

# When is it appropriate to perform an independent review?

All companies that are not required to have audited financial statements must have their financial statements independently reviewed (with the exception of companies where all the shareholders are also directors and therefore are not required to obtain an audit or a review).

The Act requires public companies and state owned companies to have an audit.

In addition, the Regulations, which provide for both activity and size criteria to determine whether or not companies require audited financial statements, require any company that falls within any of the following categories in any particular financial year to have its financial statements audited:

- (a) Any profit or non-profit company if, in the ordinary course of its primary activities, it holds assets in a fiduciary capacity for persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year exceeds R5 million;
- (b) Any non-profit company, if it was incorporated—
  - (i) directly or indirectly by the state, an organ of state, a state-owned company, an international entity, a foreign state entity or a company; or
  - (ii) primarily to perform a statutory or regulatory function in terms of any legislation, or to carry out a public function at the direct or indirect initiation or direction of an organ of the state, a state-owned company, an international entity, or a foreign state entity, or for a purpose ancillary to any such function; or
- (c) Any other company whose public interest score in that financial year is
  - (i) 350 or more; or
  - (ii) at least 100, but less than 350, if its annual financial statements for that year were internally compiled.

The inclusion of size criteria will inevitably mean that a large number of private companies will be required to have their financial statements audited.

All companies with a public interest score of more than 350 will be audited. For those companies with a score below 350, an audit will nonetheless be required if the company meets the requirements of the activity test.

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## Who is allowed to perform an independent review?

The Regulations propose that an independent review of a company's annual financial statements must be carried out —

(a) In the case of a company whose public interest score for the particular financial year was at least 100, by a registered auditor, or a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Professions Act (SAICA is the only body so accredited at the moment); or

(b) in the case of a company whose public interest score for the particular financial year was less than 100, by —

(i) a person contemplated in paragraph (a); or

(ii) a person who is qualified to be appointed as an accounting officer of a close corporation in terms of section 60 of the Close Corporations Act, 1984.

The effect of this Regulation is that only registered auditors and CA's may perform an independent review of companies with a public interest score of more than 100.

## Would an Independent Review ever be applicable to a Non-Profit company?

A Non Profit Company does not have any shareholders, only directors. There is a minimum of three directors required for the registration. A Non Profit Company is registered with the purpose of not gaining profit for self gain; therefore it cannot have shareholders with shares that are valued at a certain amount. In short, the company is seen to have no ownership; it is basically run by the directors of the Non Profit Company.

Only a company that makes a profit can have shareholders as each shareholder needs a certain amount of shares that are valued, and make a profit from the company depending on how many shares they own. A Non Profit Company cannot make a profit; the income raised or received needs to be used within the company for the certain purpose it was registered for.

Therefore the owner-managed exemption from an Independent Review/ Audit will never apply to a non-profit company.

Non-profit companies that are required to be audited by the Companies Act, 2008 or regulation 28, must file a copy of the latest approved Audited Financial Statements on the date that they file their annual return with the CIPC.

The following non-profit companies are required to have their annual financial statements audited:

Any non-profit company if, in the ordinary course of its primary activities, it holds assets in a fiduciary capacity for persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year exceeds R5 million;

Any non-profit company that was directly or indirectly incorporated by the state, an organ of state, a state-owned company, an international organisation, foreign state entity or a foreign company;

Any non-profit company incorporated to fulfill a statutory or regulatory function in terms of legislation or to carry out a public function at the initiation or direction of an organ of state, a state-owned company, an international organisation or a foreign state entity.

Unless the company has opted to have its annual financial statements audited or is required by its Memorandum of Incorporation (MOI) to do so, a non-profit company may be subject to independent review if:

It compiles its financial statements internally and its Public Interest Score is less than 100;  
It has its financial statements compiled independently at its Public Interest Score is between 100 and 349;

Non-profit companies that are not required to have their financial statements audited, may elect to voluntarily file their audited or reviewed statements with their annual returns. If such companies choose not to file a full set of financial statements, they must file a financial accountability supplement with their annual return.

## Where can we obtain a copy of ISRE 2400?

On the IRBA Website:

<https://www.irba.co.za/upload/Ax%20-%20IAASB%20ED%20ISRE%202400%20Reviews.pdf>

On the IFAC Website:

<https://www.ifac.org/system/files/downloads/b010-2010-iaasb-handbook-isre-2400.pdf>

On the SAICA Website:

<https://www.saica.co.za/Technical/Assurance/IndependentReviewEngagements/tabid/2631/language/en-ZA/Default.aspx>

## How would you define "external" compilation of financial statements, please?

Financial statements will be internally compiled, unless it was “independently compiled and reported”.

In terms of the Regulations “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.

## What constitutes the AFS?

“Financial statements” - A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. 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 it can also refer to a single financial statement.

**Source:**

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