or assets held for, or on behalf of, clients (hereafter referred to as "separate accounts"). A Provider who receives or holds such monies and/or assets on behalf of clients is required to open and maintain a separate bank account/s, in the name of the Provider, designated "for client funds".
25. While the separate accounts do not form part of the assets of the Provider, and as such are not disclosed on the Statement of Financial Position of the Provider, these records are to be maintained separately, disclosed in the financial statements of the Provider and are to be subject to a limited assurance engagement in terms of Section 19(3) of the Act.
26. The auditor appointed to audit the financial statements is engaged separately to provide a limited assurance engagement in terms of ISAE 3000 (Revised) to enable the auditor to issue the Section 19(3) limited assurance report.
27. The auditor assesses the risks of material misstatement and considers the risk of fraud and non-compliance with the requirements of Section 19(3) of the Act and Section 10 of the General Code of Conduct during the performance of the limited assurance engagement. The auditor also relies on audit evidence obtained during the course of the financial statement audit in order to express a conclusion and report on the compliance of the Provider with the requirements of Section 19(3) of the Act.
28. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures performed by the auditor would be based on his/her professional judgement and include (but are not limited to) inquiries, the observation of

processes followed, the inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

29. Gaining a sufficient understanding of the Providers' separate accounts will enable the auditor to identify areas where a material misstatement is likely to arise, thereby providing a basis for designing and performing procedures to address these areas in obtaining limited assurance to support the auditor's conclusion.<sup>17</sup> In obtaining an understanding of the Providers' separate accounts the auditor shall consider the process to prepare the separate accounts information.<sup>18</sup> Substantive procedures are applied in gathering evidence in respect of all material separate account balances and material transactions affecting the separate accounts during the financial period.
30. Audit evidence obtained during the course of the financial statement audit, and which supports the auditor's limited assurance report in terms of Section 19(3) of the Act, may be used for the purpose of this engagement, provided that the audit evidence obtained is relevant to the limited assurance engagement performed on the separate account balances and transactions.
31. In terms of Section 17(1) of the Act, a Provider with more than one key individual or one or more representatives must appoint a compliance officer(s) to oversee the Provider's compliance function, to monitor compliance with the Act and submit reports to the Authority in this regard. The auditor considers obtaining the compliance officer's reports from the Authority, and also considers the impact of any instances of non-compliance with the requirements of Section 19(3) of the Act, Section 10 of the General Code of Conduct, Section 45 of the APA and Section 360 of the IRBA Code.

### ***Ethical Requirements and Quality Control***<sup>19</sup>

32. The auditor is required to comply with the requirements of the IRBA Code, which is consistent with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (Parts 1, 3, 4A and 4B). The auditor should be especially aware of the requirements for independence (Section 4B) and professional competence and due care (Section 113) in the context of engagements on the Provider's separate accounts.
33. Threats to independence could also arise from long association and/or close relationships between the auditor and the client. The IRBA provides rules in this regard, and an example is Mandatory Audit Firm Rotation.<sup>20</sup>
34. The auditor is required to implement quality control procedures that are applicable to this engagement, in accordance with the International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*. These include ensuring that:
  - (a) The engagement partner and the assigned engagement team have the required

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<sup>17</sup> Paragraphs 48L and A108 – A112 of ISAE 3000 (Revised).

<sup>18</sup> Paragraphs 47L and A106 of ISAE 3000 (Revised).

<sup>19</sup> Paragraphs 20, 31-32, A30-A34 and A60-A68 of ISAE 3000 (Revised).

<sup>20</sup> Refer to the [IRBA website](#) for further information in this regard.



- competence and capabilities to perform the engagement;
- (b) The engagement partner will be sufficiently involved so as to be able to accept responsibility for the conclusion on the Provider's separate accounts;
  - (c) The engagement partner takes full responsibility for overall quality on the engagement, considers all possible ethical breaches by members of the engagement team and considers the latest results of the firm's monitoring process that are possibly relevant to the engagement; and
  - (d) An engagement quality control review is performed in appropriate circumstances.

### ***Acceptance and Continuance***<sup>21,22</sup>

35. The engagement partner performs suitable procedures to determine whether the client relationship and the limited assurance engagement can be accepted or continued with. A limited assurance engagement on the Provider's separate accounts can only be accepted or continued with when:
- (a) Ethical requirements, including independence, can be met;
  - (b) The engagement team collectively has the appropriate competence and capabilities; and
  - (c) The terms of the engagement are agreed upon and the preconditions for the engagement have been met, including suitable roles and responsibilities of all parties and the availability of evidence needed to support the auditor's conclusion.
36. If the preconditions are not met and further discussions with the potential client do not resolve the issues, the auditor cannot accept the engagement. Likewise, if new information comes to light that would have caused the auditor to decline the engagement had that information been available earlier, the auditor will communicate this to the client and take appropriate action.

### ***Agreeing to the Terms of the Engagement***<sup>23</sup>

37. The auditor may obtain a separate engagement letter from the Provider or include the additional regulatory requirements in the engagement letter for the financial statements audit. (An illustrative engagement letter is set out in Appendix A).

### ***Emphasis on Professional Competencies***<sup>24</sup>

38. The professional competencies of an auditor who accepts an engagement to report on the Provider's compliance with Section 19(3) of the Act, and the professional competencies of the auditor's staff assigned to the engagement, include knowledge of the Act and subordinate legislation to sufficiently enable the auditor to conduct the

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<sup>21</sup> Paragraphs 21-25 and A30-A56 of ISAE 3000 (Revised).

<sup>22</sup> Refer also to paragraph 21 of this proposed Revised Guide.

<sup>23</sup> Paragraphs 27-28 and A57-A58 of ISAE 3000 (Revised).

<sup>24</sup> Paragraph 39 of ISAE 3000 (Revised).

engagement, including an ability to evaluate whether there has been compliance with the Act and subordinate legislation and an understanding of the risks of fraud and theft, relative to a Provider's separate accounts. If the auditor does not have the professional competencies, the auditor should not accept the engagement.

### ***Emphasis on Professional Scepticism and Professional Judgement***<sup>25</sup>

39. The auditor exercises professional scepticism throughout the engagement, with emphasis on:
  - (a) Assessing the risks of fraud and theft;
  - (b) Determining whether there is any suspicion of misappropriation arising from fraud and theft; and
  - (c) Performing procedures in response to such suspicion.
40. The auditor exercises professional judgement in conducting the engagement. The auditor uses professional judgement to determine the extent of the understanding of the entity and the nature, timing and extent of procedures to identify and assess risks of misstatement in order to provide a limited level of assurance.
41. The auditor uses professional judgement and applies professional scepticism in deciding when it is necessary to corroborate responses to inquiries with other information. When responses to inquiries are inconsistent, the auditor seeks to resolve the inconsistencies.

### ***Considerations Applicable to Fraud and Theft***

42. The auditor recognises the possibility that misappropriation due to fraud or theft may exist, notwithstanding the auditor's past experience with the Provider with respect to honesty and integrity of the management and staff. Consequently, the auditor remains alert for evidence of fraud risk factors, for example, where there are changes in the nature and circumstances during the period of the engagement or where the service activities of the Provider may indicate the existence of fraud risk factors.
43. The guidance in ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, may be adapted and used by the auditor in an engagement on the Provider's separate accounts. The auditor is advised to consider the Appendices to ISA 240 (Revised) in identifying and assessing fraud risk factors and any further examples that may be encountered in engagements on the Provider's separate accounts (refer to paragraph 48).
44. The auditor's inquiries include obtaining knowledge of the Provider's understanding regarding the accounting and internal control systems in place to prevent, or detect, and correct fraud and error; assessing how the Provider is discharging those responsibilities; and whether the Provider is aware of any known fraud that has affected the Provider's entity or suspected fraud affecting the entity which is under investigation.
45. The nature, timing and extent of the Provider's assessment of the risk of fraud and error

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<sup>25</sup> Paragraphs 37-38 and A76-A85 of ISAE 3000 (Revised).

are relevant to the auditor's understanding of the control environment. When the Provider has not made an assessment of the risk of fraud and error, it may be indicative of the lack of importance attached by that Provider to internal controls.

46. When a Provider places undue reliance on trusted individuals with poor or non-existent segregation of duties and there is an absence of independent review over the accounting records and the separate accounts, it would be easy for dishonest persons to misappropriate funds and avoid detection.
47. In addition to inquiries of the Provider, the auditor makes inquiries of internal audit (if applicable) and employees within the entity to determine whether they have any knowledge of any actual, suspected or alleged fraud affecting the entity.
48. The fraud risk factors identified below are further examples of factors that may be encountered by auditors in engagements on the Provider's separate accounts. Not all are relevant in all circumstances, and some may be of greater or lesser significance in the Provider's entities of different sizes or with different ownership characteristics or circumstances. Also, the order is not intended to reflect their relative importance or frequency of occurrence.
  - (a) Entities that do not have a good reputation;
  - (b) Entities that receive adverse media reporting;
  - (c) Failure to distinguish between separate accounts monies and business monies;
  - (d) Failure to keep proper accounting records, which include a proper narrative for each transaction (so that transactions and balances may be identified by persons not familiar with the transactions);
  - (e) Poor state of the entities' financial position, financial performance and cash flows as reflected in the financial statements;
  - (f) Incomplete accounting records and incomplete records relating to the separate accounts transactions and poor filing procedures;
  - (g) Unauthorised journal entries passed through a Provider's separate accounts;
  - (h) Journal entries that are passed over weekends, on public holidays or in a relatively large volume at period-end;
  - (i) Unusual transactions; and
  - (j) Any other unusual behaviour observed.

### **Materiality<sup>26</sup>**

49. The auditor's determination of materiality is usually a matter of professional judgement. The auditor considers materiality during planning for the Section 19(3) limited assurance engagement when determining the nature, timing and extent of the evidence gathering (sampling) procedures. The auditor also evaluates whether the Provider's separate accounts are free from material misstatement (as defined in ISAE 3000 (Revised)).

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<sup>26</sup> Paragraphs 44 and A92-A100 of ISAE 3000 (Revised).

50. In the context of an engagement on the Provider's separate accounts, the Act requires compliance and are not audited to the same levels of materiality as in an audit of financial statements. Any instances of non-compliance on the Provider's separate accounts that come to the auditor's attention, whether or not appropriately accounted for or resolved by the Provider, are considered qualitatively material and should be listed in the auditor's limited assurance report.

### ***Compliance with Laws and Regulations***

51. The auditor considers the guidance in ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*. Any instances of non-compliance that come to the auditor's attention should be reported in the auditor's limited assurance report.
52. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with the Act and other laws and regulations, the auditor obtains:
- (a) An understanding of the nature of the non-compliance and the circumstances in which it has occurred; and
  - (b) Further information to evaluate the possible effect on transactions reflected in the Provider's separate accounts.
53. If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:<sup>27</sup>
- (a) Investigations of the Provider by the Authority, any regulatory organisations, government departments or evidence of payment of fines or penalties;
  - (b) Payments for unspecified services or making of loans to related parties, employees or government employees that are not in accordance with the relevant service activity or client mandate;
  - (c) Payments in cash, or in the form of cash cheques payable to bearer, or electronic fund transfers to numbered bank accounts, where the payee is not identified;
  - (d) Payments without proper exchange control documentation;
  - (e) Existence of an information system which, whether by design or accident, fails to provide an adequate audit trail or sufficient evidence;
  - (f) Unauthorised transactions or improperly recorded transactions; or
  - (g) Adverse media comment.

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<sup>27</sup> The examples do not serve as an exhaustive list and auditors are advised to be aware of the existence of, or information of, all matters that are specific to their engagement.

### ***Written Representations by a Provider***<sup>28</sup>

54. The auditor obtains written representations in respect of the Provider's separate accounts from the Provider or management of the Provider. It should be noted that the representations from the Provider or management of the Provider do not replace other evidence the auditor reasonably expects to be available. The auditor evaluates the reliability of written representations and their consistency with other evidence obtained. When the availability or reliability of written representations comes into question, the auditor should consider the impact thereof on other evidence obtained and the conclusion in the limited assurance report. The date of the written representations shall be as near as practical to, but not after, the date of the auditor's report. Appendix B contains an illustrative management representation letter, which could be tailored for different circumstances.

### ***Other Information***<sup>29</sup>

55. The auditor shall, as part of including the Provider's management comments or responses to the auditor's findings in respect of the non-compliance identified in Schedule B (refer to Appendix C), read the comments or responses provided to identify material inconsistencies, if any, with his/her findings.
56. If, on reading those comments or responses of the Provider's management, the auditor:
- (a) Identifies a material inconsistency between the comments or responses provided and his/her findings; or
  - (b) Becomes aware of a material misstatement of fact in that the comments or responses provided are unrelated to findings identified and reported on,
- the auditor shall discuss the matter with the Provider's management and take further action as appropriate.

### ***Auditor's Documentation***<sup>30</sup>

57. The auditor records matters that are significant in providing evidence that supports the auditor's report. This includes a record of the auditor's reasoning on all significant matters that require the exercise of judgement and related conclusions. The existence of difficult questions of principle or judgement calls for the documentation to include the relevant facts that were known by the auditor at the time the conclusion was reached.

### ***Auditor Reporting***

58. The auditor's limited assurance report content follows the guidance in paragraphs 69-71 of ISAE 3000 (Revised). The format of the auditor's illustrative limited assurance report

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<sup>28</sup> Paragraphs 56-59, A54-A55 and A136-A138 of ISAE 3000 (Revised).

<sup>29</sup> Paragraphs 62 and A142 of ISAE 3000 (Revised).

<sup>30</sup> Paragraphs 79-83 and A93-A200 of ISAE 3000 (Revised).

is contained in Appendix C.

### **Reporting Irregularities in terms of Section 19(4)**

59. In terms of Section 19(4) of the Act, the auditor must inform the Authority directly in writing of any irregularity or suspected irregularity, in the conduct or the affairs of the Provider concerned, which the auditor became aware of in performing functions as auditor and which, in the opinion of the auditor, is material. A report in terms of Section 19(4) is made regardless of steps taken by management to correct the irregularity and does not allow for a 30-day period within which members of the management board are allowed to make representations in respect of the report.
60. The reporting of irregularities by the auditor in terms of Section 19(4) of the Act does not remove the auditor's Non-compliance with Laws and Regulations (NOCLAR) responsibilities in terms of Section 360 of the IRBA Code.

#### ***"As Auditor"***

61. The auditor is to report irregularities identified while performing the functions as auditor of the Provider as soon as practicably possible after the facts have been confirmed. For the purposes of the Act, the "functions as auditor" include:
  - (a) The audit of the financial statements of the Provider; and
  - (b) The engagement in terms of Section 19(3) to report on client monies and/or assets.
62. The Authority requires the auditor to report Section 19(4) irregularities as and when they are identified in the course of the auditor's relationship with the Provider.

#### ***"Irregularity"***

63. Conduct contravening or not complying with any provision of the Act, the General Code of Conduct or any other subordinate measure promulgated under the Act will constitute an "irregularity" and includes matters pertaining to the Provider's internal financial administration, where this appears irregular or improper in relation to industry practice.
64. The Act, by excluding any reference to financial loss, recognises that an irregularity may not always lead to financial loss for the Provider or an outsider but might, among others, represent a serious regulatory breach of which the Authority must become aware.
65. The irregularity does not need to be a proven occurrence, as indicated by "any irregularity or suspected irregularity". Where the auditor suspects that an irregularity would have been reported had sufficient proof been available to conclude that it was a reportable irregularity, the auditor will report that suspected irregularity and provide the Authority with the basis for the suspicion. It is advisable in circumstances of uncertainty to obtain legal advice.
66. Following from this, any reportable irregularity reported in terms of Section 45 of the APA would constitute an irregularity in terms of Section 19(4) of the Act. However, an irregularity in terms of Section 19(4) of the Act is not necessarily a reportable irregularity

in terms of Section 45 of the APA. Where the auditor comes across a Section 19(4) irregularity the auditor shall also consider whether Section 45 of the APA applies.

### ***“Material”***

67. The Act leaves the determination of whether an irregularity is material or not up to the auditor, i.e. “in the opinion of the auditor, is material”. The underlying intention of Section 19(4) is to direct the auditor’s attention to:
  - (a) Matters on which an auditor is particularly qualified to exercise judgement and in regard to which it can be accepted that the Authority requires the auditor’s assistance, and which represent matters that cannot be tolerated in the conduct of or in the affairs of a Provider acting under the Act if all the objectives of the Act, as a law, are taken into consideration; and
  - (b) Matters which, in particular, constitute contraventions of provisions of the Act that directly threaten the continued maintenance of the Provider’s licence, or constitute conduct contrary to the public interest in the proper exercise of the rights granted by a FAIS licence.
68. The materiality factors that are to be taken into account for the purposes of the fair presentation of the financial statements may not be relevant when determining the materiality factors for the purpose of Section 19(4). Materiality, in the context of Section 19(4), is unlikely to exceed materiality for financial statement purposes, and in most instances will be a lesser value or may be qualitative in nature.
69. Appendix D sets out examples of irregularities that would be reported to the Authority by the auditor.

### ***The Duty to Report***

70. The legal duty to report directly to the Authority in terms of Section 19(4) of the Act applies only in respect of material matters.
71. Auditors may take legal advice before deciding whether, and in what form, to report an irregularity directly to the Authority in order to ensure, for example, that only relevant information is disclosed and that all relevant legal or professional requirements or provisions have been considered in the circumstances.

### ***Auditor Reporting***

72. The format of the auditor’s illustrative report to the Authority in respect of irregularities or suspected irregularities identified in the course of the engagement (Section 19(4)) is contained in Appendix E.

### ***Statement to the Authority Relating to the Termination of Appointment***

73. Section 19(5) of the Act requires the auditor to submit to the Authority a statement of what the auditor believes to be the reason for the auditor’s termination. In addition, if the

auditor would, but for the termination of the auditor's appointment, have reported an irregularity in terms of Section 19(4) of the Act, "the auditor is required to submit such report to the Authority".

## **Other Reporting Obligations**

74. Where applicable, the auditor considers whether a Provider must also adhere to the provisions of other laws and legislation governing assets held on behalf of clients. The list of accountable institutions in Schedule 1 of the Financial Intelligence Centre Act (FICA) includes, in paragraph 2, "a board of executors or a trust company or any other person that invests, keeps in safe custody, controls or administers trust property within the meaning of the Trust Property Control Act, 1988, Act No. 57 of 1988". Providers providing the services of trustees, other than an executor or administrator of a deceased estate, are considered an accountable institution if the Provider falls within the definition of paragraph 2 of Schedule 1 of FICA. However, the Financial Intelligence Centre (FIC) is of the view that acting as a trustee must be a regular feature of one's business before a person or business will be classified as an "accountable institution".
75. Other laws and regulations that might be applicable include the Pension Funds Act, 1956, Act No. 24 of 1956; the Long-term Insurance Act, 1998, Act No. 52 of 1998; the Short-term Insurance Act, 1998, Act No. 53 of 1998; the Insurance Act, 2017, Act No. 18 of 2017; the Collective Investment Schemes Control Act, 2002, Act No. 45 of 2002; and the Securities Services Act, 2004, Act No. 36 of 2004. Where securities are held on behalf of clients by the Provider in the STRATE environment, the STRATE rules must be adhered to. (Refer to Board Notice 63 of 2007, Requirements Imposed by the Authority for Nominees to Operate in South Africa, Gazette No. 29911 of 25 May 2007. Also refer to the section dealing with exemptions in this proposed Revised Guide (paragraph 9).)

## **Reportable Irregularities in terms of Section 45 of the APA**

76. The auditor considers whether the irregularity reported, in compliance with Section 19(4) of the Act, is also a reportable irregularity in terms of Section 45 of the APA; and if so, considers the auditor's responsibilities in terms of this section. Further guidance in this regard is provided in the *Revised Guide for Registered Auditors: Reportable Irregularities in terms of the Auditing Profession Act*.<sup>31</sup>
77. The introductory wording of Section 19(4) of the Act states "despite anything to the contrary contained in any law". This requires the auditor to report to the Authority all instances of irregularities that in the auditor's opinion are material, irrespective of whether the Provider has rectified the problem or not. Accordingly, when a report in terms of Section 45 of the APA is issued to the Provider, the report informs the Provider of the auditor's responsibility, in terms of the Act, to report to the Authority in terms of Section 19(4) of the Act as well, and the auditor simultaneously dispatches a Section 19(4) report to the Authority containing details of the irregularity and informing the

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<sup>31</sup> Refer to the [IRBA's website](#).



Authority that the auditor has also issued a Section 45 report to the Provider.

78. Section 252(1)(b) of the FSR Act requires the auditor to also submit any report or other document or particulars about the matter reported in terms of Section 45 of the APA to the Prudential Authority.

### ***Non-compliance with Laws and Regulations (NOCLAR)***

79. Section 360 of the IRBA Code sets out the auditor's responsibilities in responding to NOCLAR or suspected NOCLAR, which has been effective as of 15 July 2017.
80. The NOCLAR provisions establish a comprehensive response framework that guides the auditor in terms of the factors to consider and the steps to be taken when he/she becomes aware of NOCLAR or suspected NOCLAR.
81. The auditor is also required to determine, in the circumstances, whether further action is needed in the public interest. This may include the reporting of the matter to an appropriate authority under the appropriate circumstances.
82. The reporting of NOCLAR by the auditor does not remove the auditor's reporting responsibilities in terms of Section 19(4) of the Act or Section 45 of the APA.
83. For further guidance, the auditor should refer to the [IRBA's website](#).

### ***Reporting in terms of Section 252 of the FSR Act***

84. Section 252(1) of the FSR Act requires an auditor of a Provider, or of a holding company of a financial conglomerate, to submit, without delay, a detailed written report to the Prudential Authority, the "governing body" of the Provider and, in the case of a financial conglomerate, the holding company of the financial institution about any matter relating to the business of the financial institution or a company within the conglomerate:
- (a) That the auditor becomes aware of in performing the functions and duties as the auditor; and
  - (b) That the auditor considers as:
    - (i) Causing or likely to cause the financial institution to be financially unsound;
    - (ii) Contravening or likely to contravene a financial sector law; or
    - (iii) Likely to result in an audit not being completed or in the auditor expressing a qualified or adverse opinion on the financial statements.

### ***Statement to the Prudential Authority Relating to the Resignation or Termination of Appointment***

85. Section 252(5) requires the auditor to submit to the Prudential Authority a statement of what the auditor believes to be the reason for the auditor's resignation or termination of appointment. In addition, if the auditor would, but for the resignation or termination of the auditor's appointment, have reported an irregularity in terms of Section 45 of the APA, "the auditor is required to submit such a report to the Prudential Authority".

*Limitation of Liability*

86. This applies when the auditor provides, in good faith, a report or information under Section 252(1) or 252(2) of the FSR Act, that would not be seen as a contravention of a law, a breach of a contract or a breach of the IRBA Code by the auditor.

## Appendix A – Illustrative Engagement Letter

The following letter is for use as a guide and is not intended to be a standard letter. This illustrative engagement letter will need to be varied according to individual requirements and the nature and circumstances of the engagement.

Addressee [*the provider, members, partners or directors*]<sup>62</sup>

Dear [XX]

### **Independent Auditor's Limited Assurance Engagement of [*Name of Financial Services Provider*] in compliance with Section 19(3) of the Financial Advisory and Intermediary Services Act**

You have requested that we undertake an engagement in compliance with the requirements of Section 19(3) of the Financial Advisory and Intermediary Services Act, 2002, Act No. 37 of 2002 as amended (the Act) in order to provide the Financial Sector Conduct Authority (the Authority) with limited assurance regarding compliance by [*insert Name of Financial Services Provider*] (the Provider) with the Act for the year ended <*insert year end date*>:

- Regarding the amount of money and/or assets, which includes financial products (hereafter referred to as money and/or assets) held on behalf of clients by the Provider at year-end;<sup>33</sup>
- That such money and/or assets were throughout the financial year kept separate from those of the business of the Provider, and in the case of non-compliance, the extent thereof; and
- Any information required by the Authority as set out in Schedule A and Schedule B attached to this report.

Schedule A sets out money and assets held on behalf of clients by you at year-end. Schedule B (columns A to D) sets out the work to be performed and our findings in respect of your key controls and procedures to meet the objectives of Section 19(3) of the Act and Section 10 of the *General Code of Conduct for Authorised Financial Services Providers and Representatives* (the Code). We will initial (or stamp) both schedules for identification purposes.

### *[Provider, Members, Partners or Directors]*<sup>64</sup> Responsibility

As a Provider who receives or holds money and/or assets for or on behalf of clients, you are

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<sup>32</sup> Delete whichever is not applicable.

<sup>33</sup> The Authority requires money and/or assets held on behalf of clients by the Provider and related liabilities or obligations at the financial year-end to be disclosed in the annual financial statements of the Provider, whether included in the notes to the financial statements or by way of an annexure.

<sup>34</sup> Delete whichever is not applicable.

required in terms of Section 19(1)(a) of the Act to “maintain full and proper accounting records on a continual basis, brought up to date monthly”; and in compliance with Section 10 of the *General Code of Conduct for Authorised Financial Services Providers and Representatives* (the Code), “must account for such products or funds properly and promptly” as at <insert year end date> and throughout the financial year then ended. Section 19 of the Act, Section 10 of the Code and client mandates set out specific responsibilities of the Provider. Consequently, the [Provider, members, partners or directors]<sup>35</sup> are responsible for designing, implementing and maintaining internal controls relevant to the administration of such funds that will facilitate the prevention, detection and correction of fraud and error, and establish policies and procedures to achieve compliance with the requirements of the Act.

#### *Auditor's Independence and Quality Control*

**[For auditor's reports issued on or after 15 June 2019 in respect of assurance engagements for periods beginning before or on 14 June 2019]<sup>36</sup> [Delete block if not applicable]**

We are required to comply with the independence and other ethical requirements of the Sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)* (IRBA Code (Revised January 2018)) and parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (IRBA Code (Revised November 2018)), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Sections 290 and 291 of the IRBA Code (Revised January 2018) are consistent with Sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*. Parts 1 and 3 of the IRBA Code (Revised November 2018) are consistent with parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

**[For assurance engagements for periods beginning on or after 15 June 2019] [Delete block if not applicable]**

We are required to comply with the independence and other ethical requirements of the *Code of Professional Conduct for Registered Auditors* issued by the Independent Regulatory Board for Auditors' (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (Parts 1, 3, 4A and 4B).

<sup>35</sup> Delete whichever is not applicable.

<sup>36</sup> The wording in this section of the illustrative report is principled on the wording used in the Basis for Opinion sections of the illustrative reports in proposed South African Auditing Practice Statement (SAAPS) 3, *Illustrative Reports*, (Revised 2019) which is currently out on public exposure.

*[Name of firm]/[The firm]* applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's responsibility*

Our responsibility is to express a limited assurance conclusion on whether, based on the work we have performed, anything has come to our attention that causes us to believe that the Provider has not complied with the Act.

We will conduct our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAE 3000 (Revised)). This standard requires that we plan and perform this engagement to obtain limited assurance on whether the provider has complied with the Act.

Our objectives are those contained in Section 19(3) of the Act and Section 10 of the Code, and they form the criteria used to evaluate the Provider's compliance.

The Act and the Code do not specify an internal control framework, which provides objective criteria for assessing the design and implementation of internal controls to evaluate the Provider's compliance. In order to report our findings on the design and implementation of key controls to meet the objectives of this engagement, we will exercise our professional judgement regarding the appropriateness of the key controls implemented, based on our understanding of the Provider and its environment, including its internal controls, obtained during our audit of the financial statements for the year ended <insert year-end date>. The purpose of our work is not to express an opinion on the Provider's internal controls.

Our limited assurance engagement is a separate regulatory requirement which does not form part of our audit of the financial statements. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, we will perform based on our professional judgement such tests and procedures as we consider necessary in the circumstances to obtain sufficient appropriate evidence to express our limited assurance conclusion. It should be appreciated that the procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent than for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. A summary of the procedures we plan on performing include the following, but are not necessarily limited to:

- Inquiries, primarily of persons responsible for financial and accounting matters affecting money and/or assets held on behalf of clients throughout the year;
- Inquiries of the Provider's compliance officer/s regarding any instance of non-compliance with the Act reported to the Authority;
- Analytical and other evidence-gathering procedures, inter alia;
  - Inspection of client mandates relating to a sample of transactions selected to

determine that the transactions were in compliance with such mandates;

- Obtaining confirmations of the balances of money and/or assets held on behalf of clients as at the year-end; re-performing bank reconciliations for material balances, tracing outstanding items to subsequent bank statements and confirming that the outstanding items were dealt with in compliance with Section 10 of the Code and client mandates;
- Physically inspecting other (non-cash) assets held on behalf of clients, and/or obtaining confirmations of such assets held in safe custody by third parties; and
- Requesting written confirmation from management concerning representations made to us in connection with our limited assurance engagement.

Our limited assurance engagement is performed solely to assist the Authority in determining whether the amounts recorded with respect to monies and/or assets held on behalf of the clients by the Provider are in compliance with Section 19(3) of the Act and Section 10 of the Code.

We are not responsible for reporting on any relevant events or transactions that occurred after *<insert year-end date>*. As part of an assurance engagement in accordance with ISAE 3000 (Revised), we are required to exercise professional judgement and maintain professional scepticism throughout the engagement.

#### *Other information*

We are required, as part of including your comments or responses to our findings in respect of the non-compliance identified in Schedule B, to read your comments or responses provided to identify material inconsistencies, if any, with our findings. If, based on the work we have performed, we conclude that there is a material misstatement of this information, we are required to discuss the matter with you and take further action as deemed appropriate.

#### *Independent limited assurance report*

Our independent limited assurance report will be addressed to the *[Provider, members, partners or directors]*<sup>37</sup>.

On completion of our work, we aim to express a conclusion as follows:

**If an Unqualified Limited Assurance Conclusion is expressed:**

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that:

- Money and/or assets held on behalf of clients by the Provider at year-end are not as reflected in Schedule A;
- Such money and/or assets were not kept separate from those of the business of the Provider throughout the financial year ending *<insert year-end date>*; and
- Any instances of non-compliance with the requirements of the Act have arisen.

OR

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<sup>37</sup> Delete whichever is not applicable.

**If a Qualified Limited Assurance Conclusion is expressed:**

*Basis for qualified limited assurance conclusion*

Our basis for qualification has been noted in Schedule A and/or Schedule B attached to this report, where the details relating to the extent of the instances of non-compliance with the requirements of Section 19(3) of the Act and Section 10 of the Code identified during the course of our engagement are provided.

*Qualified limited assurance conclusion*

Based on the procedures we have performed and the evidence we have obtained, except for the effect(s) of the matter(s) described in the paragraph above, nothing has come to our attention that causes us to believe that:

- Money and/or assets held on behalf of clients by the Provider at year-end are not as reflected in Schedule A;
- Such money and/or assets were not kept separate from those of the business of the Provider throughout the financial year ending <insert year-end date>; and
- Any instances of non-compliance with the requirements of the Act have arisen.

*Other reporting obligations*

We wish to draw your attention to Section 19(4) the Act which requires “the auditor of a Provider to report to and inform the Authority in writing of any irregularity or suspected irregularity in the conduct or the affairs of the Provider concerned of which the auditor became aware of in performing functions as auditor and which in the opinion of the auditor is material”.

Further, Section 252(1) of the Financial Sector Regulation Act, 2017, Act No. 9 of 2017 (the FSR Act) requires “an auditor of a Provider, or of a holding company of a financial conglomerate, to submit, without delay, a detailed written report to the Prudential Authority, the “governing body” of the Provider and, in the case of a financial conglomerate, the holding company of the financial institution about any matter relating to the business of the financial institution or a company within the conglomerate, being a matter:

- Which the auditor becomes aware of in the course of performing the functions and duties as the auditor; and
- That the auditor considers:
  - Is causing or likely to cause the financial institution to be financially unsound;
  - Is contravening or likely to contravene a financial sector law; or
  - May result in an audit not being completed or may result in a qualified or adverse opinion on accounts”.

Furthermore, Section 45 of the Auditing Profession Act, 2005, Act No. 26 of 2005 (the APA) requires us to report any reportable irregularity without delay to the IRBA and to also submit such report/s to the Prudential Authority in terms of Section 252(1)(b) and 252(2)(b) of the FSR Act.

Lastly, we wish to also draw your attention to the professional obligation of the partners/directors and employees of the firm to respond to identified or suspected Non-compliance with Laws and Regulations as required in terms of Section 360 of the IRBA Code,

which may include the reporting of the non-compliance or suspected non-compliance to an appropriate authority under the appropriate circumstances.

*Restriction on use and distribution of our report*

Our report will be presented solely for the purpose set out in the first paragraph of our report and for the information of the Provider and the Authority and may not be suitable for another purpose and is not to be used for any other purpose nor distributed to any other parties.

*Fees*

*[Insert additional information here regarding fee arrangements and billing, as appropriate]*

*Access to records*

We look forward to full co-operation from your staff, and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our limited assurance engagement.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement.

Yours sincerely,

*Auditor's Signature*

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<Name of individual registered auditor responsible for the engagement>

<Capacity if not a sole practitioner: e.g. Director or Partner>

<Registered audit firm>

Acknowledged and agreed on behalf of the (provider/member(s)/partner(s)/director(s))

Yours faithfully

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<Provider/Member(s)/Partner(s)/Director(s)>

---

<Date>



## Appendix B – Illustrative Management Representation Letter

The following letter is for use as a guide and is not intended to be a standard letter. This management representation letter will need to be varied according to individual requirements and the nature and circumstances of the engagement.

(Provider's letterhead)

(To the Registered Auditor)

(Address)

(Date)

Dear [XX]

This representation letter is provided in connection with your limited assurance engagement on the monies and/or assets, which includes financial products (hereafter referred to as money and/or assets) held on behalf of the clients of *[insert name of Provider]* for the year ended *<insert date>* for the purpose of reporting to the Financial Sector Conduct Authority (the Authority) in terms of Section 19(3) of the Financial Advisory and Intermediary Services Act, 2002, Act No. 37 of 2002 as amended (the Act). We confirm, to the best of our knowledge and belief, the following representations:

- There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems dealing with the monies and/or assets held on behalf of our clients.
- We have made available to you all clients' files, books of account and supporting documentation and all minutes of meetings of shareholders and the board of directors (namely, those held on *<insert date>* and *<insert date>*, respectively).
- All client monies received have been promptly banked in the separate bank accounts disclosed to you.
- Money has only been transferred out of these accounts, to the firm's business accounts, in terms of fees and disbursements due to the firm in terms of the contracts signed by our clients.
- The firm has complied with all the requirements of the Act, as well as all regulations published by the Authority. Specifically, the firm has "maintained full and proper accounting records on a continual basis, brought up to date monthly", as required by Section 19(1)(a) of the Act.
- The information provided to you with respect to the monies and/or assets held on behalf of our clients is free of material misstatements, including omissions.
- We have not lodged any liens or encumbrances over the monies and/or assets held on behalf of our clients.

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- There are no formal or informal compensating balance arrangements with any of our cash and investment accounts containing monies and/or assets held on behalf of our clients.

We understand that your engagement was conducted in accordance with International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. We understand that your responsibility is to express a limited assurance conclusion on the monies and/or assets held on behalf of our clients for the year ended <insert date> for the purpose of reporting to the Authority of Financial Services Providers in terms of Section 19(3) of the Act and Section 10, "Custody of Financial Products and Services", of the *General Code of Conduct for Authorised Financial Services Providers and Representatives* (the Code).

We understand that we are responsible for the implementation and maintenance of internal controls that are designed to prevent, detect and correct fraud and error. There have been no fraud or possible irregularities involving management or employees who have a significant role in the system of internal control, dealing with the monies and/or assets held on behalf of our clients. Based on our assessment, we believe the risk that the amounts recorded in terms of monies and/or assets held on behalf of our clients are materially misstated as a result of fraud to be acceptably low.

The contents of this letter were considered by the <Provider/board/members/management> of [*insert name of Provider*] on <insert date> and the undersigned were authorised to sign this representation letter on behalf of the <Provider/board/members/management>.

Yours faithfully

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<Provider/Member(s)/Partner(s)/Director(s)>

---

Date

## Appendix C – Section 19(3) Illustrative Limited Assurance Report

### Circumstances

- Providers' compliance with Section 19(3) of the Financial Advisory and Intermediary Services Act.
- Limited assurance engagement conducted in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised).
- Unmodified/modified auditor's conclusion.

To the *[provider/members/partners/directors]*<sup>38</sup> of *[Insert name of financial services provider]*

### **Independent Auditor's Limited Assurance Report to the Provider/Members/Partners/Directors<sup>39</sup> of *[Name of Financial Services Provider]* in compliance with Section 19(3) of the Financial Advisory and Intermediary Services Act**

We have undertaken our engagement in compliance with the requirements of Section 19(3) of the Financial Advisory and Intermediary Services Act, 2002, Act No. 37 of 2002 as amended (the Act), in order to provide the Financial Sector Conduct Authority (the Authority) with limited assurance regarding compliance by *[insert Name of Financial Services Provider]* (the Provider) with the Act for the year ended *<insert year end date>*:

- Regarding the amount of money and/or assets, which includes financial products (hereafter referred to as money and/or assets) held on behalf of clients by the Provider at year-end;<sup>40</sup>
- That such money and/or assets were throughout the financial year kept separate from those of the business of the Provider, and in the case of non-compliance, the extent thereof; and
- Any information required by the Authority as set out in Schedule A and Schedule B attached to this report.

Schedule A sets out money and assets held on behalf of clients by the Provider at year-end. Schedule B (columns A to D) sets out work performed and our findings in respect of the Provider's key controls and procedures to meet the objectives of Section 19(3) of the Act and Section 10 of the *General Code of Conduct for Authorised Financial Services Providers and Representatives* (the Code). We have initialled (or stamped) both schedules for identification purposes.

<sup>38</sup> Delete whichever is not applicable.

<sup>39</sup> Delete whichever is not applicable.

<sup>40</sup> The Authority requires money and assets held on behalf of clients by the Provider and related liabilities or obligations at the financial year-end to be disclosed in the financial statements of the Provider, whether included in the notes to the financial statements or by way of an annexure.

*[Provider, Members, Partners or Directors]<sup>41</sup> Responsibilities*

The Provider who receives or holds money and/or assets for or on behalf of clients is required, in terms of Section 19(1)(a) of the Act, to “*maintain full and proper accounting records on a continual basis, brought up to date monthly*”; and in compliance with Section 10 of the Code, “*must account for such products or funds properly and promptly*” as at <insert year end date> and throughout the financial year then ended. Section 19 of the Act, Section 10 of the Code and client mandates set out specific responsibilities of the Provider. Consequently, the Provider is responsible for designing, implementing and maintaining internal controls relevant to the administration of such funds that will facilitate the prevention, detection and correction of fraud and error, and establish policies and procedures to achieve compliance with the requirements of the Act.

*Auditor's Independence and Quality Control*

**[For auditor's reports issued on or after 15 June 2019 in respect of assurance engagements for periods beginning before or on 14 June 2019]<sup>42</sup> [Delete block if not applicable**

We have complied with the independence and other ethical requirements of Sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)* (IRBA Code (Revised January 2018)), and parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (IRBA Code (Revised November 2018)), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Sections 290 and 291 of the IRBA Code (Revised January 2018) are consistent with Sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*. Parts 1 and 3 of the IRBA Code (Revised November 2018) are consistent with parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

**[For assurance engagements for periods beginning on or after 15 June 2019] [Delete block if not applicable]**

We have complied with the independence and other ethical requirements of the *Code of Professional Conduct for Registered Auditors* issued by the Independent Regulatory Board for Auditors' (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (Parts 1, 3, 4A and 4B).

<sup>41</sup> Delete whichever is not applicable.

<sup>42</sup> The wording in this section of the illustrative report is principled on the wording used in the Basis for Opinion sections of the illustrative reports in proposed South African Auditing Practice Statement (SAAPS) 3, *Illustrative Reports*, (Revised 2019) which is currently out on public exposure.

*[Name of firm]/[The firm]* applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's responsibility*

Our responsibility is to express a limited assurance conclusion whether, based on our work performed, anything has come to our attention that causes us to believe that the Provider has not complied with the Act and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised), *International Standard on Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAE 3000 (Revised)) issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform this engagement to obtain limited assurance on whether the Provider has complied with the Act.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included inquiries, observation of processes followed, inspection of documents, analytical procedures, evaluating reporting policies and agreeing or reconciling with underlying records.

We completed our audit of the annual financial statements of the Provider for the year ended *<insert date>*, prepared in accordance with *<insert applicable financial reporting framework>*, on which we issued an *<unmodified/modified>*<sup>43</sup> opinion on *<insert date of audit report>*. Our audit was performed in accordance with International Standards on Auditing and not for the purpose of expressing an opinion on the Provider's internal controls. Where appropriate, we have drawn on evidence obtained, in order to report our findings on the design and implementation of key controls to meet the objectives of this engagement and, we have exercised our professional judgement regarding the appropriateness of the key controls implemented, based on our understanding of the Provider and its environment, including its internal controls.

The objectives specified in Schedule B (columns A to D) are those contained in Section 19(3) of the Act and Section 10 of the Code form the criteria used to evaluate the Provider's compliance. The Act and the Code do not specify an internal control framework, which provides objective criteria for assessing the design and implementation of internal controls to evaluate the Provider's compliance.

#### *Summary of work performed*<sup>44</sup>

We planned and performed our work to obtain all the information and explanations that we

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<sup>43</sup> Where a modified opinion has been expressed on the annual financial statements, the auditor considers the implications for the limited assurance conclusion expressed in this report.

<sup>44</sup> The auditor should amend the summary of work performed to reflect the work actually performed. It is not intended to set out a full audit programme, rather a "summary".

considered necessary to provide sufficient evidence for us to express our limited assurance conclusion expressed below.

Our summary of work performed and findings, as set out more fully in the attached Schedule B (columns A to D), included:

- Inquiries, primarily of persons responsible for financial and accounting matters affecting money and/or assets held on behalf of clients throughout the year;
- inquiries of the Provider's compliance officer/s regarding any instance of non-compliance with the Act reported to the Authority;
- Analytical and other evidence-gathering procedures, inter alia:
  - Inspection of client mandates relating to a sample of transactions selected to determine that the transactions were in compliance with such mandates;
  - Obtaining confirmations of the balances of money and/or assets held on behalf of clients as at the year-end; re-performing bank reconciliations for material balances, tracing outstanding items to subsequent bank statements and confirming that the outstanding items were dealt with in compliance with Section 10 of the Code and client mandates;
  - Physically inspecting other (non-cash) assets held on behalf of clients, and/or obtaining confirmations of such assets held in safe custody by third parties; and
- Obtaining written representations from management regarding matters relevant to this engagement.

The procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion regarding whether the Provider has complied with the Act.

We believe that the evidence obtained as part of our limited assurance engagement is sufficient and appropriate to provide a basis for our findings and instances of non-compliance set out in Schedule A and/or Schedule B (columns A to D) and our conclusion expressed below.

*Limited Assurance Conclusion*

**IF AN UNQUALIFIED LIMITED ASSURANCE CONCLUSION IS EXPRESSED:**

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that:

- Money and/or assets held on behalf of clients by the Provider at year-end are not as reflected in Schedule A;
- Such money and/or assets were not kept separate from those of the business of the Provider throughout the financial year ending <insert year-end date>; and
- Any instances of non-compliance with the requirements of the Act have arisen.

OR

**IF A QUALIFIED LIMITED ASSURANCE CONCLUSION IS EXPRESSED:**

*Basis for qualified limited assurance conclusion*

Our basis for qualification has been noted in Schedule A and/or Schedule B attached to this report, where the details relating to the extent of the instances of non-compliance with the requirements of Section 19(3) of the Act and Section 10 of the Code identified during the course of our engagement are provided.

*Qualified limited assurance conclusion*

Based on the procedures we have performed and the evidence we have obtained, except for the effect(s) of the matter(s) described in the paragraph above, nothing has come to our attention that causes us to believe that:

- Money and/or assets held on behalf of clients by the Provider at year-end are not as reflected in Schedule A;
- Such money and/or assets were not kept separate from those of the business of the Provider throughout the financial year ending <insert year-end date>; and
- Any instances of non-compliance with the requirements of the Act have arisen.

*Other information<sup>45</sup>*

The Provider's management is responsible for the other information. The other information comprises the Provider's management comments or responses provided as detailed in column E of Schedule B, to our findings in respect with regards of the non-compliance identified.

Our conclusion on Schedule B (column E) does not cover the other information and we do not express an assurance conclusion thereon.

In connection with our limited assurance engagement of the Provider's separate accounts, our responsibility is to read the comments or responses provided (column E) and, in doing so, consider whether the comments or responses provided are materially inconsistent with our findings. Based on the work we have performed, we conclude that there is a material misstatement of this other information. We have considered the options available under ISAE 3000 (Revised) and determined that we will report the inconsistency through inclusion of this paragraph. *[Where there are material inconsistencies that are reported cross reference should be made if applicable to where reported.]*

*Restriction on use and distribution*

Our report is presented solely for the purpose set out in the first paragraph of our report and for the information of the Provider and the Authority and may not be suitable for another purpose and is not to be used for any other purpose nor distributed to any other parties.

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<sup>45</sup> The inclusion of the other information paragraph is one of the options catered for within ISAE 3000 (Revised). The auditor should use his/her professional judgment as to whether this paragraph is necessary for inclusion depending on how the auditor addresses the requirements of this standard under paragraphs 62 and A142.

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*Auditor's Signature*

*Name of individual registered auditor*

*Capacity if not a sole practitioner: e.g. Director or Partner*

*Registered Auditor*

*Date of auditor's report*

*Auditor's address (if not on a firm letterhead)*



**Schedule A**

**Money and/or assets held on behalf of clients by the Provider at year-end (to be completed by the auditor)**

**Money**

Separate Account/s held	<Insert year-end date>		
	Balances per Provider's records R	Balance per bank statement R	Differences (Note 1) R
<Insert details>			

*Note 1: Indicate whether outstanding deposits or withdrawals have been reconciled and dealt with in compliance with Section 10 of the Code and client mandates, and have been cleared to subsequent bank statements. Report any instances of non-compliance identified.*

**Other assets held on behalf of clients by the Provider at year-end**

Indicate the nature of "Other Assets"	<Insert year-end date>			
	Balances per Provider's records R	Assets physically inspected and value of these assets R	Confirmation received from 3 <sup>rd</sup> parties holding assets in safe custody and value of these assets R	Differences (Note 2) R
<Insert details>				

*Note 2: Indicate the reason for differences between the Provider'/assets not found/confirmations not received or not dealt with in compliance with Section 10 of the Code and client mandates. Report any instances of non-compliance identified.*

## **Schedule B**

### ***Work performed and findings in respect of the Provider's key controls and procedures to meet the objectives of Section 19(3) of the Act and Section 10 of the General Code of Conduct for Authorised Financial Services Providers and Representatives (the Code)***

#### **Instructions to auditors**

- A. The objectives are derived from the requirements of Section 19(3) of the Act and Section 10 of the Code.
- B. Document key controls implemented by the Provider to account for such monies and/or assets (including financial products) of a client "*properly and promptly*". (The Authority requires such records to be separately identifiable as "*clients' separate funds*" from the Provider's own business accounting records, assets and liabilities.)
- C. Give a summary of work performed to assess the appropriateness of the design of the key controls implemented by management and determine that such controls have been implemented by inquiring, primarily of persons responsible for financial and accounting matters affecting clients' money and/or assets held on behalf of clients throughout the year, and performing walkthrough procedures. In addition to the key controls, work performed may also include substantive analytical and other evidence-gathering procedures, including samples selected for the testing of transactions or balances to or from supporting documents, and obtaining confirmations from third parties to identify instances of non-compliance. ***(Note: procedures indicated in Column C are examples that are not exhaustive and should be modified to reflect the actual work performed as well as for the nature and circumstances of the engagement.)***
- D. Report findings, including weaknesses in key controls and instances of non-compliance identified during the engagement based on work performed and evidence obtained, or that there were no exceptions/material weaknesses/non-compliance identified.
- E. Insert Provider's management comments on weaknesses in key controls and any instances of non-compliance identified by the auditor.

*The instructions in paragraphs A to E above have been set out in corresponding columns in the table below.*

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	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
1	<b>10(1): Subject to the provisions of any other applicable Act, a Provider who receives or holds financial products or funds of or on behalf of a client must account for such products or funds properly and promptly and-</b>	Indicate key controls implemented by the Provider to meet this objective.	<p>1 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>2 Enquire and observe whether the accounting systems of the Provider are structured in such a manner that the accounting records for the separate accounts are maintained separately from the accounting records of the Provider.<sup>46</sup></p>		
	<b>AND</b>				
2	<b>10(1)(a)</b> when documents of title are lodged with the Provider on behalf of the client, the Provider must immediately provide written confirmation of receipt thereof which contains a description of the documents that is sufficient to identify them.	Indicate key controls implemented by the Provider to meet this objective, including that written receipts issued to clients contain a description of the documents that is sufficient to identify them ( the clients) and that the receipts are issued immediately on receipt of funds from the client.	<p>3 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>4 Based on the auditor's assessment of the risk of material misstatement of client funds under control of the Provider, select a sample of receipts issued.</p>		

<sup>46</sup> This is intended to be a high-level observation regarding the accounting systems of the Provider.

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	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
3	<p><b>10(1)(b)</b> when a Provider receives funds into safe custody without the mediation of a bank, the Provider must, on receipt of the money, issue a written confirmation of receipt thereof.</p>	<p>Indicate key controls implemented by the Provider over funds held in safe custody.</p>	<p><b>For the sample selected in the preceding step:</b></p> <ol style="list-style-type: none"> <li>5 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiry and performing a walkthrough of the key controls.</li> <li>6 Inspect deposits made into separate accounts and agree to details on supporting documentation (e.g. client mandate/correspondence from client, etc.) to determine whether the deposit constitutes a valid receipt from a client.</li> <li>7 Inspect evidence that the deposits are made within one business day of receipt of the funds (or comprise direct deposits or EFTs from the client to the separate account of the Provider).</li> <li>8 Agree receipts and payments on the Provider's business bank account with supporting documentation such as bank deposit books or slips or cheques confirming whether any of the separate monies have been erroneously dealt with as business monies.</li> </ol>		

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	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
4	<p><b>10(1)(c)</b> where the Provider, or a third party on behalf of either of them, is in control of such financial products or funds, take reasonable steps to ensure that they are adequately safeguarded - (Non-monetary assets held on behalf of clients).</p>	<p>Indicate key controls implemented by the Provider over financial products or funds controlled by the Provider or third party to ensure that they are adequately safeguarded.</p>	<p>9 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>10 Obtain a schedule of non-monetary assets held at year-end on behalf of clients, held in the name of the Provider and enquire about and assess the controls implemented to ensure assets are adequately safeguarded.</p> <p>11 Obtain confirmations from third parties at year-end regarding such non-monetary assets.</p>		

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	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
5	10(1)(d) <sup>47</sup> open and maintain a separate account, designated for client funds, at a bank and (d)(i – iv) below.	Provide evidence that separate account/s designated for client funds have been opened at a bank by the Provider.	<p>12 Inspect evidence that separate account/s designated for client funds have been opened at a bank by the Provider.</p> <p>13 Obtain bank confirmation letters for all separate accounts, reflected on Schedule A, confirming whether:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> the balance of the separate account agrees to the balance reflected in the Provider's accounting records; and</li> <li><input type="checkbox"/> any encumbrances over the separate accounts agree with those disclosed by the Provider.</li> </ul> <p>14 Obtain the year-end bank reconciliations for all separate accounts, and for each reconciliation:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Enquire about any old or unusual reconciling items and agree these items to supporting documentation or subsequent resolution of the reconciling item.</li> </ul>		

<sup>47</sup> Section 10(1)(d) is not applicable to a Provider that is subject to Section 45 of the Short-term Insurance Act, 1998 (Act No. 53 of 1998), if the Provider complies with the requirements contemplated in that section.

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	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
			<ul style="list-style-type: none"> <li><input type="checkbox"/> Cast the bank reconciliation.</li> <li><input type="checkbox"/> Agree payments which appear on the bank statement one week after year-end to the outstanding cheque listing. Agree those payments which do not appear on the outstanding cheque listing to supporting documentation to confirm that they have been recorded in the correct period.</li> <li><input type="checkbox"/> Agree cheques which appear on the outstanding cheques list to bank statements after year-end.</li> </ul>		

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	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
6	10(1)(d)(i) must within one business day of receipt pay into the account all funds held on behalf of clients.	Indicate key controls implemented by the Provider.	15 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.  16 Trace outstanding deposits to the next day's bank statement.		
7	Section 19(3)(b) of the Act and 10(1)(d)(ii) ensure that the separate account only contains funds of clients and not those of the Provider.	Indicate key controls implemented by the Provider.	17 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.  18 Review transactions recorded for evidence that only clients' funds are in the separate account/s.		
8	10(1)(d)(iii) pay all bank charges in respect of the separate account except that bank charges specifically relating to a deposit or withdrawal of the funds of the client are for the client's own account; and	Indicate key controls implemented by the Provider.	19 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.		



Proposed Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements ((Section 19(4)) of the Financial Advisory and Intermediary Services Act

	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
			<p>20 Inspect the separate account bank statements for evidence of banking charges. (Note: <i>Only fees relating to deposits and withdrawals of the client's funds are for the client's own account in terms of Section 10(1)(d)(iii) of the Code.</i>)</p> <p>21 Confirm whether fees which are not for the Provider's separate account are charged to the business account of the Provider by agreeing the fees identified in the separate account as being for the Provider' account to the Provider's business account.</p>		
9	<p><b>10(1)(d)(iv)</b> ensure that any interest accruing to the funds in the separate account is payable to the client or the owner of the funds and <b>10(3)</b> of the Code.</p>	<p>Indicate key controls implemented by the Provider.</p>	<p>22 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>23 Inspect the separate account bank statements for interest accruing.</p>		

Proposed Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements ((Section 19(4)) of the Financial Advisory and Intermediary Services Act

	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
			24 Confirm whether interest accruing is credited to the separate account and not the Provider's business by agreeing interest earned to the separate account accounting records.		
10	10(1)(e)(i) that at all times such financial products or funds are dealt with strictly in accordance with the mandate given to the Provider.	Indicate key controls implemented by the Provider.	<p>25 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>26 Select a sample of transactions for each transaction type of financial products or funds processed by the Provider during the year and inspect client mandates and other supporting documentation to determine that the transactions are dealt with strictly in compliance with those mandates.</p> <p>27 Enquire whether or not there are any restrictions on the separate accounts and confirm whether these restrictions were breached.</p>		

Proposed Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements ((Section 19(4)) of the Financial Advisory and Intermediary Services Act

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	<b>Objectives – Section 19(3) of the Act and Section 10 of the Code</b>	<b>Key controls implemented by management</b>	<b>Work performed</b>	<b>Auditor’s “findings and instances of non-compliance” or indicate “no exceptions found”</b>	<b>Comments from the Provider’s management</b>
<b>11</b>	<b>10(1)(e)(ii)</b> that client financial products or funds are readily discernible from private assets or funds of the Provider; and	Indicate key controls implemented by the Provider.	<p>28 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>29 Inspect the accounting records for evidence that the client financial products or funds are readily discernible from private assets or funds of the Provider.</p>		
<b>12</b>	<b>10(1)(e)(iii)</b> that, subject to any applicable contractual or statutory provisions, a client has ready access to any amount paid into the separate account, less any deductions which are authorised, and charges and fees required or authorised to be paid by law.	Indicate key controls implemented by the Provider.	<p>30 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>31 Agree a sample of payments made during the year from separate accounts to supporting documentation confirming whether the payment was made in terms of a valid client instruction/mandate.</p>		

Proposed Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements ((Section 19(4)) of the Financial Advisory and Intermediary Services Act

	A	B	C	D	E
	Objectives – Section 19(3) of the Act and Section 10 of the Code	Key controls implemented by management	Work performed	Auditor's "findings and instances of non-compliance" or indicate "no exceptions found"	Comments from the Provider's management
			32 Agree a sample of payments made from the separate account into the Provider's business bank account to supporting documentation, confirming whether transfers which represent fees were made in terms of the contract with the client.		
13	<b>10(2) Where a transaction or agreement has been recorded in writing, the Provider who dealt with the client must ensure that the original agreement is delivered to the client for safe custody.</b>	Indicate key controls implemented by the Provider.	<p>33 Assess the appropriateness of the design of the key controls and determine whether they have been implemented throughout the year under review by inquiring and performing a walkthrough of the key controls.</p> <p>34 Select a sample of client correspondence files/records:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> trace current year movements referred to in the file to the transactions recorded, and</li> <li><input type="checkbox"/> inspect evidence that the original agreement (in terms of the client mandate) has been delivered to the client for safe custody.</li> </ul>		

## **Appendix D – Examples of Irregularities in terms of Section 19(4) of the Financial Advisory and Intermediary Services Act**

The irregularities identified in this appendix are examples of irregularities that, which would typically be reported to the Financial Sector Conduct Authority (the Authority) in terms of Section 19(4) of the Act. However, the irregularities listed below are only examples of irregularities that, which would be reported, and consequently the list is not complete. Furthermore, the auditor exercises professional judgement when considering whether irregularities identified are material and require a Section 19(4) report to the Authority.

The following matters, if identified by the auditor in the conduct of the audit of the financial statements, may constitute irregularities that, which are to be reported to the Authority in terms of Section 19(4):

- The audit client is a Provider as defined in the Act but is not licensed as required by Section 7(1).
- The Provider has dealt in a financial product for his own benefit, account or interest based on advance knowledge of pending transactions for its clients, or on any non-public information the disclosure of which would be expected to affect the prices of such product.
- The Provider appoints key individuals and representatives to manage and oversee the business of the Provider who do not meet the fit and proper requirements or who do not hold the necessary qualifications.

Further guidance on the responsibilities of auditors, in terms of the Act, can be sought directly from the Financial Sector Conduct Authority (FSCA).

For guidance with regards to:

- Reporting reportable irregularities in terms of Section 45 of the APA, the auditor should refer to the *Revised Guide for Registered Auditors: Reportable Irregularities in terms of the Auditing Profession Act* issued by the IRBA.
- The auditor's responsibilities in responding to Non-compliance with Laws and Regulations (NOCLAR) or suspected NOCLAR, reference should be made to Section 360 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)*.

## **Appendix E – Illustrative Report in terms of Section 19(4) of the Financial Advisory and Intermediary Services Act**

The following is an illustrative report for reporting irregularities or suspected irregularities to the Authority in terms of Section 19(4) of the Act:

Financial Sector Conduct Authority

P O Box 35655

Menlo Park

Pretoria

0102

Dear Sirs

### **Report to the Financial Sector Conduct Authority (the Authority) in terms of Section 19(4) of the Financial Advisory and Intermediary Services Act**

In our capacity as appointed auditors to *[insert name of the Provider]*, we are reporting to you in terms of Section 19(4) of the Financial Advisory and Intermediary Services Act, 2002, Act No. 37 of 2002 as amended (the Act).

During the conduct of our audit for the year ended *<insert date>* we established that *[insert name of the Provider]* is not maintaining records of complaints and/or dealing with complaints in the manner envisaged by Part XI of the *General Code of Conduct for Authorised Financial Services Providers and Representatives* (the Code) (insert details relevant to the irregularity or suspected irregularity). As a consequence, we have reason to believe that in the conduct of the affairs of *[insert name of the Provider]* an irregularity, or suspected irregularity which in our opinion is material, has taken place or is taking place.

*Auditor's Signature*

*Name of individual registered auditor*

*Capacity if not a sole practitioner: e.g. Director or Partner*

*Registered Auditor*

*Date of auditor's report*

*Auditor's address (if not on a firm letterhead)*

cc: (Provider)