

# The Independent Accountant: Professional Engagements



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# Presenter

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- Jako consults for public sector and private clients across South Africa on Accounting Standards and Compliance, Broad Based Black Economic Empowerment, Tax matters and Business Development.
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# Course Outline

# Our goal today - understand

- common law, contract law and statutory law obligations when performing an engagement;
- the difference between the various engagement standards;
- the link between risks, controls and engagement approach;
- independence as it relates to each type of engagement and other ethical considerations;
- to accept, perform and complete the different type of engagements

# Introduction:

The need for quality financial statements

- Scope of Engagement and who does what
- Duties and Liabilities
- Relevant Court Cases
- Accountants and the Tax administration Act

- Accountants and the Consumer Protection Act
- Accountants and the Companies Act
- Accountants and the Companies Act - Liabilities
- Accounting Officer in Close Corporations Act
- Reducing Liability
- Accounting officer – Engagement Framework
- Engagement Comparison
- IFRS for SMME
- Accounting Officer in other Statutes

*The secret to success is to be ready for your opportunity when it comes.*

**- Benjamin Disraeli**

# Introduction and Framework



# Why do we need Quality Financial Statements

- Risk
- Users
- Companies Act
- Tax Administration Act
- Public opinion
- What about ethics?

# What is ethics?

- **Ethics** is concerned with what is good for individuals and society and is also described as **moral** philosophy. The term is derived from the Greek word ethos which can mean custom, habit, character or disposition.

# Why do we need ethics?

- our commitment to act in accordance with **ethical** principles is often challenged because of pressures to **do** otherwise. ... **Ethics** is a system of principles that helps us tell right from wrong, good from bad. **Ethics** can give real and practical guidance to our lives.

# Ethical Dilemma

## **An Attorney's Ethical Dilemma**

- So this young attorney was visiting with his client, an elderly woman, when she gets up to leave, while reaching for her walking cane, a \$100 bill falls out of her purse onto the floor and she hobbles out without noticing. So the young attorney is faced with a serious professional ethics dilemma, does he take that \$100 bill and put it in his pocket.....or does he share it with his partners?

In the times we live...

What ought one to do?

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Ethics**
  - Ensure compliance to IFAC Code of Ethics, as appropriate
  - Integrity means you may not knowingly be associated with false or misleading information

# USERS

- Owners/shareholders
- Directors/managers
- Employees
- Finance providers (secured vs unsecured)
- Analysts
- Regulators
- SARS

# COMPANIES ACT

- S28 Accounting records
- S29 Financial Statements
- S30 Annual financial statements
- S214(2) - Offence



# TAX ADMINISTRATION ACT

- S29 Duty to keep records
- S30 Forms of records kept or retained
- S31 Inspection of records
- S241 Due diligence

# Public Opinion

➤ Steinhoff

➤ VBS Bank

➤ Tongaat Hulett

To name a few...

# **Risk management framework**

**Top Tier – ISQC 1**

**Middle Tier – Audit/Accounting  
Standards**

**Lower Tier - Assignment Performance**

# Scope of engagement

Who is supposed to do what and when?

# TYPE OF ENGAGEMENT?

PIS

	<b>Audit</b>	<b>Audit</b>	<b>Audit</b>	<b>Audit</b>
350	<b>None</b>	<b>Audit</b>	<b>Review</b>	<b>Audit</b>
100	<b>None</b>	<b>None</b>	<b>Review</b>	<b>Review</b>
0	Independently compiled	Internally compiled	Independently compiled	Internally compiled
	Owner-managed		Not owner-managed	

<b>Audit</b>
<b>Review</b>
<b>None</b> (no requirement - Compilation)

# Public Interest Score

- The Public Interest Score is calculated thus:
- 1 point for each employee or the average number of employees throughout the year.
- 1 point per million rand of third party liability. This is the money owed in terms of loans, debentures, and other financing.

# Public Interest Score

- 1 point for each million rand of turnover during the financial year. If the turnover is half a million rand, score  $\frac{1}{2}$  point.
- 1 point for every individual who, at the end of the year, is known to have a direct or indirect beneficial interest in the company. This will include shareholders, beneficiaries of a trust where a trust is a shareholder and other stakeholders.

**Companies scoring 350 points or more are required to have an audit.**

# WHO MAY PERFORM THE ENGAGEMENT?

PIS	350	Registered Auditor	Registered Auditor	Registered Auditor	Registered Auditor
	100	N/A	Registered Auditor	Registered Auditor	Registered Auditor
	0	N/A	N/A	Auditor / Accounting Officer	Auditor / Accounting Officer
		Independently compiled	Internally compiled	Independently compiled	Internally compiled
	Owner-managed		Not owner-managed		

Registered Auditor
Auditor or Person qualified to act as Accounting Officer
N/A (no requirement - Anyone)



# WHICH FRF TO USE?

PIS					
	350	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs
	100	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs
	0	IFRS or IFRS for SMEs	None	IFRS or IFRS for SMEs	Acceptable
	Independently compiled	Internally compiled	Independently compiled	Internally compiled	
	Owner-managed		Not owner-managed		

IFRS or IFRS for SMEs
IFRS or IFRS for SMEs
No requirement (may even be cash basis)
No requirement (but must be "acceptable") <i>Thus: IFRS or IFRS for SMEs</i>

## •Scope

Limiting the scope of what you do limits the extent of your liability and reduces misunderstanding between yourself and the client.

Accountants, AO and IR perform specific reporting engagement for clients

They are not

- Bookkeepers
- Business advisors
- Tax practitioners or advisors
- Attorneys

# Key Standards

- ISRS 4410 for assisting clients to prepare financial statements (compilation)
- ISRS 4400 for issuing an accounting officer report on the financial statements (agreed-upon-procedure).
- ISRE 2400 for issuing an independent review report for qualifying companies or review report for other entities.

# Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

# Duties and Liabilities

- **Duties**

Your rights, duties and liabilities are determined by:

- **Common Law**

- Act with care, skill and diligence
- Act in the best interest of your client
- Act ethically

- **Contract Law**

- Act in terms of the agreement signed with the client

- **Statutes and regulations**

- Act in compliance to specific Act and regulations

- **Engagement standards**

- Engagement standards may be prescribed by statute, professional bodies or be expected as part of common law

- **Liabilities**

- Liabilities arise from duties and duties are related to rights
- Act with care, skill and diligence and in accordance to contract, standards and laws
  - May be held liable if they do not
  - Negligence may lead to clients suffering a loss, clients may claim loss from accountant
- Liability towards
  - Sole Proprietor
  - Partnership
  - Companies, Close Corporations, Trusts, Schools, sectional titles etc

- **Liabilities**

- Accountants may be held liable for fraud

- Relevant case: *Levenstein v The State* (890/12) [2013] ZASCA 147 (1 October 2013) „I am therefore satisfied that in those limited respects the appellant knew that the financial statements contained figures that did not bear the auditors’ approval. But that does not in itself justify a conviction of fraud. Fraud may arise if ..... [ed-Accountant] “knowingly misrepresented the truth with the intention to induce persons embarking on a course of action to their actual or potential prejudice”



- **Liabilities**

- Accountants may be subject to penalties for non-compliance issued by
  - CIPC
  - SARS
  - Professional bodies

- **Liabilities**

- Civil and Criminal

- **CIVIL x 3**

- 1 NEGLIGENCE = Doing or not doing what a reasonable person would or would not do
  - Liability only if:
    - Willful or involuntary mistakes or errors
    - Not doing work with care, skill and diligence
    - Client suffered a loss
- 2 MISFEASANCE = No or partial compliance with contract
  - Is there a duty
  - The duty was not performed
  - The client suffered a loss

- **Liabilities**

- Civil

- 3 LIABILITIES TOWARDS THIRD PARTIES

- Example: Lenders, creditors, employees, SARS
      - Third parties may rely on FS reported on by accountant
      - However accountant issues report in terms of agreement with client - No contract between third party and accountant – No liability
      - Unless accountant commits fraud - Facts to prove by third parties
      - US – 3 approaches
        - No liability to third parties
        - Liability towards parties directly related to FS e.g. banks
        - General liability to society

- **Liabilities**

- Liabilities iro companies

- 2. CRIMINAL

- Concealing fraud
- Damaging client property
- Knowingly issuing fraudulent reports
- Falsifying or destroying books of account
- Knowingly issuing untrue financial statements
- Accepting bribes

# Relevant Court Cases

- **Cases: Compilation and Accounting Officer Reports**
- Content of reports are legally binding
  - Maccelari and others vs help u build project management CC SA1282
    - CC in liquidation and members claim repayment of loan accounts
    - Liquidator refuses to repay loans – states that loans are subordinated
    - Accounting Officer report included note that members subordinated their loans
    - However no subordination agreement existed
    - Court disregarded that fact and accepted that members read and understood the content of the AO report
  - Lesson: Be careful what you include in reports
  - SARS can rely on your report to show that taxpayer does not keep records as required
  - Don't state anything other than what the CC Act or a standard require

- **Cases: What is accounting records**
  - Accounting records more than just source documents
  - CC Act and Co Act require books of account
    - Airport Cold storage Pty Ltd vs Ebrahim
      - Member held personally liable for debts of CC
      - Abuse of separate corporate identity of CC
        - No proper books of accounts (Books to trial balance)
        - Majority of sales unbanked
        - Doesn't pay VAT and PAYE
        - Abuse the corporate form
        - Incorrect invoices
        - Act without Accounting Officer
    - Lesson: Clients should understand the importance of keeping accounting records up to trial balance (indicator of reckless trading)
    - TAA requires proper bookkeeping system

- **Cases: Accountant held liable for neglecting to refer client to tax specialist**
  - Mehjoo v Harben Barker (A Firm) & Anor [2013]
  - The client argued that his accountant had a duty of care to advise him to consult a tax specialist, which would have enabled the client to avoid CGT.
  - The accountant erred by circumventing his own engagement letter. The letter stated that the accountant would only give tax advice if requested to do so by the client.
  - However trying to be helpful and proactive he provided advice voluntarily and without a direct request from the client.



- **Cases: Accountant held liable for neglecting to refer client to tax specialist**
  - Mehjoo v Harben Barker (A Firm) & Anor [2013]
  - This action by the accountant changed the terms of the engagement. The tacit agreement now required him to – in all circumstances and at all times – consider his clients tax affairs.
  - This meant that he owed a duty of care to his client, which included a duty to refer his client to a tax specialist if he knew or ought to have known that this would provide a tax benefit
  - Case overturned in Court of Appeal.

- **Cases: Accountant held liable for neglecting to refer client to tax specialist**
  - Mehjoo v Harben Barker (A Firm) & Anor [2013]
  - Case overturned in Court of Appeal
  - In a judgment handed down in March 2014, the Court of Appeal confirmed that the extent of a professional's duty will depend upon
    - the terms and limits of his retainer and
    - any duty of care to be implied must be related to what he is instructed to do
  - However .....

- **Cases: Accountant held liable for neglecting to refer client to tax specialist**
  - Mehjoo v Harben Barker (A Firm) & Anor [2013]
  - It was not reasonable for Harben Barker to know about the specialized tax scheme
  - Harben Barker's negligence was said to be a failure to specify what sort of advice his client should seek, even though they had no reason to know that the tax schemes existed.
  - Harben Barker did not know what these schemes were nor could they be expected to do so.
  - They satisfied the Hurlingham Estates test and had discharged their duty.

- **Cases: Accountant held liable for neglecting to refer client to tax specialist**
  - Mehjoo v Harben Barker (A Firm) & Anor [2013]
  - Lessons:
    - Draft original engagement letters
    - Regularly update engagement letters

- **Cases: FRC vs Deloitte: Acting in the public interest**
  - MG Rover collapsed in 2005, five years after a group of four businessmen bought the loss-making auto maker for £10.
  - Deloitte was auditor for MG Rover while also acting as corporate finance adviser to companies controlled by or affiliated with the businessmen.
  - In October 2013 the governing body in the UK, the FRC issued judgment against Deloitte for not acting in the public interest
  - Deloitte was fined £14 million for professional misconduct.
  - Allegations centered around Deloitte's failure to address the potential conflicts of interest between the parties.

- **Cases: FRC vs Deloitte: Acting in the public interest**
  - According to the FRC the decision will “send a strong and clear message to all members of the accountancy profession about their responsibility to act in the public interest and comply with their code of ethics.”
  - Deloitte argues that this decision could have negative implications for the advice that can be provided by members of professional bodies.
  - According to the judgement Deloitte “put their own interests ahead of that of the public and compromised their own objectivity” and found "no evidence to suggest the public interest" had been "considered adequately at all.”
  - Deloitte has appealed the decision.

# Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

# ACCOUNTANTS AND THE TAX ADMINISTRATION ACT



- Tax Administration Act – Section 241 liability – due diligence
  - The Tax Administration Act sets down certain rules that you as the accountant must apply when preparing financial statements for clients
  - Section 240
    - regulates who may give advice or complete (and submit) a tax return for another person at a consideration
  - Section 241
    - allows SARS to lay complaint with controlling body of tax practitioner if tax practitioner
    - without exercising due diligence
    - prepared or assisted in the preparation, approval or submission of any
      - return, affidavit or
      - other document relating to matters affecting the application of a tax Act
  - This other document includes financial statements prepared by the accountant and submitted by him as tax practitioner

- Tax Administration Act - Section 241 liability – due diligence
  - If you act as accountant and tax practitioner by preparing FS and submitting a tax returned based on the FS information and
  - you did not follow due diligence in preparing FS then SARS can lay complaint with your professional body
  - Meaning of due diligence – not defined in TAA
  - However due diligence defined in the US

- Tax Administration Act - Section 241 liability – due diligence
  - Inland Revenue (USA) – Circular 230 and CPA articles – refer appendix
  - Practitioner must apply due diligence – Article 1
    - “Set up a system for interviewing clients and preparation of returns
    - Follows the systems, controls, and routines he/she has in place
    - Exercise reasonable compliance with the routine
    - Communicate significant information to the client – explain the law
    - Determine the correctness of oral or written representations made by preparer to the client – know the law
    - Show record of attempts to secure information and/or documents”

- Tax Administration Act - Section 241 liability – due diligence
  - Inland Revenue (USA) – Circular 230 and CPA articles – refer appendix
  - Practitioner must apply due diligence – Article 1
    - “Use the clients information unless the preparer knows or has reason to know that the information on the document is incorrect
    - Make reasonable inquiries of the client if the information as furnished appears to be incorrect, inconsistent, or incomplete
    - Do not ignore the implications of information furnished to, or actually known by, the preparer.
    - Use the same care in processing the information provided by the client that a reasonably prudent preparer would use in handling client information.
    - Exercise care in using the required information to prepare the return”

- Tax Administration Act - Section 241 liability – due diligence
  - Inland Revenue (USA) – Circular 230 and CPA articles – refer appendix
  - What SARS will look for to consider due diligence – Article 2
    - “Did the preparer apply the law appropriately to the facts?”
    - What effort was made to obtain the pertinent facts?
    - Should the preparer have made inquiries about items on the return or verified the evidence in support of the item?
    - What documentation existed to support the professional duties of the preparer?
    - What processes existed in the tax preparer’s office or the preparer’s firm to ensure the appropriate evaluation of facts, application of law, discharge of any indicated responsibility to verify information and to document these processes?”

- Tax Administration Act - Section 241 liability – due diligence
  - Inland Revenue (USA) – Circular 230 and CPA articles – refer appendix
  - Types of due diligence – Article 2
    - Diligence pertaining to representations with regard to interpretations and compliance with tax law
    - Diligence pertaining to facts or evidence to support items reflected on a return

- Tax Administration Act - Section 241 liability – due diligence
  - Inland Revenue (USA) – Circular 230
  - Reliance on the work of others
    - “...a practitioner will be presumed to have exercised due diligence for purposes of this section if the practitioner relies on the work product of another person and the practitioner used reasonable care in engaging, supervising, training, and evaluating the person, taking proper account of the nature of the relationship between the practitioner and the person”

- Tax Administration Act - Section 241 liability – due diligence
  - What you need to comply
    - An engagement framework
    - Documentation (engagement letters, representation letters, working papers)
    - Quality control procedures



- TAA requirements that influence the way accountants work
  - **Criminal offences relating to non compliance (Chapter 17)**
  - A person who willfully or without just cause —
    - fails or neglects to register as a tax practitioner as required under section 240;
    - fails or neglects to submit a return or document to SARS or issue a document to a person as required under a tax Act
    - fails or neglects to retain records as required under this Act
    - submits a false certificate or statement under Chapter 4
    - issues an erroneous, incomplete or false document required under a tax Act to be issued to another person
    - fails to comply with a directive or instruction issued by SARS to the person under a tax Act
    - fails or neglects to comply with the provisions of sections 179 to 182, if that person was given notice by SARS to transfer the assets
    - dissipates that person's assets or assists another person to dissipate that other person's assets in order to impede the collection of any taxes, penalties or interest

- TAA requirements that influence the way accountants work
  - **Criminal offences relating to evading of tax (Chapter 17)**
  - A person who with intent to evade or to assist another person to evade tax or to obtain an undue refund under a tax Act—
    - makes or causes or allows to be made any false statement or entry in a return or other document, or signs a statement, return or other document so submitted without reasonable grounds for believing the same to be true
    - gives a false answer, whether orally or in writing, to a request for information made under this Act
    - prepares, maintains or authorises the preparation or maintenance of false books of account or other records or falsifies or authorises the falsification of books of account or other records
    - makes use of, or authorises the use of, fraud or contrivance
    - makes any false statement for the purposes of obtaining any refund of or exemption from tax
  - Any person who makes a statement in the manner referred to above must
    - unless the person proves that there is a reasonable possibility that he or she was ignorant of the falsity of the statement and that the ignorance was not due to negligence on his or her part,
  - be regarded as guilty of the offence

- TAA requirements that influence the way accountants work
  - **The Duty To Keep Records (Chapter 4)**
  - A person obliged to keep records, books of account, documents) must—
    - keep the records in
      - their original form
      - the form generally prescribed by the Commissioner by public notice
      - the form authorised by a senior SARS official upon request by a specific taxpayer for the retention of information contained in records or documents by that taxpayer in a different but acceptable form
    - in an orderly fashion, in a safe place
    - open for inspection, audit or investigation by SARS
  - SARS can do an unannounced inspection to ensure that the records that have to be retained are actually retained
  - Duty to retain records - registered and filed taxpayers AND those who ought to but have not filed a return and tax payers below the threshold
  - Failure or neglect to retain records as required is a criminal offence. It may also trigger an administrative non-compliance penalty

- TAA requirements that influence the way accountants work
  - **The Statements Concerning Accounts By Preparer (Chapter 4)**
  - If a return is supported by
    - A balance sheet
    - Statement of assets and liabilities
    - Account
  - Prepared by any other person (What is the meaning of prepared?)
  - The taxpayer may be requested to submit a certificate or statement recording
    - The extent of the examination by the preparer of the books of account and of the documents from which the books of account were written up
    - In so far as may be ascertained by the examination, whether or not the entries in those books and documents disclose the true nature of any transaction, receipt, accrual, payment or debit.
    - The preparer must, at the request of the taxpayer, submit to that taxpayer a copy of the certificate or statement.
  - The submission of false certificate or statement constitutes a criminal offence and may trigger an administrative non-compliance penalty under Chapter 15.

- TAA requirements that influence the way accountants work
- **The Information Gathering Powers (Chapter 5)**
- SARS entitled to gather additional information from third parties
  - SARS may direct a request for information to a taxpayer or another person, typically a third party that has information about the taxpayer, to provide information to SARS
  - The request for information may only be used to obtain relevant material
  - The request for information is limited to the records maintained or that should reasonably be maintained by a person
- Interview with taxpayer and provide material
  - Accountants are excluded from this requirement – only taxpayer will be interviewed

- TAA requirements that influence the way accountants work
  - **The Information Gathering Powers (Chapter 5)**
  - Field audit or criminal investigation or attend an inquiry
    - Audit at the premise of any person
    - Request relevant material to be made available by the person at the premises, including asking questions from persons at the premises and examine systems and downloading relevant material
  - Provide assistance with audit
    - An obligation is imposed on the person on whose premises the audit is conducted
    - Make available appropriate facilities, to the extent that such facilities are available, for example photocopying facilities, answering questions relating to the audit or investigation, submitting relevant material as required.
  - Criminal not to assist

- TAA requirements that influence the way accountants work

- The Understatement Penalty**

*Table 12: Understatement Penalty Table*

1 Item	2 Behaviour	3 Standard case	4 If obstructive, or if it is a 'repeat case'	5 Voluntary disclosure after notification of audit	6 Voluntary disclosure before notification of audit
(i)	Substantial understatement	25%	50%	5%	0%
(ii)	Reasonable care not taken in completing return	50%	75%	25%	0%
(iii)	No reasonable grounds for tax position taken	75%	100%	35%	0%
(iv)	Gross negligence	100%	125%	50%	5%
(v)	Intentional tax evasion	150%	200%	75%	10%

- Behavior reduces or increases penalty
- Reasonable care
  - Means that a taxpayer is required to take the degree of care that a reasonable, ordinary person in the circumstances of the taxpayer would take to fulfill his or her tax obligations – including preparing accurate financial statements
- Gross negligence
  - What a reasonable person would foresee as being conduct which creates a high risk of a tax shortfall occurring. Gross negligence involves recklessness but not wrongful intent

# Q&A

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# ACCOUNTANTS AND THE CONSUMER PROTECTION ACT

- CONSUMER PROTECTION ACT
- An accountant may not:
  - offer to supply, supply, or contract to supply any goods or services **at a price or on terms** that are unfair, unreasonable or unjust;
  - **market** any goods or services, or **negotiate**, enter into or **administer** a transaction in an unfair, unreasonable or unjust manner;
  - require a person to whom goods or services are supplied **to waive any rights, assume any obligation or waive any liability** of supplier on unfair, unreasonable or unjust terms
- If unfair, unreasonable or unjust, a provision or the entire contract is **void** plus damages
- **Plain language**: must be able to understand or be expected to understand the content, significance and import without undue effort
- limit or exempt liability for loss directly or indirectly attributable to gross negligence – **contract void**

- CONSUMER PROTECTION ACT
- An accountant may not:
  - Application in the UK
    - All terms are subject to the test of fairness.
    - A contract term which has not been individually negotiated will be unfair (and so not binding on the consumer client) if, contrary to good faith, it causes a significant imbalance in the parties' contractual rights and obligations to the detriment of the consumer. In cases of doubt, the interpretation most favourable to the consumer will prevail. - See more at: <http://www.icaew.com/en/members/regulations-standards-and-guidance/practice-management/managing-professional-liability#sthash.axM4vH2T.dpuf>

**ACCOUNTANTS AND THE COMPANIES  
ACT – APPOINTMENTS AND DUTIES**

- COMPANIES ACT – APPOINTMENTS AND DUTIES
  - The Act does not require the appointment of an accountant or AO
  - The Act does not specify rights and duties for accountants or AO
    - However the Act does allocate liability under certain circumstances to the person that performs accounting functions
  - The Act does require the appointment of an Independent Reviewer or Auditor under certain circumstances
  - Auditor
    - Appointment required to **section 30** of the Act and **regulation 28**
    - Rights and duties of auditors set out in **sections 90 – 93** of Companies Act and the **Auditing Professions Act**
    - Liabilities of auditors determined in Auditing Profession Act
  - Independent reviewer
    - Appointment required to **section 30(2)(b)(ii)(bb)** of the Act and **regulation 29**
    - Duties set out in the regulations to the companies act (**regulation 29**)
    - Rights and Liabilities not specified in the Act

- **COMPANIES ACT – APPOINTMENTS AND DUTIES**
  - All Companies must be audited or independently reviewed (**S30**) unless exempted
  - Exempted companies
    - Companies with all holders of beneficial interest appointed as directors are exempted from audit and independent review
    - However exemption falls away if a company has PI Score of more than 349 or has PI score between 100 – 349 and FS internally compiled
  - Companies that must be audited (**Regulation 28**)
    - SOC , SOE
    - Keeping assets of more than R5 000 000 on behalf of a third party
    - PI Score 350 or more
    - PI Score between 100 – 349 and FS internally compiled
    - MOI specifies that company is subject to audit

- COMPANIES ACT – APPOINTMENTS AND DUTIES

- Companies that must be independently reviewed (**S 30(2) and 30(7)**)

- Companies that are not required to be audited
    - Companies that are not exempted from the audit or the independent review (owner managed companies)
  
    - eg
    - A company that appoints directors other than shareholders/beneficial interest holders and whose PI score is less than 350 points
    - A company that appoints directors other than shareholders/beneficial interest holders and whose PI score is between 100 – 349 and the FS was independently compiled

- **COMPANIES ACT – ACCOUNTANTS**

- All companies may voluntarily appoint external accountants to assist with the preparation of FS
- **Regulations 26 – 27**
- The companies regulations states that FS may either be independently compiled or internally compiled
- All FS are considered to be internally compiled unless
  - a company appointed a Independent Accounting Professional (IAP) to Independently Compile and Report on the FS
- Appointing an IAP is an option for the company not an obligation
- This appointment of the IAP does have certain benefits:
  - Avoid having to be audited if the PIS is between 100 – 349
- An IAP is a person qualified as auditor or accounting officer that
  - Has no personal financial interest in his client
  - Is not involved in day to day management
  - Is not a prescribed officer or director
  - Is not related to any person that may fall into the above category



- **COMPANIES ACT – ACCOUNTANTS**
  - All companies may voluntarily appoint external accountants to assist with the preparation of FS
  - **Regulations 26**
  - An IAP independently compiles and reports on the FS
  - Independently Compiled and Reported means FS are
    - Prepared by an IAP
    - On the basis of financial records provided by the company
    - In accordance with any relevant financial reporting standards
  - Other than the above duties there are no other duties, rights, liabilities allocated to the IAP in the Act
  - The IAP and the client will have to agree on these
    - Access to records
    - Engagement standard to be used by the IAP

- COMPANIES ACT – ACCOUNTANTS
  - Internally compiled means that a person other than an IAP prepares the FS
  - This may include
    - The company itself
    - An external accountant
  - There are not criteria or qualifications set to become an external accountant for a company
  - Rights, duties and general liabilities will have to be agreed between the company and the accountant
    - Access to records
    - Engagement standard to follow

- **COMPANIES ACT – ACCOUNTING OFFICERS**
  - The primary appointment, duties, rights, qualifications of Accounting Officers are determined in the Close Corporation Act
  - However companies may voluntarily adopt the AO regime if they are exempt from the audit or independent review
  - This will enhance the value of the company FS and improve the ability to obtain funding
  - The company and AO will have to sign a contract to determine the scope and form of the engagement and the type of report to be issued

- **COMPANIES ACT – INDEPENDENT REVIEW**
  - Companies subject to IR must appoint an person qualified to act as IR to perform the IR
  - Duties of IR (Regulation 29)
    - Apply ISRE 2400 when performing the review
    - Submit reportable irregularities to CIPC
      - Act or omission performed by management which
      - Unlawfully caused or will likely cause a material financial loss to the company or its shareholders, creditors investors in relation to dealings with the company
      - Is fraudulently or amounts to theft
      - Causes or has caused the company to trade under insolvent circumstances
  - An IAP and IR can not be the same person
  - Other rights, duties determined in contract between company and IR
  - Liabilities not in Act but determined by contract, common law, professional standards

- **COMPANIES ACT – INDEPENDENT REVIEW**
  - Companies subject to IR must appoint an person qualified to act as IR to perform the IR
  - Duties of IR (Regulation 29)
    - Non owner managed companies with PIS more than 100 must appoint an IR qualified as an CA or Auditor
    - Non owner managed companies with PIS less than 100 must appoint an IR qualified as an AO

# Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

# ACCOUNTANTS AND THE COMPANIES ACT – LIABILITIES

- COMPANIES ACT – KEEPING ACCOUNTING RECORDS

- Accountants are sometimes requested to assist their clients with keeping accounting records
- Accountants may perform both bookkeeping work and accounting work
- Preferably this should be conducted as separate engagements
- Bookkeepers keep the books
- Accountants assist with preparing FS



- COMPANIES ACT – KEEPING ACCOUNTING RECORDS

- **Section 24:** Must be kept for 7 years
- **Section 28:**
  - Records must be accurate and complete to satisfy requirements of the Act
  - Protect against theft, loss, falsification, damage, destruction
  - Capable of being retrieved in readable and printable format
  - Kept at or accessible from registered office
  - Registered office and place of business does not have to be the same address
  - May be kept in written or electronic form (definitions)
  - Offence not to comply – Administrative penalty + may indicate reckless training
- **Section 31**
  - Offence not to give access on reasonable request to person that has beneficial interest in company

- COMPANIES ACT – KEEPING ACCOUNTING RECORDS

- **Regulation 25:**

- Records as is necessary to comply with S28
- Records to enable an audit or review if applicable
- Asset register, Liabilities and obligations/guarantees register
- Records of loans to/from Directors, Public officer, Shareholders, employees, related persons
- Record of property held in fiduciary capacity
- Records of revenue and expenditure
- Daily record of cash transactions, Daily record of credit transactions
- Bank statements

- **COMPANIES ACT – SOLVENCY AND LIQUIDITY**
  - **Section 4 and 22**
  - Accountants that assist clients with preparing FS are expected to do so in terms of engagement standards
  - Relevant engagement standards include
    - Compilations
    - Agreed Upon Procedures
    - Accounting officer
    - Independent review
    - Audit
    - Assurance engagement related to non financial information

- **COMPANIES ACT – SOLVENCY AND LIQUIDITY**
  - **Section 4 and 22**
  - Engagement standards require accountants to consider the clients solvency and liquidity
  - The purpose is
    - To evaluate whether the financial reporting standard or framework or policy used is appropriate for the entity or
    - To submit a report to CIPC in the a case of accounting officer and Close Corporations or
    - To submit a reportable irregularity in the case of an independent reviewer and Companies

- **COMPANIES ACT – SOLVENCY AND LIQUIDITY**
  - **Section 4: Historical cost or fair value?**
    - For any purpose of this Act
      - meet solvency and liquidity test if at a particular time , considering all reasonably foreseeable financial circumstances the assets as fairly valued, equal or exceed the liabilities as fairly valued
      - And company will be able to pay its debts as they become due
    - Values
      - Must be based on accounting records and FS and fair valuation but
      - May consider other reasonable value
    - Test must be applied when
      - S44 – Company provides financial assistance to purchase shares
      - S45 – Company provides loans to directors
      - S46 – Makes a distribution
      - S47 – Issue cash in lieu of issuing capitalization shares
      - S48 – Company acquire own shares

- **COMPANIES ACT – SOLVENCY AND LIQUIDITY**
  - **Section 22: Reckless trading prohibited**
    - A company must not carry on its business recklessly, with gross negligence, with intent to defraud any person or for any fraudulent purpose.
    - If the Commission has reasonable grounds to believe that a company is trading recklessly, or is unable to pay its debts as they become due and payable in the normal course of business
    - The Commission may issue a notice to the company to show cause why the company should be permitted to continue carrying on its business, or to trade
    - Indicators of reckless trading include
      - No proper books of accounts
      - Not managing debtors and creditors / Cash flow
      - Majority of sales unbanked
      - Doesn't pay VAT and PAYE
      - Abuse the corporate form
      - Incorrect invoices
      - Non compliance to Act

- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION

- Accountants may be requested to assist their clients to prepare their FS
- If they accept this engagement they should ensure that FS of companies comply with the requirements of the Act
- If the FS does not meet the requirements the accountant should consider the following options:
  - Report this to management and request that they correct the FS
  - Consider ending the engagement
  - List a finding in the engagement report related to the contravention if AO
  - Consider a qualified report if IR or Audit
  - Consider a reportable irregularity if IR or Audit
  - Include an emphasis of matter paragraph in the report (all engagements)
  - Include a modification to the report (all except AO)

- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION
- Financial statement includes (definitions)
  - annual financial statements and provisional annual financial statements;
  - interim or preliminary reports;
  - group and consolidated financial statements
  - financial information in a circular, prospectus



- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION

- Section 29(1)

- Financial statements including annual FS must
  - Satisfy financial reporting standards if prescribed
  - Present fairly state of affairs and business of company and explain transactions and financial position
  - Show assets and liabilities and income and expenses
  - State date published and accounting period

- Section 29(2)

- Financial statements may not be
  - False and misleading in material respect
  - Incomplete in material particular

- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION
- The accountant may not be associated with false or misleading information
- Engagement standards therefore require that accountants perform limited procedures to understand and consider the appropriate accounting framework

- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION

- **Determine acceptability of the accounting framework**
- Purpose of the financial statements (General or special purpose)
- Nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization)
- Nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement)
- Whether the accounting framework is appropriate for the business
- **Whether the applicable financial reporting framework is prescribed in relevant law or regulation**
  - Companies Act prescribes financial reporting standards by using a PI score system

- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION

## FRS determined by regulation

- Listed, SOC IFRS
- Public not listed IFRS/IFRS for SME
- NPC subject to an audit IFRS
- PIS > 349 IFRS/IFRS for SME
- PIS 100 – 349 IFRS/IFRS for SME
- PIS < 100
  - Independently compiled IFRS/IFRS for SME
  - Internally compiled Not prescribed
- Not prescribed means = Modified cash basis of accounting
- Independently compiled = IAP, FRS based on company records
- Minimum requirements applicable to all FS – Section 29
  - Assets, Liabilities, Income, Expenses, Directors report
  - If audited also include directors remuneration

- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION
- **Section 29(6) and 214: Liability for financial statement preparation**
  - A person is guilty of an offence if the person is a party to the preparation, approval, dissemination or publication of—
    - any financial statements, including any annual financial statements
    - knowing that those statements—
      - fail in a material way to comply with the requirements for FS or
      - are materially false or misleading
  - A person is guilty of an offence if the person
    - is a party to the falsification of any accounting records of a company;
    - with a fraudulent purpose, knowingly provided false or misleading information in any circumstances in which this Act requires the person to provide information or give notice to another person;
    - was knowingly a party to an act or omission by a company calculated to defraud a creditor or employee of the company, or a holder of the company's securities, or with another fraudulent purpose;

- COMPANIES ACT – FINANCIAL STATEMENT PREPARATION
- **Section 29(6) and 214: Liability for financial statement preparation**
  - **When are you party to the preparation of a document**
    - the document includes or is otherwise based on a scheme, structure or form of words or numbers devised, prepared or recommended by **YOU**
    - the scheme, structure or form of words is of such a nature that **YOU** knew, or ought reasonably to have known, that its inclusion or other use in connection with the preparation of the document would cause it to be false or misleading
  - **Penalty**
    - Administrative fine
    - Civil action ito S218
    - Criminal sanction

# Q&A

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# **ACCOUNTING OFFICER IN CLOSE CORPORATIONS ACT**



- **CLOSE CORPORATIONS– FINANCIAL STATEMENT PREPARATION**
- Close Corporations are required to appoint an accounting officer to perform certain prescribed duties
- CC may elect to also appoint an accountant to assist with preparation of FS
- CC Act was amended with adoption of Companies Act 2008
- These amendments affect the financial reporting obligations of CC and hence the work performed by accountants and accounting officers

- CLOSE CORPORATIONS– FINANCIAL STATEMENT PREPARATION
  - Amendments to CC Act related to FS and reports

Public Interest Score	Financial Reporting Standard	AUDIT	INDEPENDENT REVIEW	ACCOUNTING OFFICER'S REPORT
PIS $\geq$ 350	IFRS / IFRS for SMEs	YES	NO	YES
PIS $\geq$ 100 and $<$ 350 and AFS were internally compiled	IFRS / IFRS for SMEs / SA GAAP (Withdrawn)	YES	NO	YES
PIS $\geq$ 100 and $<$ 350 and AFS independently compiled	IFRS / IFRS for SMEs / SA GAAP (Withdrawn)	NO	NO	YES
PIS $<$ 100 and AFS independently compiled	IFRS / IFRS for SMEs / SA GAAP (Withdrawn)	NO	NO	YES
PIS $<$ 100 and AFS internally compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed	NO	NO	YES

- CLOSE CORPORATIONS– FINANCIAL STATEMENT PREPARATION
- Amendments to CC Act related to FS and reports liabilities
  - Same as for companies

- CLOSE CORPORATIONS – ACCOUNTING OFFICERS
- Accounting officers has specific duties as per the Close Corporations Act

- CLOSE CORPORATIONS – ACCOUNTING OFFICERS
- Accounting officers has specific duties as per the Close Corporations Act
- **AO in the CC Act**
- **Duties**
  - The primary duties of the accounting officer are set out in S62 of the Act.
    - Determine whether the annual financial statements agree with the accounting records (S62(1)(a)).
    - Review the appropriateness of the accounting policies represented to the accounting officer as having been applied in the preparation of the annual financial statements (S62(1)(b)).
    - Report to the close corporation in respect of these matters (S62(1)(c)).

- CLOSE CORPORATIONS – ACCOUNTING OFFICERS
- Accounting officers has specific duties as per the Close Corporations Act
- **AO in the CC Act**
- **Duties**
  - **Primary Duty 1 : FS = Accounting records**
  - Duties in S62(1)(a) limited in S58(2)(d).
  - AO may refer to subsidiary accounting records if he deems it necessary -  
Depends on knowledge of the business
  - Use ISRS 4400 – Agreed Upon Procedures Engagement to help determine if FS = AR

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**

- Accounting officers has specific duties as per the Close Corporations Act

**Primary Duty 1 : FS = Accounting records**

Agree procedures with the client to assist with determining if the FS = accounting records:

- Agree the opening balances of the general ledger accounts with the comparative financial information in the current year's annual financial statements
- Agree the trial balance at the end of the current financial year with the closing balances in the general ledger accounts
- Obtain confirmation of the cash on deposit with the Bank, agree the confirmed balance to the amount shown on the bank reconciliation
- Agree the trail balance and the end of the current financial year with the bank total in the general ledgers and the Bank reconciliation
- Obtain a schedule of receivables and determine whether the total agrees with the trial balance
- Agree the accounts receivable balances with the debtors' statements
- Obtain the inventory list and determine whether:
  - (a) The total agrees with the balance in the trial balance; and
  - (b) The list is based on a physical count of inventory.
- Obtain a schedule of the investments at the balance sheet date and determine whether it agrees with the trial balance, FS
- Obtain a schedule of the property indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance, FS

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**

- Accounting officers has specific duties as per the Close Corporations Act

**Primary Duty 1 : FS = Accounting records**

Agree procedures with the client to assist with determining if the FS = accounting records:

- Scrutinise the depreciation calculations for the year and verify that the rates and methods conform to the accounting policies in the notes to the annual financial statements.
- Obtain a schedule of the Prepaid Expenses, Intangibles and Other Assets and determine whether it agrees with the trial balance
- Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance, FS
- Obtain a schedule of trade payables and determine whether the total agrees with the trial balance, FS
- Agree the trade payable balances with the creditors' statements
- Obtain a schedule of the accrued liabilities and determine whether the total agrees with the trial balance.
- Obtain and consider a schedule of the transactions in the equity accounts, including new issues, retirements and dividends and agree balances with general ledger, trial balance and FS
- Agree the turnover amount reflected in the VAT returns to the general ledgers and FS
- Agree the capital expenditure / purchases reflected in the VAT returns to the general ledgers and FS
- Confirm that the required number of VAT, PAYE returns have been submitted



- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**
- Accounting officers has specific duties as per the Close Corporations Act
- **AO in the CC Act**
- **Duties**
  - **Primary Duty 2 : Are the accounting policies appropriate?**
  - Consider
    - Nature of the business
    - Users
    - Statutory environment
    - PIS Score
    - Fair presentation

- CLOSE CORPORATIONS – ACCOUNTING OFFICERS
- Accounting officers has specific duties as per the Close Corporations Act
- **Primary Duty 2 : Are the accounting policies appropriate?**
- Refer to ISRS 4400 – Working paper to obtain an understanding of the business
- Consider
  - Type of entity                      Development stage
  - MOI                                      Business model
  - Owners                                 Related parties
  - Investment in subsidiaries        Source of financing
  - Industry                                Products and services
  - Regulatory environment

- CLOSE CORPORATIONS – ACCOUNTING OFFICERS
- Accounting officers has specific duties as per the Close Corporations Act
- **Primary Duty 2 : Are the accounting policies appropriate?**
- Consider
  - Statutory requirements for CC financial statements
  - PI Score
  - Generally accepted accounting practice appropriate to the business
  - Modified cash basis of accounting (Cash + depreciation + loans + tax)
  - No external users / unless agreed with users
  - If external users then IFRS for SME

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**
- Accounting officers has specific duties as per the Close Corporations Act
  - **AO in the CC Act**
  - **Duties**
    - **Other Duties : Compliance**
    - Report certain contraventions to the CIPC
    - Report certain contraventions to the members
    - Report independence

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**

- Accounting officers has specific duties as per the Close Corporations Act

### **Other duties**

### **Contraventions to be reported to the Registrar**

1. Have the changes to the founding statement (if any) been filed with the Registrar?
2. Do the annual financial statements indicate that the liabilities of the corporation exceed its assets?
3. Do the annual financial statements incorrectly indicate that the assets of the corporation exceed its liabilities?
4. Is the corporation carrying on business (in operation)? If not, is it likely to resume operations in the foreseeable future?

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**

- Accounting officers has specific duties as per the Close Corporations Act

**Other duties**

**Contraventions to be included in the report**

Accounting

a. Has the corporation maintained the following records: a general ledger giving details of :

- assets? Liabilities? members contributions? undrawn profit? Revaluations?
- loans to and from members?

b. A register of fixed assets giving details of:

- dates of acquisition? Costs? depreciation and accumulated depreciation? dates of disposal? consideration received on disposal? records of cash receipts and payments showing: the nature of the transaction? the names of the parties involved?

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**

- Accounting officers has specific duties as per the Close Corporations Act

**Other duties**

**Contraventions to be included in the report**

Accounting

c. Records of purchases and sales and of services rendered or received on credits showing:

- the nature of goods or services? the names of the parties involved?

d. Vouchers in support of the entries in the accounting records?

- Annual inventory count schedules including the valuations of inventory?

e. Records of payments to and receipts from members sufficient to explain the nature and purpose of individual transactions?

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**
- Accounting officers has specific duties as per the Close Corporations Act
- **AO in the CC Act**
- **Duties**
  - **Other Duties : Voluntary: Check members personal liability**
  - **Refer notes for areas of personal liability**



- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**

- Accounting officers has specific rights as per the Close Corporations Act

- **AO in the CC Act**

- **Rights**

- S 61(1) gives the accounting officer a right of access to the accounting records and other information of the corporation and entitles him to require necessary explanations from the members

- **CLOSE CORPORATIONS – ACCOUNTING OFFICERS**

<b>Presentation and disclosure of annual financial statements</b>	
<b>Annual FS – old (S58 of CC act)</b>	<b>Annual FS – new (S29 of the Co Act)</b>
S56 – accounting records not changed	S56 – accounting records not changed
Prepare in 9 months	Prepare in 6 months
BS, IS, Notes	As required by adopted financial reporting framework – IFRS, IFRS for SME, ED285, ECSAFA, Smega level 3
Fairly present in conformity to gaap as appropriate to the business	If no standard prescribed fairly present in conformity to adopted financial reporting framework and should not be false or misleading in any material respect and not be incomplete in any material respect – <b>USER DETERMINE MATERIALITY</b>
Show aggregate contributions by members, undrawn profits, revaluations of fixed assets and amounts of loans to or from members, and the movements in these amounts during the year	Show the company's assets, liabilities and equity, as well as its income and expenses, and any other prescribed information; Show remuneration and payments to all directors
Obtain an AO report	Obtain AO report And Bear, on the first page of the statements, a prominent notice indicating: (i) whether the statements: (aa) have been audited in compliance with any applicable requirements of this Act; (bb) if not audited, have been independently reviewed in compliance with any applicable requirements of this Act; or (cc) have not been audited or independently reviewed; and (ii) the name, and professional designation, if any, of the individual who prepared, or supervised the preparation of, those statements.
Member that fail to secure compliance – guilty of offence – no penalty	Offence (10 years imprisonment or fine) if party to the preparation , approval etc of FS if FS -Fail in material way to comply with standards or fair presentation -Are materially false or misleading
Duties, rights, and qualification of accounting officer as per CC act	Unchanged

# Q&A

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**REDUCING LIABILITY:**

*STRATEGIES*

- REDUCING LIABILITY
- Risk toward the client:
  - Use engagement letters
  - Limit the scope of the work
  - Use engagement standards
  - PI Insurance

- REDUCING LIABILITY
- Engagement Letter
  - Scope of Work (Standard and Accounting framework)
  - Change/addition by e-mail (nothing telephonic)
  - Distribution of product
  - Retention/Responsibility of records after assignment
  - Fee calculation and terms
  - Withholding of records
  - Withholding of services – interest and tax for client account
  - Stay of action

- REDUCING LIABILITY

- Risk toward third parties (ICAEW)

- Client engagement letter – restrict access to third parties
- Require third parties to contract with Firm prior to making information available
  - Since the third party will not be a party to the engagement letter it will be difficult to argue that the third party is bound by any cap on liability or other protections contained in the member's engagement letter. The absence of any fee payment by the third party is not likely to be conclusive as to whether or not any duty is owed.
- Release or 'hold harmless' letters
- Duty of care' letters
- Indemnities obtained from the client.

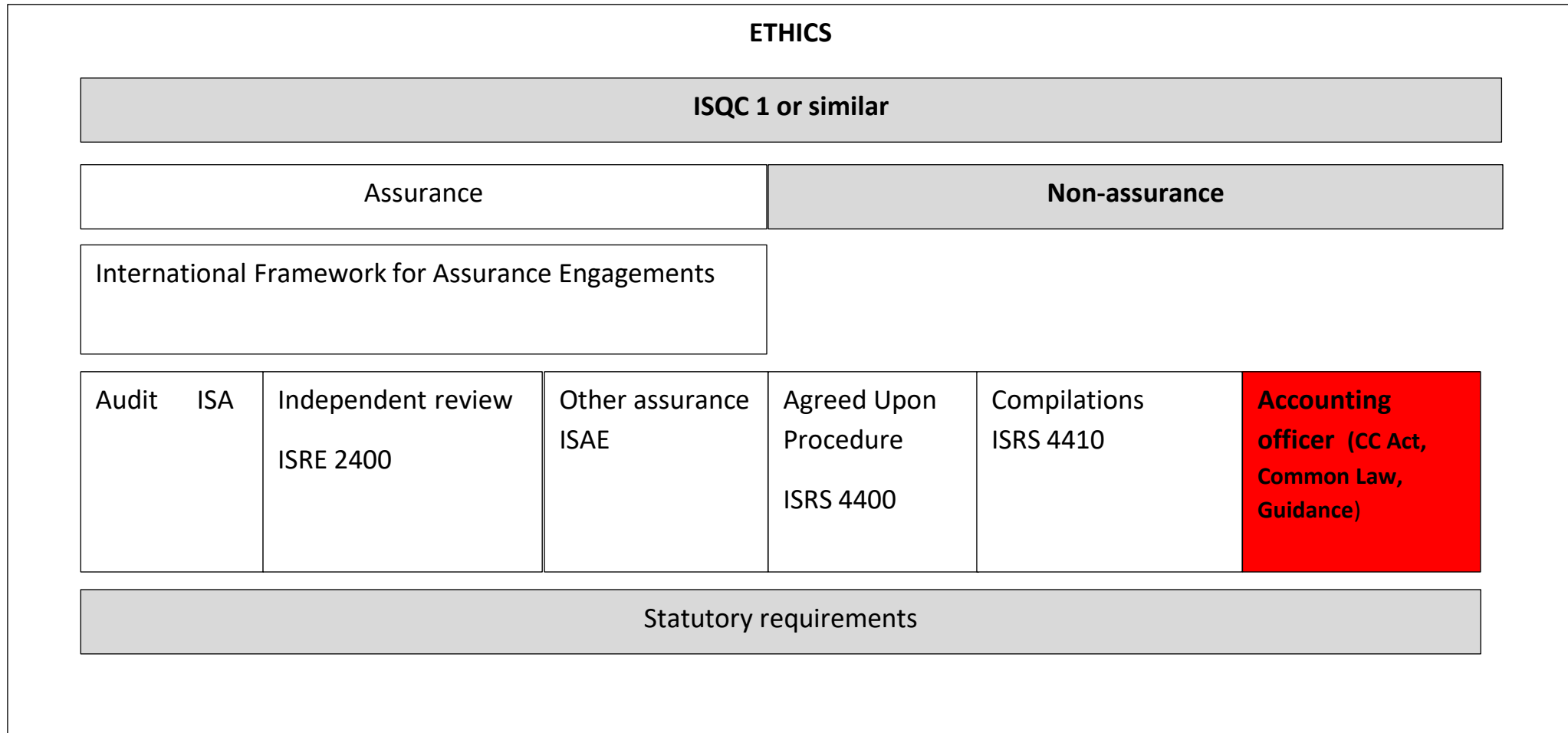
**ACCOUNTING OFFICER:**

ENGAGEMENT FRAMEWORK



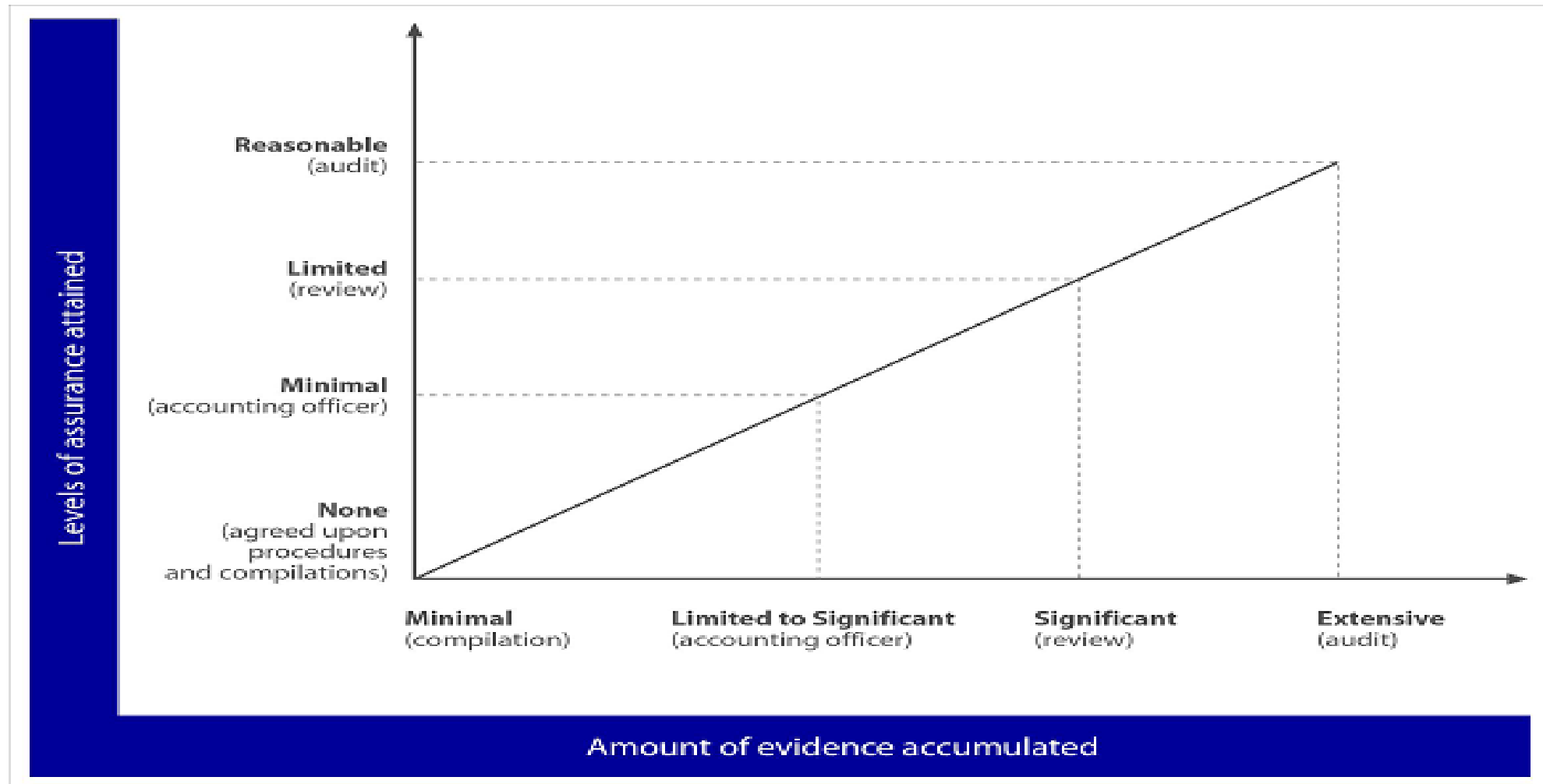
- CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK

- How accounting officers should perform their work



- **CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK**

- How accounting officers should perform their work



- CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK

- How accounting officers should perform their work

- **Accounting officer**

- **Ethics**

- IFAC Code of conduct
- Independence of mind and appearance
  - Threats: Self interest, self review, advocacy, familiarity, intimidation
- Integrity - Straight forward and honest
- Objectivity - Avoid conflict of interest
- Professional competence and due care - Knowledge, skill, diligence
- Confidentiality - Disclosure and user of information
- Professional behavior - Compliance with laws

- **CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK**

- How accounting officers should perform their work

- **AO in the CC Act**

- **Guide to performing the engagement**

- **Principles**

- AO report not Assurance

- AO report based Facts

- Internal document for CC

- Not external document for users

- Helps members improve compliance

- Not designed to be used by external parties for decision making

- Elements of Engagement Standards

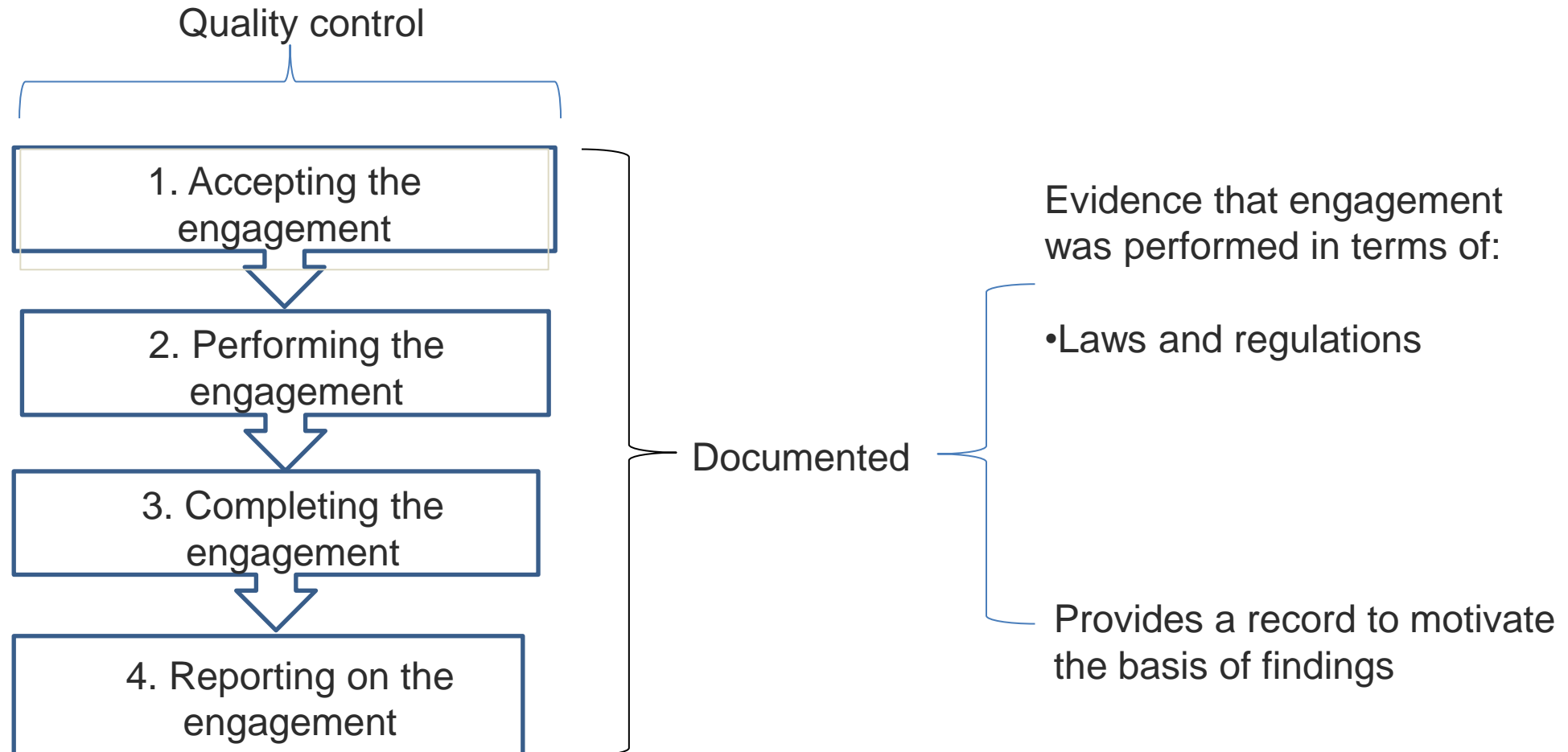
- No explicit requirement to adhere to standards

- Local laws and convention override

- State compliance only if complied fully with Engagement Standards

- CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK

- How accounting officers should perform their work



- CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK

- How accounting officers should perform their work – Quality Control

Element	Description
Leadership Responsibilities for Quality Within the Firm	<ul style="list-style-type: none"> <li>• To describe the firm's responsibilities to promote an internal culture focused on quality control</li> </ul>
Relevant Ethical Requirements	<ul style="list-style-type: none"> <li>• To provide guidance on the fundamental principles which define professional ethics</li> </ul>
Acceptance and Continuance of Client Relationships and Specific Engagements	<ul style="list-style-type: none"> <li>• To provide guidance on the establishment of appropriate acceptance and continuance policies and procedures</li> </ul>
Human Resources	<ul style="list-style-type: none"> <li>• To provide guidance on the human resource components of effective quality control policies and procedures</li> </ul>
Engagement Performance	<ul style="list-style-type: none"> <li>• To provide guidance on the elements involved in engagement performance, highlighting the role of the engagement partner, planning, supervision and review, consultation, resolution of differences of opinion, and performance of engagement quality control review</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>• To provide guidance on the monitoring of the firm's policies and procedures relating to the system of quality control, including the firm's monitoring program, inspection procedures, the monitor's report, addressing and removing deficiencies, and responding to complaints and allegations</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>• To provide guidance on the firm's requirements for documentation, both at the engagement level (including engagement quality control review) and for the firm's system of quality control</li> </ul>

- CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK
- How accounting officers should perform their work

<p><b>Accepting the client</b></p>	<ul style="list-style-type: none"> <li>Screen the client</li> <li>Identify the purpose of the engagement and the intended users of the financial statements</li> <li>Develop a preliminary understanding of the accounting framework</li> <li>Assess the firm's capabilities</li> <li>Consider independence</li> <li>Agree the terms of the engagement</li> </ul>
<p><b>Performing the engagement</b></p>	<ul style="list-style-type: none"> <li>Consider the integration of other services with the review engagement</li> <li>Consider performing compilation procedures</li> <li>Planning the engagement</li> <li>Consider materiality</li> <li>Obtaining an understanding of the client's industry organisation, operation characteristics, assets, liabilities, revenues, expenses</li> <li>Performing inquiries and analytical procedures</li> <li>Consider performing additional procedures</li> <li>Consider changing the terms of the engagement</li> <li>Ensure proper use of practitioner's name</li> </ul>
<p><b>Completing the engagement</b></p>	<ul style="list-style-type: none"> <li>Obtain a written representation letter</li> <li>Consider subsequent events</li> <li>Consider going concern</li> <li>Consider past engagement responsibilities</li> <li>Form a conclusion</li> </ul>
<p><b>Issuing a report</b></p>	<ul style="list-style-type: none"> <li>Consider correct form and content of report</li> <li>Consider modifications to report</li> </ul>

- **CLOSE CORPORATIONS – ENGAGEMENT LETTER**

- **If you decide to accept the client, what information should be included in the engagement letter?**
  - The objective and scope of the review
  - The responsibilities of the practitioner
  - The responsibilities of management
  - Identification of the applicable financial reporting framework for the preparation of the financial statements
  - A statement that the engagement is not an assurance engagement
  - The intended use and distribution of the financial statements, and any restrictions on either their use or their distribution
  - Example of the form and content of the report to be issued by the practitioner, and a statement that there may be circumstances in which the report may differ from its expected form and content
  - Continue...



- CLOSE CORPORATIONS – ENGAGEMENT LETTER

**•If you decide to accept the client, what information should be included in the engagement letter?**

- Rights of the accounting officer (unlimited access)
- Effect of reportable irregularities (if review)
- Reproduction of report
- Preparation of schedules
- Working papers
- File inspection
- Permission to provide info to regulators on request and fee
- Conditions that will cause a delay (“without just cause”)
- Governing legislation
- Dispute resolution
- Indemnity and limited liability
- Fees

- CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK
- How accounting officers should perform their work
- **AO in the CC Act**
- **Accounting Officer report**
  - **Should contain minimum disclosures**

- **CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK**

- How accounting officers should perform their work

- **AO Duties in other statutes**

- **Accounting officer reports for body corporates**
- **Accounting officer reports for trusts**
- **Accounting officer reports for schools**
- **Accounting officer reports for insurance intermediaries**
- **Accounting officer reports for non-profit organizations**
- **Accounting officer reports for credit providers**
- **Accounting officer reports for co-operatives**
- **Accounting officer reports for fund-raising organizations**

- **Refer the SAIBA Guide to Accounting Officer Engagements - [www.saiba.org.za](http://www.saiba.org.za)**

- CLOSE CORPORATIONS – ENGAGEMENT FRAMEWORK

- How accounting officers should perform their work

- **Engagement letter Example – Appendix A**

# Q&A

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**ACCOUNTANTS:**

ENGAGEMENT FRAMEWORK

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- **Accountant:**
  - **Minimum procedures required by ISRS 4410**
    - Ethical conduct
    - Quality control
    - Acceptance procedures
    - Performance
    - Documentation
    - Conclusion
    - Reporting

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- Accountant:
  - What does an accountant do?
    - The A prepares financial statements
    - The A does not audit or perform review (No testing of internal control, substantive tests)
    - The A does not issue a reportable irregularity
    - The A issues a report on the financial statements based primarily on factual findings
    - The A does not submit info to CIPC and does not report contraventions



- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- Accountant:
  - What does an accountant do?
    - The A engagement is performed to
      - Common law – due care and skill
      - An engagement standard if selected – ISRS 4410
    - The A report is issued to the entity and not the members
    - **The report may form part of third party info provided to SARS**
    - A tax practitioner may rely on the work performed by the A
    - SARS may report the AO to a professional body if negligent

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- ISRS 4410 - International Standard on Related Services 4410
  - No statutory requirement
  - Requirement from professional standards / common law
  - Implied in Consumer Protection Act (**Strict liability**)

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- ISRS 4410 - International Standard on Related Services 4410
  - Not limited to IFAC members
  - Applies to all **accountants in practice that**
    - Assist management with preparation and presentation of historical financial information
    - Have to follow ISRS 4410 requirements
    - All client entities: CC, Co, Sole P, Partnership, Trust

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- ISRS 4410 - International Standard on Related Services 4410
  - Not an assurance engagement
  - Accountant in practice
    - Not required to verify accuracy or completeness
    - Not required to gather evidence to express an audit opinion / review conclusion

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- ISRS 4410 - International Standard on Related Services 4410
  - Management responsibility
    - Financial information
    - Basis on which it is prepared and presented
    - Judgment required for the preparation and presentation of the financial information
    - Selection and application of appropriate accounting policies
    - Developing reasonable accounting estimates

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- ISRS 4410 - International Standard on Related Services 4410
  - Management responsibility
    - Select financial reporting framework
      - Simple entity-specific basis of accounting (Modified cash basis))
      - Established financial reporting standards (IFRS)
  - Financial reporting framework adopted by management to prepare and present the financial information determined by
    - The nature of the entity
    - Intended use of the information.

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410
- ISRS 4410 - International Standard on Related Services 4410
  - Effective date of revised ISRS 4410
    - Compilation engagement reports dated on or after July 1, 2013.

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 – QUALITY CONTROL
- ISQC1 – International Standard on Quality Control
  - Should be applied at the firm and individual level



- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 – QUALITY CONTROL
- **System of quality control**
  - Should include policies and procedures addressing
    - Leadership and reporting chain
    - Ethical conduct of staff
    - When to accept or reject a client
    - Consideration of available staff and competence
    - How engagement should be performed
    - Monitoring
    - Documentation

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 – QUALITY CONTROL
- Typical working papers
  - Declaration on fitness and independence

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 – QUALITY CONTROL
- Typical working papers
  - Declaration of confidentiality

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 – QUALITY CONTROL
- Typical working papers
  - Assessment of competence and client integrity
  - Client acceptance-continuance form

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 – QUALITY CONTROL
- Typical working papers
  - Complaint notification form

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 – QUALITY CONTROL
- Typical working papers
  - File review checklist
  - Register of engagement partners, staff
  - Register of accounting officer clients

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 OBJECTIVES
- Apply **accounting and financial reporting expertise** to **assist management** in the preparation and presentation of financial information in accordance with an applicable financial reporting framework **based on information provided** by management
- **Report** in accordance with the requirements of this ISRS.

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 DEFINITIONS
    - Applicable financial reporting framework
    - Compilation engagement
    - Engagement partner
    - Engagement team
    - Misstatement
    - Practitioner
    - Relevant ethical requirements



- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Ethics**
  - Ensure compliance to IFAC Code of Ethics, as appropriate

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Professional judgement**
  - Apply relevant knowledge and experience to the facts and circumstances of the engagement
    - Consider risk
    - Develop a system to guide the application of professional judgement
    - Act in the best interest of the client and with due care and skill
    - Cannot plead ignorance (STRICT LIABILITY APPLIES TO COMPILATION ENGAGEMENTS)
    - Clearly define your responsibilities and client responsibilities
    - Agree the procedures to follow

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Acceptance and continuance**
- Activities to perform before a client is accepted
  - Screen the client 1/2

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Acceptance and continuance**
- Activities to perform before a client is accepted
  - Screen the client 2/2

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Acceptance and continuance**
- Activities to perform before a client is accepted
  - Identify purpose and use of financial statements

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Acceptance and continuance**
- Activities to perform before a client is accepted
  - Understand the accounting framework

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Acceptance and continuance**
- Activities to perform before a client is accepted
  - Assess the firms capabilities
  - Consider independence

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Acceptance and continuance**
- Activities to perform before a client is accepted
  - Agree the terms



- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Acceptance and continuance**
- Activities to perform before a client is accepted
  - Complete the checklist

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Performing the engagement**
- Obtain understanding of the entity
  - The **entity (business and operations)** and its **environment**, including the entity's **accounting system** and accounting records relevant to the review
  - The **applicable financial reporting framework**, including its application in the industry in which the entity operates

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Performing the engagement**
- The information presented by management should be consistent with the preparation and presentation requirements of the applicable financial reporting framework
- E.g.
  - IFRS for SME
    - Revenue recognised on accrual not cash
    - Depreciation calculated on useful life not SARS Interpretation note 47
    - Use judgement to classify property as investment property or property, plant and equipment
    - Operating lease: Photocopier leased from third party and agreement includes maintenance: Right to use is accounted for in terms of Leases (section 20) but maintenance reflected as expense in profit and loss.

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
- ISRS 4410 REQUIREMENTS
- **Performing the engagement**
  - If discrepancies exist then act:
    - Inform management and request changes
    - However if material misstatement or misleading then withdraw giving reasons

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS

- ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**

- **Planning the engagement**

- Practitioners to design and perform procedures appropriate to the circumstances of each engagement.

- The practitioner should focus inquiry procedures on areas in the financial statements where material misstatements are likely to arise.

- However, a detailed assessment of the risks of material misstatement in the financial statements is not required

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**

- **Understanding the entity**

- Obtain an understanding of the entities

- Industry
      - Operations
      - Assets
      - Liabilities
      - Revenue
      - Expenses

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**

- **Understanding the accounting system**

- **Basic transactions**

- **Cash receipts**
    - **Accounts payable**
    - **PPE**
    - **Owners equity**
    - **Accounts receivable**
    - **Inventories**
    - **Financial instruments**
    - **Tax liability**

- **ACCOUNTANTS AND COMPILATION ENGAGEMENTS**

- ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**

- **Understanding the accounting system**

- **Adjustments**

- Cash
- Notes receivable
- PPE
- Financial instruments
- Operating accounts
- Overall evaluation
- Accounts receivables
- Inventories
- Accounts payable
- Owners equity
- Trial Balance



- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**
  - **Applicable financial reporting framework**
  - Statutory requirements
    - Companies and CC
      - PIS Score
      - False or misleading
      - Incomplete
  - Fair presentation

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**

- **Determine risk and materiality**

- Risk is considered iro
        - Environment
        - Business Model
        - Organisation and accounting policies
        - Financial performance
      - to identify areas of possible misstatements

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**
  - **General inquiries**

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**
  - **General inquiries**

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS

- **Documentation**

- **Example of working papers to be documented**
  - **General inquiries**

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS

- ISRS 4410 REQUIREMENTS

- **Completing the engagement**

- The report is based on information gathered up to the last day of fieldwork, as well as on any other information that comes to the practitioner's attention up to the time the report is issued.
      - Because of their nature, certain procedures may be performed toward the end of the engagement.
        - Obtain a representation letter
        - Evaluate engagement findings
        - Consider post engagement activities

- ACCOUNTANTS AND COMPILATION ENGAGEMENTS
  - ISRS 4410 REQUIREMENTS
- **Reporting on the engagement**

# Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.



# ENGAGEMENT COMPARISON

<b>Subject</b>	<b>Audit</b>	<b>Review</b>	<b>Accounting officer/AUP</b>	<b>Compilation</b>
Assurance level	High	Limited	Minimal	Minimal
Subject matter	Financial statements	Financial statements	Financial statements, accounting policies, compliance	Financial statements
Parties	Three	Three	Two	Two
Nature of opinion	Reasonable assurance – “financial statements present fairly”	Moderate – “nothing came to our attention to indicate”	No opinion – state facts	No opinion
Purpose of procedures	Reduce risk of material statement	Obtain plausibility	Obtain facts and apply judgement	Obtain facts and apply judgement
Type of procedures	Inquiries, observation and inspection, analytical procedures	Inquiries of management and others, Analytical procedures	May include inquiry and analysis, recomputation, comparison and other clerical accuracy checks, observation, inspection, obtaining confirmations.	Inquiries of management and others,
Procedures not required		Assess internal controls, verify any matters;, verify any explanations.	Inquiries of reliability and completeness , Assess internal controls, verify matters or explanations.	Inquiries of reliability and completeness , Assess internal controls, verify any matters;, verify any explanations.

<b>Subject</b>	<b>Audit</b>	<b>Review</b>	<b>Accounting officer/AUP</b>	<b>Compilation</b>
Understanding the entity	In depth	General	General	General
Relative cost	High	Medium	Low	Low
Typical framework	IFRS	IFRS for SME	gaap as appropriate	IFRS, IFRS for SME, gaap as appropriate
Standard	ISA	ISRE 2400	ISRS 4400	ISRS 4410
Practitioner	Auditor	Independent reviewer	Accounting officer/Practitioner	Compiler
Report addressee	Shareholders	Shareholders		Entity
Professional liability	Yes	Yes	Yes	Yes
Liability protection	S 46 of APA – limits liability to third parties S58 of APA – allows apportionment of damages to clients	No statutory provision – have to rely on contract law	No statutory provision – have to rely on contract law	No statutory provision – have to rely on contract law
Regulation	IRBA	CIPC/Professional bodies	CIPC/Professional bodies	Professional bodies
Applicability	SOE, Public Company, PIC, Companies that voluntary opt-in	Non-owner managed company, Companies that voluntary opt-in	Close corporation / companies that voluntary opt-in	CC and Co that voluntary opt in

# **Accounting Frameworks**

# Requirements for Presentation and Disclosure

IFRS for SME style!

# What is IFRS for SME's

- Separate reporting framework for SME's
- Separate from full IFRS
  - No cross references to full IFRS
  - Weigh-Less version (230pg vs 2800pg)
  - Stand alone, self contained
  - Organised by topic via 35 sections

# Wants to facilitate reporting for SME's by:

- Simplifying recognition and measurement in certain areas
- Providing significantly less guidance
- Excluding irrelevant topics
- Excluding certain more complex options that are included in full IFRS

# Who can use it?

**Any entity that does not have public  
accountability, and**

**Publish general purpose financial  
statements for external users**

Not available to Entities that have other regulatory frameworks that they need to comply with



# IASB point of view

- Wanted Standards for entities that
  - Do not have public accountability
  - But still publish general purpose financial statements
    - Still see these being for external users

# Public Accountability

- Trades (or intends trading) equity or debt instruments publicly
- Holds assets in a fiduciary capacity as one of its primary businesses
  - Eg bank, insurance companies, mutual funds
  - Excludes schools, estate agents, charities etc if assets held incidental to primary business

# Who in SA can use it?

- All **companies** that do not have public accountability
  - Therefore excludes state owned enterprises and listed companies
- All **other entities** provided
  - No public accountability and
  - not required to comply with any other framework

# Accounting policy selection

- Rare for IFRS for SME's to offer
- If don't have specific guidance in IFRS for SME's consider
  - FIRST: IFRS for SME's guidance on similar topic
  - SECOND: Definitions, recognition or measurement per S2 Concepts and Pervasive Principles
- May consider full IFRS – not required
- No requirement to consider other standard setters pronouncements

When you decide to walk the path less travelled .....

**Need to follow IFRS for SME's in their entirety**

- No cherry picking
- No “gaap” that can override
- Auditors Report and Basis for presentation needs to disclose

# Complete set of AFS

Can use other titles.

Includes:

- Statement of financial position (Balance Sheet)
- Statement of Comprehensive Income (Income Statement)
- Statement of Changes of Equity
- Statement of Cash Flow
- Notes to AFS

# Questions

**Thank you for your  
participation!**