



# INDEPENDENT REVIEW

**PRESENTED BY:**  
NESTENE BOTHA (CA)SA RA  
EXPLORE PROTECH



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# INDEPENDENT REVIEW

Presenter: Nestene Botha (CA)SA RA

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# Presenter

## **Nestene Botha CA(SA) RA**

- M. Com Chartered Accountancy (Auditing)
- Lecturing experience: NWU, UCT, Damelin
  - Proud #ProTechMentor
- Founder: Explore ProTech Group
  - Accounting, Sales & Training Solutions
    - [www.protechaccounting.com](http://www.protechaccounting.com)
- Speaker



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# Course Outline

# LEARNING OBJECTIVES

## At the end of the webinar you will have knowledge of:

- Understand **what an independent review** is;
- Understand **how it differs from other types of engagements**;
- Understand how to **calculate the Public Interest Score**;
- Be able to perform an independent review engagement; and
- Be able to establish a **system of quality control** for independent reviews



# Table of Content

## **1. What is an Independent Review Anyway?**

- a. Legislative requirement - Companies Act
  - i. When required
- b. Who can perform an independent review
- c. Public Interest Score Calculation
- d. Limited Assurance
- e. Quality Control


## **2. Performing the Independent Review**

- a. Materiality Calculation
- b. Obtain an Understanding of the Entity
- c. Designing Procedures
- d. Concluding & Reporting
- e. Reportable Irregularity

## **3. Resources**

## **4. Q & A**

# Quote Inspiration



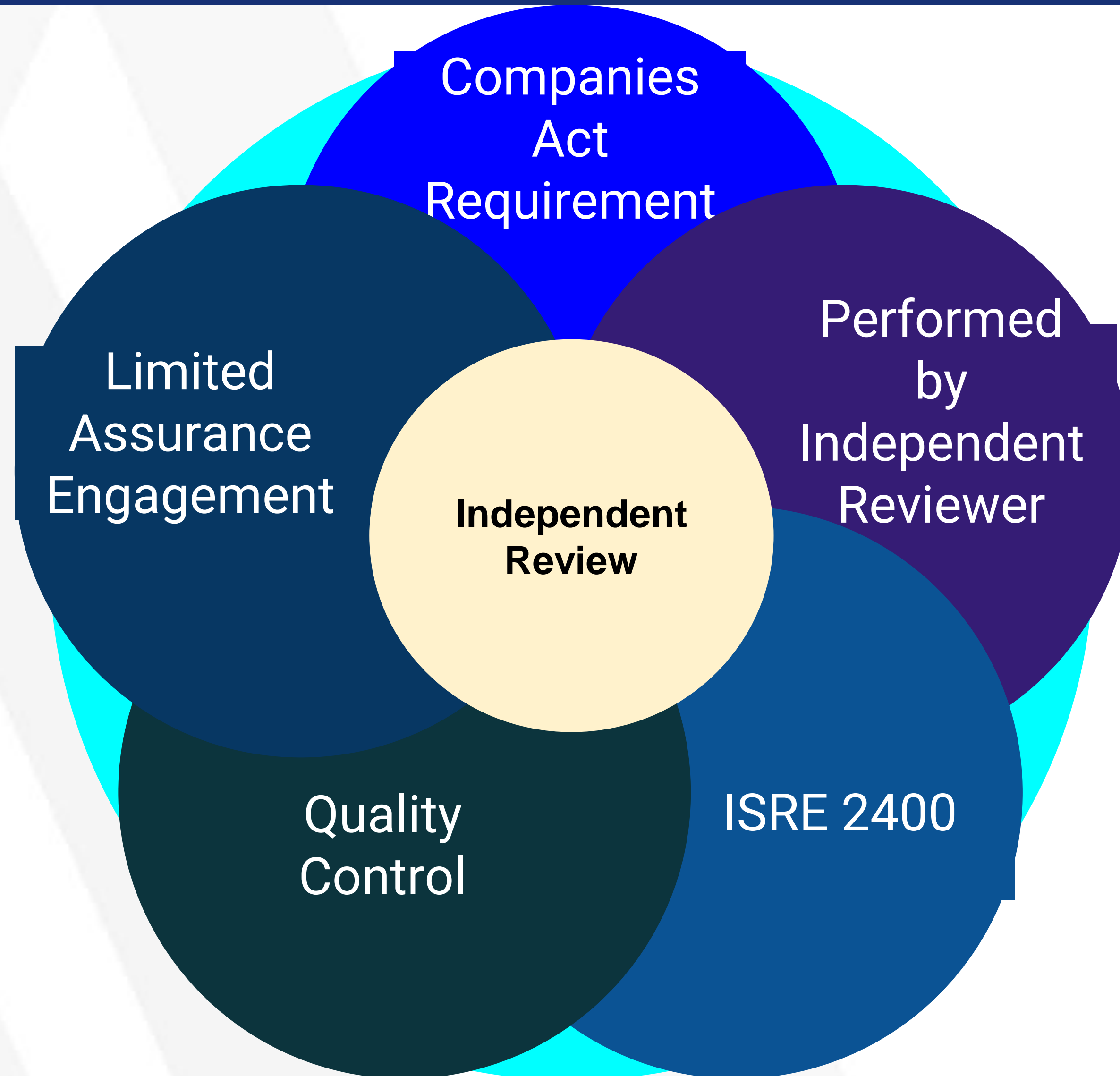
IF YOU CAN LEARN TO CREATE  
A STATE OF MIND  
THAT IS NOT AFFECTED  
BY THE MARKET'S BEHAVIOUR,  
THE STRUGGLE WILL  
CEASE TO EXIST.

— MARK DOUGLAS —

# 1. WHAT IS AN INDEPENDENT REVIEW ANYWAY?



# 1 WHAT IS AN INDEPENDENT REVIEW ANYWAY?





# 1A WHAT IS AN INDEPENDENT REVIEW ANYWAY?

## Required by Section 30 of the Companies Act

Each year a company must prepare AFS, within 6 months after the end of its financial year

The AFS must be:

- a) Audited – Public Company
- b) Audited – Based on PI Score
- Audited – Voluntarily
- Independent review – Regulation 29

(2A) Exempt from requirements of audit / independent review – Owner managed

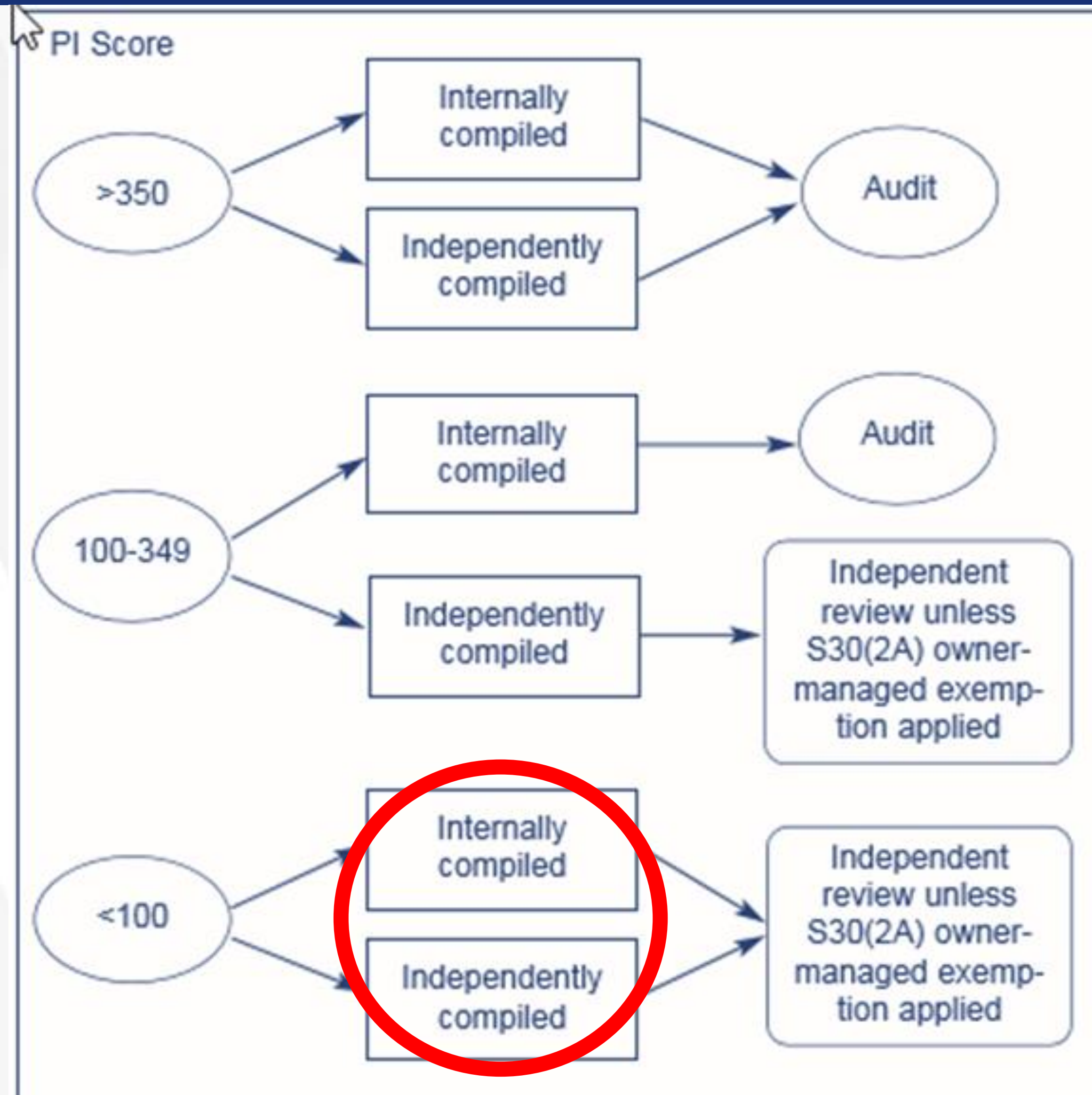
# 1A WHAT IS AN INDEPENDENT REVIEW ANYWAY?

## Regulation 29

applicable,

unless:

- exempt (s30(2)A)
- MOI requires audit
- Voluntary audit



# 1B WHO CAN PERFORM AN INDEPENDENT REVIEW?

## Regulation 26 defines “independently compiled and reported”:

- means that the annual financial statements are prepared—
  - by an **independent accounting professional**;
  - on the basis of financial records provided by the company; and
  - in accordance with any relevant financial reporting standards.



# 1B WHO CAN PERFORM AN INDEPENDENT REVIEW?

**Regulation 26 defines “independent accounting professional as a person who is:”**

- 1. A RA or a member in good standing of a professional body accredited in terms of sec 33 of the APA or qualified to be appointed as an accounting officer of a CC**
- 2. Does not have a personal financial interest in the company**
- 3. Is not**
  - involved in the day to day management of the company’s business (3 years)
  - a prescribed officer or full-time executive employee of the company (3 years)
- 1. Is not related to any person above**

**If in doubt**, regulation 27 states “a company’s financial statements must be regarded as prepared and compiled internally, unless they have been ‘independently compiled and reported’ as defined.



# 1B WHO CAN PERFORM AN INDEPENDENT REVIEW?

## Regulation 29

- **Company with PIS 100 > 349**

- RA
- CA(SA)

- **Company with PIS < 100**

- RA
- CA(SA)
- Any other person who is qualified to be appointed as an accounting officer of a CC

# 1B WHO CAN PERFORM AN INDEPENDENT REVIEW?

## Regulation 29

- **Company with PIS 100 > 349**
  - RA
  - CA(SA)
- **Company with PIS < 100**
  - RA
  - CA(SA)
  - Any other person who is qualified to be appointed as an accounting officer of a CC (subject to certification)

**AND** who was **NOT** involved in the preparation of the annual financial statements.

# 1B WHO CAN PERFORM AN INDEPENDENT REVIEW?

## Independent Review Certification

- Professional Bodies
- SAAA
- [https://accountingacademy.co.za/courses/practising\\_licence\\_independent\\_review\\_engagements](https://accountingacademy.co.za/courses/practising_licence_independent_review_engagements)

# 1C PUBLIC INTEREST SCORE CALCULATION

## FORMULA:

<b>Every R1mil (or portion thereof) in turnover</b>	<b>= 1 point</b>
<b>Every R1mil (or portion thereof) in third party liability</b>	<b>= 1 point</b>
<b>Average Number of Employees during financial year</b>	<b>= Equal number of points</b>
<b>Every individual who directly or indirectly has a beneficial interest in any of the company's issued securities</b>	<b>= 1 point</b>
<b>TOTAL PUBLIC INTEREST SCORE</b>	<b>= TOTAL POINTS ADDED UP</b>



# 1C PUBLIC INTEREST SCORE CALCULATION

## PRACTICAL CASE STUDY (STEP BY STEP) - NEW CLIENT:

NewClient (Pty) Ltd requests you advise if they need an audit or independent review and point them in the right direction to find a practitioner that can perform the relevant engagement.

### Step 1- Turnover

- Ask for

-

- Points =

# 1C PUBLIC INTEREST SCORE CALCULATION

## PRACTICAL CASE STUDY (STEP BY STEP) - NEW CLIENT (CONTINUED):

### Step 2 - Third Party Liability

	Calculation
- Current portion of borrowings	1,880,936

- Points =  $\frac{R14.896.317}{1,880,936} = 15$  Points

# 1C PUBLIC INTEREST SCORE CALCULATION

## PRACTICAL CASE STUDY (STEP BY STEP) - NEW CLIENT (CONTINUED):

Step 3 - Ask for  number of employees during the financial year

- **Ask for** payroll summary lists of active employees per month for the financial year

- Points =  $\text{sum}(\text{Total}) / 12 = 57$  Points

# 1C PUBLIC INTEREST SCORE CALCULATION

## PRACTICAL CASE STUDY (STEP BY STEP) - NEW CLIENT (CONTINUED):

Step 4 - Every individual who directly or indirectly has a beneficial interest in any of the company's issued securities

- Ask for

- Points =  =  Points



# 1C PUBLIC INTEREST SCORE CALCULATION

## STEP 5: FORMULA

<b>Every R1mil (or portion thereof) in turnover</b>	<b>=</b>	<input type="text"/>
<b>Every R1mil (or portion thereof) in third party liability</b>	<b>=</b>	<input type="text"/>
<b>Average Number of Employees during financial year</b>	<b>=</b>	<input type="text"/>
<b>Every individual who directly or indirectly has a beneficial interest in any of the company's issued securities</b>	<b>=</b>	<input type="text"/>
<b>TOTAL PUBLIC INTEREST SCORE</b>	<b>=</b>	<input type="text"/>

# 1C PUBLIC INTEREST SCORE CALCULATION

## Step 7: Regulation 29

applicable,

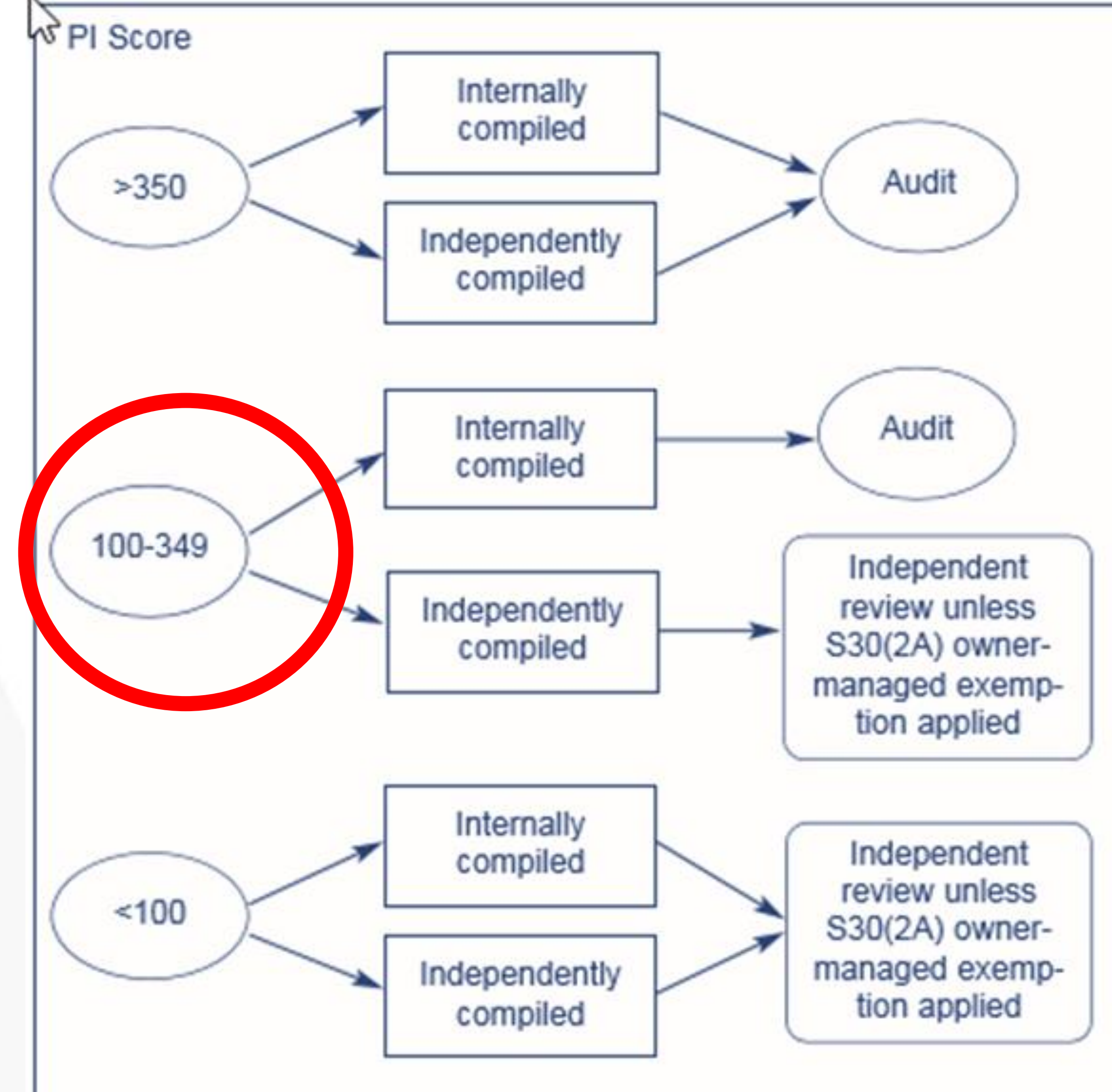
unless:

- exempt (s30(2)A)

- MOI requires audit

- Ask for

- Voluntary audit



# 1C PUBLIC INTEREST SCORE CALCULATION

## **PRACTICAL CASE STUDY (STEP BY STEP) - NEW CLIENT:**

NewClient (Pty) Ltd requests you advise if they need an audit or independent review and point them in the right direction to find a practitioner that can perform the relevant engagement.

### **Step 8 - Conclusion/ Advice to Client - PIS 157**

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# 1D LIMITED ASSURANCE

- Exhibit 2.1-3A, IFAC Guide to Review Engagements

Engagement	Standards	Assurance	Work efforts	Report
<b>Audit</b>	ISA's	Reasonable	Risk assessment and procedures that respond to the risks identified	Positive opinion
<b>Review</b>	<b>ISRE 2400</b>	<b>Limited</b>	<b>Primarily inquiry and analytical procedures</b>	<b>Conclusion on what came to the practitioner's attention</b>
<b>Compilation</b>	ISRS 4410	None	Assisting management prepare financial information	Report stating no assurance provided



# 1D LIMITED ASSURANCE

- Exhibit 2.1-3A, IFAC Guide to Review Engagements

	Audit	Review	Compilation
<b>Independence Required?</b>	Yes	Yes	Only if “Independently Compiled” required by Co Act, based on PIS Score
<b>Materiality Calculation?</b>	Financial statements as a whole Performance materiality	Financial statements as a whole	Financial statements as a whole for the purpose of compiling the information provided
<b>Understanding the entity?</b>	Sufficient to identify and assess the risk of material misstatements at the financial statements and assertion level	Sufficient to identify areas in the financial statements where material misstatements are likely to arise	Sufficient to compile the information provided.

# 1D LIMITED ASSURANCE

- Exhibit 2.1-3A, IFAC Guide to Review Engagements

	Audit	Review	Compilation
<b>Required procedures?</b>	Risk assessment Test of controls * Analytical Substantive	Inquiry Analytical Additional procedures as considered necessary	None specified
<b>Assurance evidence to be obtained?</b>	Sufficient appropriate evidence as a basis for a <u>reasonable assurance</u> opinion on the financial statements	Sufficient appropriate evidence as the basis for a <u>limited assurance</u> conclusion on the financial statements	None specified
<b>Uncorrected misstatements?</b>	Accumulate, evaluate, and request correction by management	Evaluate and request correction by management	Additional information or corrections are requested/proposed during compilation

# 1D LIMITED ASSURANCE

- Difference between Limited & Reasonable Assurance

<b>Reasonable Assurance</b>	<ul style="list-style-type: none"><li>● Audit engagement</li><li>● Positive opinion (<b>The financial statements present fairly, in all material respects,...</b>)</li><li>● A high level of assurance that is achieved when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level</li></ul>
<b>Limited Assurance</b>	<ul style="list-style-type: none"><li>● Review engagement</li><li>● Negative conclusion (<b>Nothing has come to my attention that causes me to believe that these financial statements do not present fairly, in all material respects,...</b>)</li><li>● Assurance is limited proportional to the level of the practitioners procedures as described in the assurance report</li></ul>

# 1E QUALITY CONTROL

- Quality Control Requirements ISRE 2400:
  - Under ISQC I, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
    - The firm and its personnel comply with professional standards and applicable legal and
    - Reports issued by the firm or engagement partners are appropriate in the circumstances.
    - Includes the elements of quality control mentioned in ISQCI.16 - 17
    - **Documented!!!**



# 1E QUALITY CONTROL

## Elements of Quality Control ISQCI.16 - 17

1. Leadership Responsibilities
2. Ethical Requirements
3. Acceptance and Continuance
4. Human Resources
5. Engagement Performance
6. Monitoring

# 1E QUALITY CONTROL

Elements of Quality Control ISQCI.16 - 17; **Diagram from the Guide to Quality Control for Small and Medium-Sized Practices**

## 1. Leadership Responsibilities

*Leadership Responsibility Pyramid*



# 1E QUALITY CONTROL

Elements of Quality Control ISQCI.16 - 17;

## 2. Ethical Requirements

- When to say “no” and when to sever client, staff, or even partner relationships
- Firm level transparency
  - Guidelines for partner meeting frequency & content (examples of contentious issues)
- Written partnership agreements (dispute resolution and partnership dissolution in case of disagreements)
- Process to deal with instances of non-compliance

# 1E QUALITY CONTROL

Elements of Quality Control ISQCI.16 - 17;

## **3. Acceptance and Continuance of Client Relationships and Specific Engagements**

- Competence & Resources
- Ethical Requirements
- Integrity of Client
- IFAC SMP Quality Control Guide Appendix C (Guidance)
- Requirements in ISRE 2400
  - Acceptable Financial Reporting Framework
  - Obtain in writing management's acknowledgements of responsibilities

# 1E QUALITY CONTROL

## Acceptable Financial Reporting Framework:

### SAAPS 2 / Regulation 27 of Companies Act/ IFRS for SME's

Type of Company	Sub-category	Financial statements	Acceptable Financial Reporting Framework
Private Company including Close Corporations	PIS $\geq$ 350		IFRS & IFRS or SMEs
	PIS 100 > 349	Independently compiled	IFRS & IFRS or SMEs
	PIS 100 > 349	Internally compiled	IFRS & IFRS or SMEs
	PIS < 100	Independently compiled	IFRS & IFRS or SMEs
	PIS < 100	Internally compiled	Financial reporting framework as determined by the company as long as not prescribed



# 1E QUALITY CONTROL

Elements of Quality Control ISQCI.16 - 17;

## 4. Human Resources

- Policies & Procedures Documented:
  - Sufficient resources
  - Appropriate reports
- Confidentiality Declaration (Appendix B SMP Quality Control IFAC Guide)
- Assign appropriate personnel to engagements (Appendix D SMP Quality Control IFAC Guide)

# 1E QUALITY CONTROL

Elements of Quality Control ISQCI.16 - 17;

## 5. Engagement Performance

- Goal: Promote consistency in performance, document supervision & review requirements
  - E.g. Firm manuals and/or standardized engagement templates and procedures;
  - Standardized communications and correspondence templates;
  - Research tools and reference materials; and
  - Guidance, training, and education policies and programs, including support for compliance with professional development requirements
- Guidelines for consultation on contentious issues (Appendix E SMP Quality Control IFAC Guide)
- Guidelines for Engagements that meet certain predefined criteria to undergo EQCR (Appendix F SMP Quality Control IFAC Guide)

# 1E QUALITY CONTROL

Elements of Quality Control ISQCI.16 - 17;

## 7. Documentation

- EQCR
- Timely Assembly of Final Engagement Files
- Maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation
- Retention of Engagement Documentation
- Documentation of the System of Quality Control

# 1E QUALITY CONTROL

Proposed changes - Effective in the next three years - ISQM's & Revised ISA 220

KEY CHANGES	NEW CATEGORIES
A new proactive risk-based approach	1 Governance and leadership
Modernizing for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers	2 The firm's risk assessment process
Increasing firm leadership responsibilities and accountability, and improving firm governance	3 Relevant ethical requirements
More rigorous monitoring of quality management systems and remediation of deficiencies	4 Acceptance and continuance of client relationships and specific engagements
Enhancing the engagement partner's responsibility for audit engagement leadership and audit quality	5 Engagement performance
Addressing the robustness of engagement quality reviews, including engagement selection, documentation, and performance	6 Resources
	7 Information and communication
	8 The monitoring and remediation process

# 2. PERFORMING THE INDEPENDENT REVIEW



# 2A MATERIALITY CALC

## **MATERIALITY CALCULATION (ISRE 2400):**

43. The practitioner shall determine materiality for the **financial statements as a whole**, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (Ref: Para. A70–A73)

# 2B OBTAIN UNDERSTANDING

## OBTAIN AN UNDERSTANDING (ISRE 2400):

45. The practitioner shall obtain an understanding of the entity and its environment, and the applicable financial reporting framework, **to identify areas in the financial statements where material misstatements are likely to arise** and thereby **provide a basis for designing procedures** to address those areas. (Ref: Para. A75–A77)

### Tips in Practice:

- Helps to develop expectations (remember largely analytical procedures & inquiry)
- Work smarter not harder...
- Pinpoint risk areas
- IFAC Guide to Review Engagements (Appendix D Review Checklist for Understanding)

# 2C PROCEDURES

## Review procedures designed and performed for the identified items /areas include:

- Inquiries [2400(R).48]
- Analytical procedures [2400(R).49] - IFAC Guide to Review Engagements (Appendix E)
- Procedures to address specific circumstances [2400(R).50-.55]
  - related parties
  - going concern
  - fraud
  - non-compliance
- F/S agree with or reconcile to the underlying accounting records [2400(R).56]
- Additional procedures based on professional judgement [2400(R).A8 I]

# 2D REPORTING

## Concluding & Reporting:

### **Consider the impact of:**

- Uncorrected misstatements identified during the review (current year & carried forward from previous year); and
- Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.
- Evaluate uncorrected misstatements against final overall materiality
- Unmodified or Modified Opinion
- SAAPS 3 Illustrative Reports

# 2D REPORTING

## An unmodified conclusion is appropriate when:

- Limited assurance has been obtained
- No material misstatements or omissions identified
- As a whole financial statements have been prepared in all material respects in accordance with AFRF.



# 2D REPORTING

**Pervasive effects on the financial statements are those that, in the practitioner's judgement:**

- Are not confined to specific elements, accounts or items of the financial statements;
- If so confined, represent or could represent a substantial proportion of the financial statements; or
- In relation to disclosures, are fundamental to the user's understanding of the financial statements

# 2D REPORTING

## Modified Opinions:

Modified Conclusion	Nature	Pervasive?
<b>Qualified conclusion</b>	Material misstatements / omissions / scope limitations	Not pervasive
<b>Adverse conclusion</b>	Material misstatement / known omission	Pervasive
<b>Disclaimer of conclusion</b>	Inability to obtain sufficient appropriate evidence (scope limitation)	Pervasive

# 2E WITHDRAWAL

## Withdrawal from the engagement:

The practitioner shall withdraw from the engagement if the following conditions are present:

- Due to a limitation on the scope of the review resulting in the practitioner being unable to obtain sufficient appropriate evidence to form a conclusion;
- The possible effects on the financial statements of undetected misstatements are material and pervasive; and
- Withdrawal is possible under applicable law or regulation.

# 2F REPORTABLE IRREGULARITY

## Reportable Irregularity:

### Companies Act Regulation 29 (1) (b):

- Reportable irregularity means any act or omission committed by any person responsible for the management of an company, which:
- Unlawfully has caused material financial loss to any member, shareholder, creditor of the company in respect of his, her or its dealings with that entity; or
- is fraudulent or amounts to theft; or
- **Causes or has caused the company to trade under insolvent circumstances.**

# 2F REPORTABLE IRREGULARITY

## Reportable Irregularity:

## Duties of Independent Reviewer:

- EP sends report to CIPC (include particulars of RI)
- Within 3 days Notify management in writing (include report to CIPC)
- Within 20 days Discuss with management and send 2nd letter to CIPC
- No RI taking place
- Suspected RI no longer taking place with adequate steps to prevent or recover any loss as result thereof.
- RI is continuing

**SAICA circular 3 of 2016 Illustrative Reportable Irregularity Letters for Independent Reviews**



# 3 RESOURCES

I. Reference material referred to in this workshop :

IFAC Guide to Review Engagements

(<https://www.ifac.org/publications-resources/guide-review-engagements>)

The SAICA Companies Act Guide

([https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Companies%20Act/saica-original-service\\_july2012.final.pdf](https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Companies%20Act/saica-original-service_july2012.final.pdf))

SAICA Guide on Considering the International Standards to be used for Audits, Reviews, Other Assurance, and Related Services Engagements

(<https://www.saica.co.za/Portals/0/Technical/financial-reporting/Considering International Standards July2017.pdf>)

SAAPS 2 Financial Reporting Frameworks and the Auditor's report

# 3 RESOURCES

SAAPS 3 Illustrative reports

(<https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/south-african-standards-and-practice-statements>)

NOCLAR information

(<https://www.saica.co.za/Technical/Ethics/NOCLAR/tabid/3855/language/en-US/Default.aspx>)

CIPC Guidance note on the application of section 22 of the Companies Act

([https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Guidance note Application of Section 22 Companies Act 71.pdf](https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Guidance%20note%20Application%20of%20Section%2022%20Companies%20Act%2071.pdf))

# 4 Q&A

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**Thank you for your  
participation**

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