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Independent Reviews

Presented by Caryn Maitland
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What do I want you to get
from this session?

Agenda

- Part 1 : Authority to conduct an independent review
 - Part 2 : Pre – Engagement and Planning
 - Part 3 : Performing the review for all financial statement areas
 - Part 4 : Finalisation and reporting
-
- Consideration throughout – DOCUMENTATION!!

Part 1 : Authority to conduct an independent review

Section will cover:

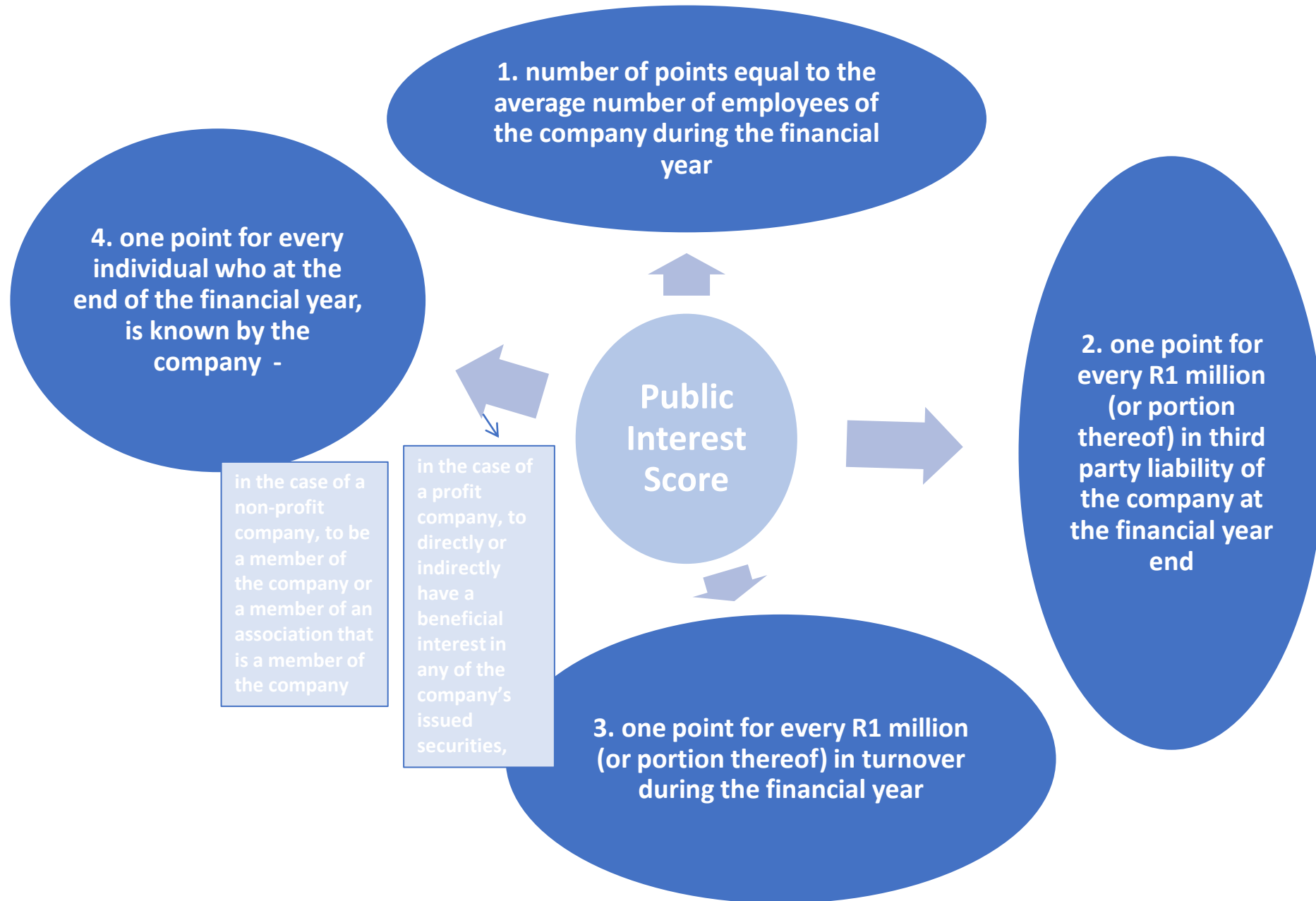
- What is an Independent Review?
- Requirements of the Companies Act
- Calculation of the Public Interest Score
- Who can perform an Independent Review?
- Compilation and Independent Review
- Reporting a reportable irregularity

Audit vs. Review vs. Compilation

- Why was independent review developed?
- Final product sold to client – the reports!
 - Accounting officer/Compilation engagement
 - Audit
 - Independent Review

The legal framework for conducting an independent review

- New Companies Act 2008
- Public interest score (Reg 26(2)):



Independent Review vs. Audit

	Always require an audit (never exempt)	
Over 350 points		
Between 100 and 350	AFS's internally compiled (by Co employee)	AFS's externally compiled (by an independent accounting professional)
	Will require an audit (never exempt)	Will be independently reviewed unless exempt per S30(2A) – owner managed
Under 100 points	Will be independently reviewed unless exempt per S30(2A) – owner managed	

- Audit requirement
 - Primary activity to hold assets in a fiduciary capacity
 - State owned or foreign connection
 - PI Score is
 - 350 or more
 - Between 100 to 350 and internally compiled
 - Voluntary audit???
- Independent review
 - AFS between 100 & 350pts that are externally compiled
 - AFS below 100pts
- S30(2A) ~~audit and~~ review exemption
 - OMB (all owners = managers)
 - Doesn't apply if another statute requires audit

Who can conduct an independent review (reg 29)

- An independent reviewer must be
 - A registered auditor (IRBA)
 - A member of good standing of a professional body accredited to S33 of APAct (IRBA)
 - If PI Score less than 100, extended to persons who qualify to be accounting officers of CC's
 - Can not be involved in the preparation of AFS
- ISRE 2400 must be used when performing an independent review per Co Act Regs.

Reviewers for below 100 points

- The South African Institute of Chartered Accountants (SAICA)
- Auditors registered in terms of the provisions of the Auditing Profession Act, 2005(RA)
- The South African Institute of Business Accountants (SAIBA)
- The Southern African Institute of Chartered Secretaries and Administrators (ICSA)
- The Chartered Institute of Management Accountants (CIMA)
- The South African Institute of Professional Accountants (SAIPA)

- The Institute of Accounting & Commerce (IAC) - members who have obtained the Diploma in Accountancy
- The Association of Chartered Certified Accountants (ACCA)
- The Chartered Institute of Business Management (MCIBM)
- The South African Institute of Government Auditors (SAIGA)

Reporting a Reportable Irregularity

What is CIPC thinking: Independent review and reportable irregularities

- CIPC wants to encourage independent reviews
- CIPC not receiving many IR's – average of 7 per quarter in 2016, IRBA??
- Definition of reportable irregularity and reporting process
- Factual vs Commercial insolvency
- Guidance Note: Application of Section 22 of Companies Act
- RI's must be reported to independentreview@cipc.co.za

Reportable irregularities per Co Act

- Regulation 29(1)(b) defines a reportable irregularity for purposes of an independent review as being:
 - any act or omission
 - committed by any person responsible for management of a company
 - which
 - unlawfully has caused or is likely to cause material financial loss to the company or to any member, shareholder, creditor, or investor of the company in respect of his, her or its dealings with the company
 - **OR**
 - is fraudulent or amounts to theft
 - **OR**
 - causes or has caused the company to trade under insolvent conditions.

Response to an RI

- **Step 1:** Send written report to the Commission (the CIPC) “without delay”
- **Step 2:** Inform the board of directors of the company
- **Step 3:** Discuss the report with members of the board of the company
 - BoD opportunity to make representations
 - Meeting must happen within 20 business days of sending CIPC report

- **Step 4:** Send a 2nd report to the Commission regarding the status of the reported irregularity
 - Status 1: no reportable irregularity had taken place or is taking place
 - Status 2: suspected irregularity is no longer taking place and that adequate steps have been taken
 - Status 3: the reportable irregularity is continuing
- **Step 5:** The Commission notifies appropriate regulators, if necessary

Part 2 : Pre-Engagement and Planning

Section will cover:

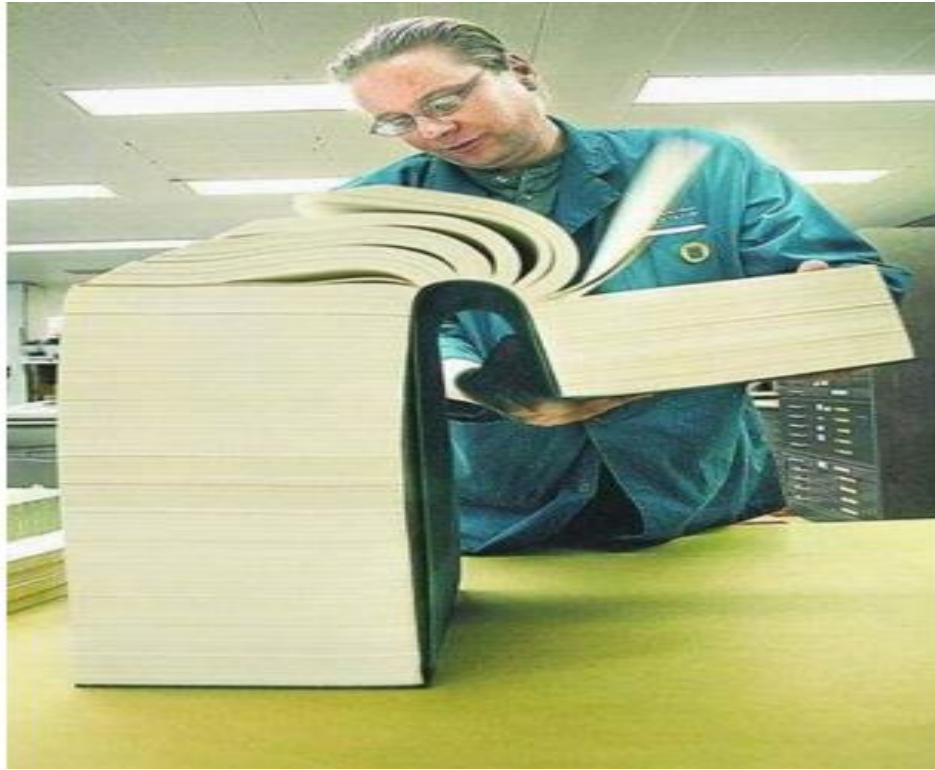
- Pre-conditions and accepting the engagement
- Engagement letter
- Ethical requirements
- Professional scepticism and professional judgement within the review engagement
- Obtaining and understanding of the client through enquiries
- Preliminary analytical review
- Overall materiality assessments
- **Areas that are likely to be misstated**
- Documentation requirements

Engaging with your client

- Pre – Conditions to be met
 - Framework?
 - Scope limitation
 - Directors take responsibility
- Engagement letter
 - NOCLAR
 - Manage expectation gap
 - NOT an audit!!

Ethics

- Self & client
- Threats & Safeguards
- Key principles
 - Integrity
 - Objectivity
 - Professional competence & due care
 - Confidentiality
 - Professional behaviour
- Independence (62% of CPC)



Managing the expectation and scope of work

- Engagement letter with client
- Acceptance and retention of clients
- Communications with client
- Not performing an audit
 - No opinion given, rather a conclusion

Conducting the review

- Use ISRE2400
- Consider Nature, Timing & Extent of procedures
- Perform primarily
 - inquiry and analytical review procedures
 - to obtain sufficient appropriate evidence
 - To draw a conclusion
- Need to perform additional procedures
 - Practitioner believes that there MAY be a material misstatement
- Good Quality Control systems in practitioners office

- Professional judgement
 - Considering
 - Materiality,
 - Procedures
 - Evaluating evidence
 - Evaluating managements judgement
 - Drawing conclusion
 - Consultation over difficult issues
- Professional scepticism

Professional scepticism

- Being alert to:
 - Contradictions
 - Unreliable documentation
 - Fraud conditions
 - Additional procedures
- To reduce risk of:
 - Overlooking unusual circumstances
 - Over generalising
 - Inappropriate assumptions
- By:
 - Critical assessment
 - Avoiding overreliance on past experience

Need to gain a thorough understanding of the client's business

- Need to obtain an understanding of
 - Entity and its environment
 - Accounting systems and records relevant to review
 - Applicable accounting framework
 - Industry entity operates in.
 - Control environment
- Sufficient to recognise area's of potential risk and misstatement and to design procedures accordingly.

- In planning, consider
 - Findings arising from previous years reviews
 - Obtain and update your understanding of the entity
 - Calculate levels of acceptable misstatement (**planning materiality**)
 - Identify **areas that are most likely to contain misstatement**
 - Consider your what response will be necessary to reduce risk (procedures)
 - Draw up detailed review programme procedures

How do you calculate planning materiality?

Planning analytics

- Develop an expectation

What areas are most likely to be MISTATED??

- What keeps you awake at night?
- Risk assessment
- Inherent risk
- Control risk
- Fraud risk
- Per balance/transaction

- Assertions are the language of risk

Part 3 : Performing the review

Section will cover:

- Focused enquiries
- Additional procedures
- Reconciling the financial statements to the underlying records
- Related parties
- Fraud and non-compliance with laws and regulations
- Presentation and Disclosure

Getting started

- Design & perform I & AR procedures
 - Need to address all material items (incl disclosure)
 - Focus on areas where misstatements are likely to arise
- Don't forget the basics
 - Do your underlying financial records reconcile to the financials
- Presentation and Disclosure
 - Will bring everything back together

Designing procedures: assertions

- At transaction or event level
 - Completeness
 - Occurrence
 - Accuracy
 - Classification
 - Cut off
- At year end balance level
 - Completeness
 - Existence
 - Valuation
 - Valuation
- Presentation & Disclosure

Designing Inquires

- Inquiries of management & other staff shall include
 - Significant accounting policies used & application
 - Development of significant accounting estimates
 - Identification of related parties and RP transactions

- Where there are significant, unusual or complex transactions, events or matters affecting the AFS including **SIGNIFICANT**:
 - Changes to entities business or operations
 - Changes to contracts (debt and finance, covenants)
 - Journal entries and other adjustments to AFS
 - Transactions occurring near the end of the reporting period
 - Status of uncorrected misstatements identified from previous review
 - Effects and implications of transactions with related parties

- The existence of any actual, suspected, or alleged:
 - Fraud or illegal acts affecting entity
 - Non-compliance with provisions of law/regulations
 - Direct effect on determination of material amts & disclosures
- Management's assessment of going concern
 - Events or conditions that can cast doubt?
- Written representations needed!!
 - Management integrity critical
 - Confirm completeness
 - Dates representations cover

Designing Analytical Procedures

- Analytical procedures
 - Can you rely on the data produced by the accounting systems & records? Is it satisfactory?
 - Characteristics of info available
 - Ratio analysis
 - Numbers never lie!
- Consider
 - Comparisons with prior year AFS
 - Comparison with anticipated results
 - Study the relationship between balances & transactions

- Subsequent events?
 - Design procedures
- Reconcile AFS to underlying accounting records
- Evaluate the sufficiency and appropriateness of data
 - Need additional procedures??
- Refer current ISRE 2400 (ie NOT the ED, but the standard currently in issue) Appendix 2

Procedures for Specific Circumstances

- Related parties
 - Look out for those not identified or disclosed
 - Discuss with management
- Fraud and non-compliance with laws and regulations
 - Speak to senior management, and get their assessment on the impact on AFS.
 - Consider representations and assess effect on report
 - Need to report to outside organisation??

- Going concern
 - Foreseeable future, 12 months post B/S date
 - Discover events or conditions that cast doubt?
 - Financial, operating, other
 - Discuss management's plans and assessment of feasibility of plan's outcome
 - Apply your mind to the evidence gathered
- Use of work performed by others
 - Other practitioner or expert

Subsequent Events

- Become aware of PBE
 - Request management to make adjustments
 - Reviewer only responsibility up to date of their report
 - What about after practitioner's report but before date of issue?
 - If management doesn't make amends and practitioner has already provided report?

Part 4 : Finalisation and reporting

Section will cover:

- Overall analytical review
- Evaluation of misstatements
- Letter of representation
- Management letter
- Reporting in terms of regulation 29 (RI).
- Report
- Modified conclusion
- Unmodified conclusion

Concluding the Engagement

- Para 14) To conclude,
 - through performing primarily inquiry and analytical procedures, and
 - evaluating the sufficiency and appropriateness of evidence obtained,
 - whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements are not prepared,
 - in all material respects,
 - in accordance with an applicable financial reporting framework, and
- To report on the financial statements as a whole, and communicate as required.

Wrapping things up...

- Overall analytical review
- Evaluation of misstatements
- Letter or representation
- Management letter
- Reportable irregularities

Forming your conclusion

- Consider applicable accounting framework
 - Adequately identified and correct terminology used
 - Correctly applied
 - Accounting policy choices
 - Consistently applied
 - Estimates reasonable
 - Information appears relevant, reliable, comparable & understandable
 - Adequate disclosure so that users can appreciate the effects of material transactions and events

- Consider the impact of
 - Unadjusted misstatements
 - This year, last year and AFS as a whole
 - Back to materiality....
 - Qualitative aspects
 - Possible bias in management's judgement??
- If using a fair presentation framework
 - Are the AFS fairly presented?
 - Do they give a fair and true view?

- If unable to obtain sufficient appropriate evidence
 - Discuss implications with management
 - Determine effect on report
- Modified vs unmodified conclusion
 - Unmodified: Nothing has come to the practitioner's attention
 - Framework & fair presentation

- Modified Conclusion
 - AFS materially misstated
 - Couldn't get enough evidence on 1 or more items that effect the AFS as a whole
- Qualified vs Adverse vs Disclaimer
 - Qualified: matter is material but not pervasive wrt to AFS as a whole
 - Adverse: matter is both material & pervasive
 - Disclaimer: insufficient evidence, effect of potential undetected misstatements?
 - Qualify if material but not pervasive
 - Disclaim if both material & pervasive

- When modifying report
 - Title of conclusion changes
 - Include a description of matter immediately before conclusion
- Qualified = “except for”
 - Quantify financial effects, unless impracticable
 - Narrative disclosures – explain effect of misstatement
 - Nature of omitted disclosures, unless prohibited by law
 - Reasons why unable to obtain sufficient appropriate evidence

- Adverse

- AFS not prepared in accordance with accounting framework OR
- AFS do not fairly present...
- Include in report
 - Quantify financial effects, unless impracticable
 - Narrative disclosures – explain effect of misstatement
 - Nature of omitted disclosures, unless prohibited by law

- Disclaimer

- Can't form an opinion due to significant scope limitations
 - Describe matter(s) that is the basis of disclaimer
 - Unable to complete review in accordance with ISRE2400
 - “practitioner does not express an conclusion on AFS”

- Inability to form a conclusion based on a Management imposed limitation on the scope of the review after engagement acceptance
 - Determine implications
 - If material & pervasive
 - Withdraw from review if you can
 - Disclaim conclusion, if withdrawal not possible before issuing report

The practitioner's report

- Title & Introduction
- Management's responsibilities
- Special purpose reporting framework
- Practitioner's responsibilities
- Conclusion
 - Basis for qualified/adverse/disclaimer of conclusion
- Date (NB), signature, firm details

- Communication of the nature of a review of AFS
- Emphasis of matter
- Other matters
- Other reporting responsibilities
- Examples (Refer ED ISRE2400)

Documentation

- Sufficient so that another practitioner can follow his work and draw the same conclusions
 - Nature, timing and extent
 - Who performed the work & dated
 - Who reviewed the work & dated (QC)
 - Results and conclusions
 - Significant matters & judgements
 - Discussions with management and others
 - Any inconsistencies discovered?
 - How were they addressed.
 - Ethical challenges
 - Threats and measures taken

QUESTIONS

THANK YOU FOR YOUR PARTICIPATION



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