

Independent reviews: perceptions of Chartered Accountants (South Africa)

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ABSTRACT

The *Companies Act of 2008* introduces the independent review of financial statements of certain non-public interest companies as an alternative to the conventional audit. The audit of financial statements can only be performed by a Registered Auditor and is currently still required for all companies. The objective of the study is to determine the perceptions of Chartered Accountants (South Africa) regarding independent reviews. A questionnaire was used in order to obtain the perceptions of Chartered Accountants (South Africa) regarding independent reviews. This questionnaire covered the nature of an independent review, determinants of audit exemption, performing an independent review, and practitioners deemed competent to perform an independent review. The study also evaluated whether Chartered Accountants (South Africa), who are not allowed to perform audits, do in fact qualify to perform independent reviews.

The respondents confirm the need for a principle-based stand-alone set of independent review standards as this is likely to clarify the terminology and to enhance the quality of reviews. The study also reveals that Chartered Accountants (South Africa) meet the requirements to perform independent reviews. However, the Independent Regulatory Board for Auditors should oversee the regulation of Chartered Accountants (South Africa) performing independent reviews to ensure that independent reviews are also performed in the public interest.

Key words

South African Institute of Chartered Accountants; Chartered Accountant (South Africa); independent review; Companies Act; Draft Regulations to the Companies Act

1 INTRODUCTION

To date, all companies in South Africa, both public and private, have had a statutory obligation to appoint an auditor at every annual general meeting and to have their annual financial statements audited annually (South Africa 1973 sect 270 & 300). After the auditor has performed the audit function, he must then report to the shareholders and the annual general meeting on whether or not the annual financial statements fairly present the financial position of the company and the results of its operations (South Africa 1973 sect 301). The *Companies Act 1973* also states that only persons who qualify in terms of the *Auditing Profession Act 2005* (APA) (i.e. they are registered with the Independent Regulatory Board for Auditors (IRBA)), can be appointed as auditors (South Africa 1973 sect 275).

However, the *Companies Act 2008* was signed into law in April 2009 (South Africa 2009), with an expected commencement date of 2011 (South African Institute of Chartered Accountants (SAICA) 2010/09/29). The Act introduces the independent

review of financial statements of certain non-public interest companies as an alternative to the more familiar audit of financial statements which is currently required for all companies (South Africa 2008 sect 30(2)). However the *Companies Act 2008* (South Africa 2008 sect 30(7)) provides for regulations to be made by the Minister regarding:

- The categories of private companies that are required to have their annual financial statements audited (where it is in the public interest, as indicated by its annual turnover, the size of its workforce or the nature and extent of its activities);
- The manner and form of, and procedures for the conduct of an independent review other than an audit;
- The professional qualifications of persons who may conduct such reviews.

As the *Companies Act's* overarching objective is the protection of the public interest in the conduct of business in South Africa (IRBA 2009/09/08), the regulations to be developed for the *Companies Act* should also strive to achieve this objective.

As a detailed literature review formed part of the first article in this edition, the remainder of this article will focus on explaining the objective of the study reported on here, exploring the background to the study, outlining the research methodology of the study, detailing and discussing the results of the survey, considering whether Chartered Accountants (South Africa) (CA(SA)s) do in fact comply with regulations that would allow them to perform independent reviews, and drawing conclusions from the data.

2 OBJECTIVE OF THE STUDY

The objective of this study is to determine CA(SA)s' perceptions regarding independent reviews. For the purpose of this study, CA(SA)s are defined as individuals or firms registered as members with the SAICA (SAICA 2010e). In an effort to provide an overview of CA(SA)s' perceptions of independent reviews, the study reported on here attempts to find answers to the following questions:

- 1 What is an independent review?
- 2 Which companies should be independently reviewed?
- 3 What are the manner and form of, and procedures for the conduct of an independent review?
- 4 Who is qualified to perform an independent review?

This study further evaluates whether CA(SA)s, who are not allowed to perform audits, do qualify to perform independent reviews. This study could assist the Consumer and Corporate Regulation Division (CCRD) charged with the responsibility to develop the regulations regarding independent reviews because it endeavours to determine what the perceptions of one of the role players, namely CA(SA)s, are regarding independent reviews. In addition, the study could provide a clearer insight into the use of independent reviews as an alternative to traditional audits of financial statements to those involved in providing assurance services. At a theoretical level, the findings are significant because they expand the literature by focusing on independent reviews in the South African context, which is a relatively unexplored area.

3 BACKGROUND

This section provides background to the study in order to aid the reader's understanding of key concepts, and thus to enhance the transferability of ideas (Paisey & Paisey 2004). It focuses on who CA(SA)s are and on the international standard in terms of which independent review engagements should be performed.

3.1 Chartered Accountants (South Africa)

According to the Chartered Accountants Designation (private) Act, 67 of 1993 (SAICA 2010e) a CA(SA) is an individual or firm registered as a member with the SAICA. CA(SA)s can be registered either in practice (delivering services other than audit services), or otherwise (for example in commerce and industry and academia) (SAICA 2010n). CA(SA)s in practice provide the following services to their

clients (SAICA 2010n):

- Taxation. CA(SA)s in practice advise their clients on how to lawfully minimise their tax liabilities through efficient tax planning. They also submit tax returns, resolve tax problems, give advice on tax implications and litigation matters and generally aid clients with their personal financial affairs.
- Financial management. Budgeting, cash flow forecasting, business plans and advice regarding corporate structures are all skills that clients expect their advisors to possess.
- Management consultancy. Advising clients on the management of their businesses, to make them more profitable and effective.
- Secretarial and accounting services. Design and implementation of accounting systems, capturing and recording financial data and assisting clients with compliance with various requirements of the Companies Act.
- Information technology. Development of computer information systems to enhance business performance.
- Management accounting. Delivering up-to-date information on the status of a company, enabling management to make decisions about the day-to-day running of the business.
- Corporate finance. This involves acquisitions and sales of assets on behalf of clients, including negotiations and due diligence work.
- Forensic accounting. This specialist area involves investigative accounting where fraudulent accounting is suspected.
- Insolvency. If a company is in trouble, its chances of recovery must be assessed. CA(SA)s are involved in planning for the organisation's survival through restructuring.

3.2 International standard on review engagements

According to the International Framework for Assurance Engagements the objective of any assurance engagement, be it an audit or a review, is to enhance the degree of confidence users of financial statements have in the statements (International Auditing and Assurance Standards Board (IAASB) 2005 par 7). The IAASB of the International Federation of Accountants (IFAC) is responsible for the issuing of International Standards on Audit (ISAs) and International Standards on Review Engagements (ISREs). Since 2005 the entire suite of International Standards has had to be applied by all Registered Auditors (RAs) in South Africa (IRBA 2009/09/08). Included in the ISREs is ISRE 2400 *Engagements to Review Financial Statements*. However, the IAASB has listed the revision of ISRE 2400 as one of the items in its Strategy and Work Program, 2009-2011 (National Standards Setters (NSS) Task Group 2008:2).

4 RESEARCH METHODOLOGY

Based on the literature review (in the first article in this edition) a questionnaire was prepared in order to obtain the perceptions of CA(SA)s regarding

independent reviews. This research took the form of a structured, self-administered questionnaire. The questionnaire covered the following broad areas:

- Demographics.
- The nature of an independent review.
- Determinants of audit exemption.
- Performing an independent review.
- Practitioners deemed competent to perform an independent review.

A concerted effort was made to increase the response rate by minimising the time required to complete the questionnaire. This included the use of mainly multiple-choice questions, shortening the length of the questions and ensuring that the instructions were clear and the questions unambiguous and meaningful. The importance of the research was also communicated to the potential respondents in an attempt to improve the response rate. Potential respondents were also informed that individual responses would be treated as completely confidential and would not be made available to anyone outside the immediate research team for any reason whatsoever.

The questionnaire was e-mailed in October 2009 by the SAICA to all 22 846 CA(SA)s notifying them of the questionnaire and requesting them to complete it on-line. A follow-up e-mail was sent a month later and results were captured till January 2010.

In total, 769 responses were received. The response rate is thus 3.4%. Although 3.4% is a relatively low response rate, there was no cost-effective way to elicit significantly more responses, and the total number of responses, namely 769, was deemed to be sufficient from which to draw conclusions. Steenkamp (2009:86), who did a study on CA(SA)s' views on and expectations of a career in academia, also achieved a response rate of 3.4% (the questionnaire was also e-mailed by the SAICA to all CA(SA)s). According to him SAICA deemed such a response rate exceptionally high, compared to the number of responses they had received in previous surveys. The results of this study should nevertheless be evaluated against the limitations created by the relatively low response rate achieved and may not be fully indicative of the opinion of all CA(SA)s in South Africa. In addition, because participation was voluntary, there is a natural bias in the responses. Respondents may therefore have been biased towards those with an interest in performing independent reviews in the future.

5 RESULTS AND DISCUSSIONS

A reason for the low response rate of 3.4% is that some CA(SA)s are members of both IRBA and SAICA. A similar questionnaire was used to obtain the perceptions of RAs regarding independent reviews (referred to as the RA study). If those members had responded to the earlier RA survey, they would probably not have responded to this survey as the questionnaires used in both surveys are similar. Another reason might be that those CA(SA)s who are not in practice, (the second question was

only applicable to CA(SA)s in practice), deemed the entire questionnaire was not applicable to them.

The analysis of responses consisted mainly of frequency analyses and t-tests. Comparisons were made between the results of this study and the RA study. All of the respondents have answered all the individual questions in the questionnaire (N=769). In this section, the main findings of the statistical analyses performed are provided.

5.1 Respondent profile

The breakdown of the respondents to indicate who are in practice (delivering services other than audit services, for example accounting, taxation, consulting, to clients) or not (for example employed in commerce and industry and academia) is set out in Table 1. Although respondents involved in auditing and assurance services (RAs) might be included in the total of respondents who are in practice, it should not be a significant number as the RA survey was done before this survey, and, as discussed above, are likely to have excluded themselves for this reason.

Table 1: Respondents by type of working environment

	Number of respondents	% of respondents
Practice	402	52
Other	367	48
Total	769	100

Of the respondents, slightly more than half of them are in practice. This almost even split might be an indication that all CA(SA)s are interested in performing independent reviews in the future. Thus the perceptions reported in this study are seen as representative of both CA(SA)s currently in practice and CA(SA)s not currently in practice.

A breakdown of the respondents by number of partners in their practice is indicated in Table 2. This question was only applicable to CA(SA)s in practice.

Table 2: Number of partners in practice of respondents

	Number of respondents	% of respondents
1 or 2 partners	194	48
>2 partners	208	52
Total	402	100

5.2 The nature of an independent review

An audit provides a *reasonable* level of assurance that the information subject to audit is free of material misstatement, and an independent review provides a *moderate* level of assurance that the information subject to review is free of material misstatement (IAASB 2005 par 17 & IAASB 2006 par 9). The respondents were asked to rate the level of assurance provided by an audit and by an independent review. They were also asked to rate the perceived level of assurance derived by users from

an audit and from an independent review. The scale had the following response options: 1 = very low; 10 =

very high. The results are indicated in Tables 3 and 4 respectively.

Table 3: Level of assurance provided by assurance reports

	1	2	3	4	5	6	7	8	9	10	Mean (M)	Std Dev
Audit	0%	0%	1%	1%	3%	5%	13%	35%	22%	20%	8.199	1.441
Independent review by auditor (RA)	1%	1%	4%	7%	22%	23%	21%	16%	3%	3%	6.179	1.640
Independent review by non-auditor	6%	8%	10%	15%	24%	14%	12%	7%	2%	2%	4.900	2.080

Although the ratings varied from 1 to 10, it is evident that CA(SA)s perceived the level of assurance provided by an independent review not performed by the auditor (M=4.9) to be much lower than the level of assurance provided by an independent review performed by the auditor (M=6.2) and by an audit (M=8.2). The respondents' perceived levels of assurance is similar to the results of the RA study where, in the case of an independent review not performed by the auditor the average level of assurance was 4.1, 6.3 in the case of an independent review performed by the auditor and 8.6 in the case of an audit.

The uncertainty about the level of assurance provided by an independent review report is confirmed by the fact that 457 of the respondents (59%) were of the opinion that the concept of *moderate assurance* is not well understood by practitioners. According to these respondents the main reasons for the lack of understanding were that review engagements are new to practitioners (65%) and that the level of assurance is not clearly defined in ISRE 2400 (57%). This uncertainty is also echoed by the RA study where 65% of the respondents were of the opinion that the concept of moderate assurance is not well understood by practitioners.

Table 4: Perceived levels of assurance derived by users from assurance reports

	1	2	3	4	5	6	7	8	9	10	Mean (M)	Std Dev
Audit	0%	0%	1%	1%	2%	5%	12%	21%	27%	32%	8.496	1.563
Independent review by auditor (RA)	1%	1%	3%	4%	17%	15%	23%	23%	8%	6%	6.739	1.756
Independent review by non-auditor	5%	4%	8%	10%	21%	14%	17%	14%	5%	2%	5.645	2.160

From the results it is evident that CA(SA)s perceive the level of assurance derived by users from an independent review not performed by the auditor (M=5.6) to be much lower than the level of assurance derived from an independent review performed by the auditor (M=6.7) and an audit (M=8.5). However, the responses ranged between 1 and 10 which indicates that CA(SA)s were not sure about the level of assurance users derive from assurance reports. The respondents' perceived level of assurance is similar to the results of the RA study where the average level of assurance was 5.1 in the case of an independent review not performed by the auditor; 6.9 in the case of an independent review performed by the auditor, and 8.9 in the case of an audit. These uncertainties are also confirmed by the fact that 72% of the respondents reckoned that the concept of moderate assurance is not well understood by users of review reports while only 8% thought it to be well understood and 20% were uncertain. In the case of the RA study, 79% of the respondents reckoned that the concept of moderate assurance is not well understood by users of review reports. The most popular suggestions by the CA(SA) respondents on how to improve the users of independent review reports' understanding of the concept of moderate assurance were:

- The scope and limitations of the engagement should be explained in the review report

- Professional bodies should take actions to increase the awareness of the concept of moderate assurance on financial statements (631 respondents).
- The scope and limitations of the engagement should be set out in an engagement letter (598 respondents).
- The responsibilities of the practitioner should be set out in an engagement letter (559 respondents).
- A summary of the procedures performed by the practitioner should be included in the review report (558 respondents).
- The review report should make reference to the relevant review standard where the procedures of a review engagement are set out (386 respondents).

The support for these suggestions to improve the understanding of the concept of moderate assurance by users of independent review reports is similar to those suggested by the RAs in the RA study.

A paired t-test was conducted to compare the respondents' perceived level of assurance provided by practitioners and derived by users from assurance reports (Table 5).

Table 5: Difference in perceived level of assurance provided by practitioners and derived by users from assurance reports

	Practitioners		Users		T-test p-value
	Mean	Std Dev	Mean	Std Dev	
Audit	8.199	1.441	8.496	1.563	<.0001
Independent review by auditor (RA)	6.179	1.640	6.739	1.756	<.0001
Independent review by non-auditor	4.900	2.080	5.645	2.160	<.0001

There are thus statistically significant differences (on the 1% level) between the respondents' perceived level of assurance provided by practitioners and the perceived level of assurance derived by users from assurance reports. In all cases the level of assurance perceived by users are higher than the level of assurance provided by practitioners.

Another question posed was: what should the level of assurance provided by an independent review report be named in order to distinguish it from the level of assurance provided by an audit report. The results are provided in Table 6.

Table 6: Name of assurance provided by an independent review report

	Number of respondents	% of respondents
Moderate level	95	12
Limited level	327	43
Review level	347	45
Total	769	100

From the results it is clear that there were two strongly preferred terms: review level assurance (45%) or limited level assurance (43%). This matches the results of the RA study where most of the RA respondents (50%) preferred the term review level assurance and 36% preferred the term limited level assurance.

On the question, is there a demand for independent reviews where the level of assurance provided is lower than in an audit, but at a lower cost to the entity, the majority of the respondents (82%) confirmed the demand, while 9% of the respondents were of the opinion that there is no demand and 9% of the respondents were not sure about the level of demand. In the case of the RA study, the majority of the respondents (87%) confirmed that there was a demand for independent reviews.

Findings

From the results of the survey it is evident that CA(SA)s perceived that there is a significant demand for independent reviews. However, they are not sure about the concept of moderate assurance and the level of assurance a practitioner is providing in the

case of an independent review, mainly because review engagements are new to practitioners and the level of assurance is not clearly defined in ISRE 2400. However, they attached a higher level of assurance to reports generated by a RA than that prepared by a practitioner with a different professional accreditation. If CA(SA)s are to perform independent reviews this state of uncertainty can result in significant differences in the procedures they perform. Furthermore, the respondents were of the opinion that users are also not sure about the concept of moderate assurance and the level of assurance derived from independent review reports. This limited understanding of *moderate assurance* on the part of users can be improved by expanding the detail contained in the engagement letter and in the review report, and also by the provision of educational and information seminars by the professional bodies. In the case of both an audit and an independent review the level of assurance perceived by users is higher than the level of assurance practitioners believe they are providing. These differences in perceptions can lead to an expectation gap.

There was no single preferred term for the level of assurance provided by an independent review report which confirms the necessity to standardise the terminology.

5.3 Determinants of audit exemption

The *Draft Regulations to the Companies Act* (Department of Trade and Industry (DTI) 2009) use activity as the primary basis on which to determine which companies, except for public companies and state-owned companies, should be audited. Companies (profit and non-profit companies) holding assets in a fiduciary capacity should be audited (sect 29). The Draft Regulations (DTI 2009) then distinguish on the basis of thresholds (turnover and assets) which companies need not be audited, or choose voluntarily to be audited, or are exempt from being audited or reviewed, must be independently reviewed. Respondents were required to rate the acceptability of suggested indicators as determinants of the audit exemption threshold for a company. The scale had the following response options: 1 = very poor; 2 = poor; 3 = fair; 4 = good; 5 = excellent. The results are indicated in Table 7.

Table 7: Indicators of the audit exemption threshold

	1	2	3	4	5	Mean	Std Dev
Annual turnover	10%	9%	21%	33%	28%	3.606	1.251
Balance Sheet totals	25%	24%	28%	15%	8%	3.238	1.222
Number of employees	12%	14%	29%	29%	16%	2.570	1.245
Nature and extent of activities	12%	11%	21%	30%	27%	3.475	1.315

The results indicate that annual turnover is perceived to be the best indicator of the audit exemption threshold and that the number of employees was the worst indicator. This is similar to the results of the RA study.

Another question posed was, what percentage of companies that will be exempted from a statutory audit, do respondents believe will continue to have their financial statements audited. The results are indicated in Table 8.

Table 8: Companies exempted from audit to continue having their financial statements audited

	Number of respondents	% of respondents
0-24%	298	39
25-49%	278	36
50-74%	156	20
75-99%	36	5
100%	1	0
Total	769	100

Most of the respondents (75%) responded that less than half of the companies that will be exempt from a statutory audit will still have their financial statements audited. This agrees to the results of the RA study where 80% of the respondents were of the opinion that less than half of the companies that will be exempt from a statutory audit will still have their financial statements audited.

Findings

The respondents were of the opinion that annual turnover, a quantitative measure, is a better indicator of the audit exemption threshold than the nature and extent of activities, a qualitative measure. The respondents indicated that only a small percentage of the companies that will be exempted from a statutory audit will still have their financial statements audited.

5.4 Performing independent reviews

Approach

The Draft Regulations (DTI 2009) state that an independent review should be performed according to ISRE 2400 (sect 30(3)). As ISRE 2400 (IAASB 2006) does not require an explicit assessment of the risk of material misstatements, it can create the perception that a review should merely follow a procedural approach. In contrast, the IFAC (2008:5) is of the opinion that ISRE 2400 is not a procedural standard. However, ISRE 2400 does not clearly distinguish whether it is a procedural standard or a risk standard. Of the respondents, 62% indicated that a risk-based approach should be followed whereas 38% were of the opinion that a procedure-based approach is more appropriate in the case of an independent review. In the RA study, 53% of the respondents indicated that a risk-based approach should be followed whereas 47% were of the opinion that a procedure-based approach is more appropriate in the case of an independent review. The most popular reasons selected from those offered in the questionnaire for choosing the risk-based approach were:

- It will increase the level of assurance provided (301 respondents).
- It is more flexible (275 respondents).
- It is more cost effective (269 respondents).
- It is in accordance with the International Framework for Assurance Engagements (130 respondents).
- It will lead to greater consistency (129 respondents).
- It will distinguish an independent review from an audit (128 respondents).

The respondents in the RA study also cited the first four reasons for choosing the risk-based approach.

The most popular reasons given for choosing the procedure-based approach were:

- It will lead to greater consistency (228 respondents).
- It will distinguish an independent review from an audit (211 respondents).
- It is more cost effective (145 respondents).
- It will increase the level of assurance provided (89 respondents).
- It is more flexible (63 respondents).
- It is in accordance with the International Framework for Assurance Engagements (31 respondents).

The respondents in the RA study cited the same first three reasons for choosing the procedure-based approach.

On the question of how the cost of a risk-based review engagement will compare with that of a procedure-based review engagement, 38% of the respondents were of the opinion that it would be less, 30% thought it would be more and 32% perceived the cost to be not significantly different. This is also supported by the results of the RA study where 37% of the respondents were of the opinion that the cost would be less, 39% thought it would be more and 24% believed the cost would not be significantly different.

Although the majority of respondents chose the risk-based approach, it appears that there is a diversity of opinion among practitioners about whether a risk-based or a procedure-based approach should be followed when performing a review. There was also uncertainty regarding what the cost implications are likely to be. The NSS Task Group (2008:14) also confirms that in jurisdictions where reviews have been performed for many years, there is a longstanding controversy among practitioners about whether or not reviews should be risk-based.

Guidance

The Draft Regulations (DTI 2009) state that an independent review should be performed in accordance with ISRE 2400 (sect 30(3)). A total of 74% of the respondents were of the opinion that there should be a stand-alone set of review standards so as to create a comprehensive body of guidance to review engagements that will also clearly distinguish an independent review from an audit. 15% of the

respondents didn't think a stand-alone set of standards was necessary, while 11% were not sure. In the RA study, even more respondents (82%) were in favour of a stand-alone set of review standards. The IAASB also agreed, during their meeting in June 2009 (IFAC 2009), that the standards on review engagements should stand alone.

Regarding the format of the guidance in the review standards, 65% were of the opinion that the guidance should be principle-based whereas 35% were of the opinion that it should be procedure-based. This is similar to the results from the RA study where 57% of the respondents were of the opinion that the guidance should be principle-based and 43% were of the opinion that it should be procedure-based.

Regarding the aspects that the standards on review engagements should deal with, most of the respondents approved the following:

- Responsibilities of management and the practitioner (738 respondents).
- Reporting (730 respondents).
- Objectives of procedures (667 respondents).
- Professional judgement (663 respondents).
- Evidence gathering and documentation (653 respondents).
- Engagement acceptance and continuance (647 respondents).
- Examples of review procedures (626 respondents).
- Assessing engagement risk (616 respondents).

The first three aspects of the standards on review engagements that respondents indicated should be dealt with are similar to the aspects indicated by the respondents in the RA study. However, the RA respondents placed the giving of examples of review procedures in fourth place, while the CA(SA) respondents rated it in the seventh place.

Of the respondents, 56% indicated that examples of procedures in the review standards should only be viewed as application material and not as required procedures; 13% thought the examples should be viewed as required procedures, while 31% of the respondents were not sure. Most of the respondents to the RA study (57%) also agreed that examples of procedures in the review standards, as are set out in Appendix 2 of ISRE 2400, should be used as a guide or as application material, and should not be treated as mandatory procedures.

Reporting

In contrast to an audit, where a positive opinion is expressed, a review report expresses a negative opinion (IAASB 2006 par 23). Most of the respondents (62%) were of the opinion that the negative form of reporting is not understood by the users of review reports; while 15% of the respondents were of the opinion that it is understood, and 23%

were not sure. These results are very similar to those of the RA study where most of the respondents (67%) were of the opinion that the negative form of reporting is not understood by the users of review reports, while 15% of the respondents were of the opinion that it is understood. Although some respondents to the NSS Task Group Consultation Paper (Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordres des Experts-Comptables (CSOEC) 2008:8, Institute of Chartered Accountants in England and Wales (ICAEW) 2008:14 & IRBA 2008:10) were of the opinion that the negative form of expressing a conclusion is appropriate because this limited assurance is in clear contrast with the reasonable (positive) assurance provided by an audit, the concept of negative assurance is difficult to understand.

Regarding the form of the review report, 64% preferred a standard report whereas 36% of the respondents preferred it to be a flexible report. Even more respondents in the RA study (71%) preferred a standard report whereas 29% of the respondents preferred it to be a flexible report. This is in line with the views of most respondents to the NSS Task Group Consultation Paper most of whom were not in favour of a flexible report as they believed it would make it more complex (Auditing and Assurance Standards Board (AASB) Canada 2008:9, CNCC & CSOEC 2008:8, ICAEW 2008:14 & IFAC 2008).

Findings

The survey respondents preferred a stand-alone set of review standards with principle-based guidance, including examples of procedures to be used as application material and not as required procedures. Although most of the respondents chose the risk-based approach, it appears that there is divergent opinion among practitioners about whether a risk-based or a procedure-based approach should be followed when performing a review, and what the cost implications are likely to be. Most of them preferred a standard report and were of the opinion that the negative form of reporting is not understood by the users of review reports.

5.5 Practitioners to perform independent reviews

According to the CCRD an independent review is contemplated to be performed by persons other than auditors (DTI 2009/09/08). The Draft Regulations (DTI 2009) name the practitioner allowed to perform independent reviews an *independent accounting professional* (sect 30(2)(b)). The Draft Regulations further require that such a person should be a member in good standing of a professional body that is a member of the IFAC, and should be independent from the entity to be reviewed (sect 30(3)(d)). The respondents were asked which professionals possess appropriate qualifications to perform an independent review. The responses are set out in Table 9.

Table 9: Professionals to perform independent reviews

	Yes	No	Not sure
Attorney/lawyer	3%	91%	6%
CA(SA) (SAICA)	95%	3%	2%
RA (IRBA)	95%	2%	3%
Professional accountant (Association of Chartered Certified Accountants (ACCA))	35%	38%	26%
Professional accountant (The South African Institute of Professional Accountants (SAIPA))	29%	43%	28%
Registered Government Auditor (The Southern African Institute of Government Auditors (SAIGA))	31%	41%	28%

Most of the respondents agreed with the proposition that attorneys/lawyers (91%) are not qualified to perform independent reviews and that CA(SA)s (95%) and RAs (95%) are qualified to perform independent reviews. These results agree with the results of the RA study where most of the respondents agreed that attorneys/lawyers (98%) are not qualified to perform independent reviews and that CA(SA)s (86%) and RAs (97%) are qualified to perform independent reviews. The respondents in both this study and the RA study had mixed perceptions regarding whether or not ACCA, SAIPA and SAIGA members are qualified to perform independent reviews in terms of the existing standard(s).

Findings

The respondents were of the opinion that CA(SA)s and RAs are qualified to perform independent reviews, but they had mixed perceptions as to whether or not ACCA, SAIPA and SAIGA members are qualified to perform independent reviews. However, one should take the self-interest and subjectivity of the respondents into account.

6 ARE CHARTERED ACCOUNTANTS (SOUTH AFRICA) QUALIFIED TO PERFORM INDEPENDENT REVIEWS

As is evident from the first article in this edition, the practitioner who will be allowed to perform an independent review should be a member of a body that only registers practitioners with an adequate level of training and experience, and that has adequate monitoring and disciplinary processes in place to ensure compliance with the required standard(s) and code of ethical conduct.

The regulation of CA(SA)s is evaluated with reference to the factors identified by Odendaal and De Jager (2008:4-8) as being important to a regulatory system, namely, mandate and structure, competence, independence, efficiency and accountability, and processes and procedures (including registration, monitoring and discipline).

Mandate and structure

Contrary to the IRBA, which is a statutory body established in terms of the APA (South Africa 2005 sect 3), the SAICA is not a statutory body but is a professional association of accountancy professionals in South Africa (SAICA 2010a) and a member of the International Federation of Accountants (IFAC) (SAICA 2010h introduction). The SAICA therefore

does not have a clear statutory mandate. There is also no independent monitoring and reviewing of its performance. Only CA(SA)s are represented in the structure of the SAICA (SAICA 2010d sect 3.7.1). However, the SAICA does have the necessary procedures and processes to enforce SAICA's ethical and other professional standards, and for dealing with complaints relating to SAICA members. The professional conduct committee (PCC), the disciplinary committee (DC) and the disciplinary panel (DP) investigate allegations of improper conduct; conduct disciplinary hearings, and impose sanctions (SAICA 2010i).

Competence

The CA(SA)s represented in the structure of the SAICA (SAICA 2010d sect 3.7.1) should be able to effectively manage and guide its activities, based on their specialist knowledge of and experience in the field being regulated. However, no community representatives who should have the necessary knowledge of the public interest, are represented in the structure of the SAICA. Thus the regulation of CA(SA)s is likely to be conducted with the interest of its members in mind, and not necessarily in the public interest.

Independence

Only CA(SA)s are represented in the structure of the SAICA (SAICA 2010d sect 3.7.1) and no external body is empowered to review the activities of the SAICA. The SAICA is also only financed by CA(SA)s by way of annual subscription fees (SAICA 2010d sect 31.1). Therefore the SAICA is not independent from its members.

Efficiency and accountability

The SAICA is an accountancy body that should not be subject to much bureaucracy, which should mean that it functions economically and efficiently. However, the SAICA is not automatically able to fulfill its social responsibility as guardians of the public interest as all its members are CA(SA)s and its members are solely responsible for its funding (SAICA 2010d sect 31.1). It also has no responsibility to report to independent third parties on the way in which it carries out its mandate and thus to ensure that the public interest is being served.

Processes and procedures

The principle processes and procedures of the SAICA are examined below:

- *Registration, education, training and continuing professional development (CPD).* The SAICA, the only accountancy body that is a registered Education and Training Quality Authority (SAICA 2009/09/10), has determined that the successful completion of the following academic and professional qualifications are requirements for admission to membership of the SAICA and thus being entitled to use the CA(SA) designation (SAICA 2010c):
 - A BCom Accounting degree or equivalent and the Certificate in the Theory of Accounting (CTA) or equivalent completed at a SAICA-accredited university. (There are only 13 South African universities that offer the SAICA-accredited programmes (comprising the BCompt degree and the CTA).)
 - Learnership with a Registered Training Office (RTO) (to specialise in auditing) or an Approved Training Organisation (ATO) (to specialise in financial management). The duration varies between three and five years depending on level of qualification when entering into the learnership.
 - Part I of the Qualifying Examination (QE) of the SAICA.
 - A specialist course relevant to the selected training programme in Financial Management or Auditing, as accredited by the SAICA.
 - Part 2 of the QE (Financial Management route) or Professional Practice Examination (PPE) (Auditing route) after having completed a minimum of 18-months of the learnership contract.

These training requirements are similar for RAs except that the only available training programme for RAs is the one specialising in auditing.

All CA(SA)s have a further obligation to develop and maintain their professional competence, relevant to the nature of their work and professional responsibilities (SAICA 2010g). This is also a requirement of the Code of Professional Conduct (CPC), that all members maintain their professional knowledge and skills and follow a programme of CPD (SAICA 2010f sect 4). All CA(SA)s are required to complete 120 hours of relevant CPD activity in a three-year rolling period, of which 60 hours should be verifiable. A minimum of 20 hours of learning must be completed each year. (SAICA 2010h sect 10-12.)

- *Standards.* The SAICA has an ethics committee to manage the development and continuous enhancement of the SAICA's ethical standards and to ensure that members are kept up to date on ethics-related issues. This is achieved by proactively communicating with and educating members about topics relating to ethics, and by responding to ethics-related queries from members (SAICA 2010j & 2010k). The SAICA has a Code of Professional Conduct which is consistent in all material respects with the Code of Ethics for Professional Accountants issued by the

IFAC. This code establishes a conceptual framework for the entire code to ensure compliance with the five fundamental principles of professional ethics, namely integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. (The SAICA is in the process of updating its current CPC to align it with the revised IFAC Code of Ethics for Professional Accountants that becomes effective on 1 January 2011.) (SAICA 2010m.)

SAICA also seeks to influence the development of auditing standards by commenting actively on exposure drafts and redrafting proposals issued by the IAASB. The SAICA also seeks to maintain and enhance practicing members' competency in audit by offering a variety of seminars, workshops and other events annually. (SAICA 2010l.) The accounting technical department of the SAICA further serves CA(SA)s by, amongst other things, offering a technical query facility for addressing accounting and financial reporting issues and communicating on all developments of accounting standards through articles in journals, and by convening seminars and workshops (SAICA 2010b).

- *Monitoring.* The SAICA does not perform any monitoring functions regarding the activities of CA(SA)s as is the IRBA that conducts practice reviews (South Africa 2005 sect 4). However, CA(SA)s who do not comply with the CPD requirements are referred to the SAICA's Investigation Committee (SAICA 2010h sect 13).
- *Discipline.* The SAICA has a Disciplinary Panel (DP), a Professional Conduct Committee (PCC) and a Disciplinary Committee (DC) that investigate alleged improper conduct; conduct disciplinary hearings, and impose sanctions for improper conduct according to the powers granted to them by SAICA's By-laws. The DP consists of members of the SAICA. The PCC and DC have non-accountant chairmen and are assisted in their task by members selected from the DP. (SAICA 2010d sect 18.) If a CA(SA) is found guilty, the DC may impose the following penalties (SAICA 2010d sect 20.8.):
 - a caution;
 - a reprimand;
 - a fine of up to a maximum amount to be determined by the SAICA Board from time to time, currently R100 000;
 - suspension from membership for a period not exceeding five years;
 - exclusion from membership; and
 - permanent disqualification from applying for membership

Where the member of the SAICA is or was registered with the IRBA at the time of the alleged offence, the matter is immediately referred to the IRBA as the SAICA and the IRBA run a joint disciplinary process, administered by the Legal Department of the IRBA (SAICA 2010i).

Findings

From the above it is evident that the SAICA is a South African accountancy body, and a member of IFAC, that only registers practitioners with an adequate level of training and experience; has a CPC which is consistent in all material respects with the Code of Ethics for Professional Accountants issued by the IFAC, and has processes and procedures in place to investigate alleged improper conduct; conduct disciplinary hearings, and impose sanctions for improper conduct. Therefore CA(SA)s appear to meet the requirements in order to perform independent reviews. However, the SAICA might experience problems in its attempts to comply with the Companies Act's overarching objective of the protection of the public interest. The SAICA does not have a statutory mandate and also has no responsibility to report on the way in which it carries out its mandate in a manner that ensures that the public interest is served. As only CA(SA)s are represented in the SAICA's structure and it is only financed by CA(SA)s, the SAICA is not independent from the CA(SA) profession. Although the SAICA will be able to effectively manage and guide its members' activities, based on the specialist knowledge and experience of the field being regulated, it will not necessarily be able to fulfill its social responsibility to be guardians of the public interest.

Although an independent review is also an assurance service provided to the public, it should be less rigorous, less burdensome, less onerous and less costly to the company than an audit, and should provide a lower level of assurance. If a regulatory system where an independent statutory regulator oversees the regulation of CA(SA)s performing independent reviews, is put in place their performance of independent reviews might be acceptable. As the IRBA is the only independent statutory regulator of the audit and accounting profession, a possible way to ensure that the regulation of CA(SA)s is performed in the public interest is to enable the IRBA to perform the following:

- Accredite professional accountancy bodies whose members are permitted to perform reviews.
- Approve educational qualifications at educational institutions wishing to train those intending to perform reviews.
- Set requirements for monitoring and disciplinary processes in respect of improper conduct of practitioners performing reviews.
- Oversee the registration, monitoring and disciplinary processes of the accredited professional bodies.

Such a co-regulatory system should ensure that the regulation of practitioners intending to perform independent reviews will function in the public interest and will be less costly to the company than an audit.

7 CONCLUSION

The need to obtain the perceptions of CA(SA)s, one of the accounting services industry's main role players, regarding independent reviews, and the lack of reported studies on independent reviews in South

Africa, provided the incentive to conduct this research. The study therefore attempted to determine the perceptions of CA(SA)s regarding what an independent review is; which companies should be independently reviewed; what the manner and form of, and procedures for the conduct of an independent review should be, and who is qualified to perform an independent review.

The uncertainty of the respondents about what constitutes moderate assurance and the level of assurance practitioners are providing in the case of an independent review confirms the need for a revised standard(s) on independent reviews. The revised standards would define the terminology regarding the level of assurance being provided, and would guide practitioners to achieve the required level of assurance. Without such standards the extent of work performed is likely to vary substantially from one practitioner to another, resulting in different levels of assurance being given or implied, and incurring disparate costs reflecting the diversity of the work performed. Users' understanding of the terms and content of the concept *moderate assurance* can be improved by expanding the engagement letter and the review report (guidance on the preparation of these should also be provided in the revised standard(s) on independent reviews) and also by educational and information dissemination actions of the professional bodies.

The fact that the level of assurance users perceive they are receiving is higher than the level of assurance practitioners believe they are providing in the case of both an audit and an independent review is likely to lead to confrontations across a widening expectation gap. This provides interesting avenues for future research.

Contrary to the *Draft Regulations to the Companies Act* which use activity as their primary basis to determine which companies, except for public companies and state-owned companies, should be audited, the respondents to this research survey viewed annual turnover as a slightly better indicator of the audit exemption threshold than the nature and extent of the entity's activities.

The respondents to the survey confirmed the need for a principle-based stand-alone set of review standards so as to create a comprehensive body of guidance for the performance of review engagements. The added benefit is that it would make review engagements more easily distinguishable from audits and thus more cost-effective. Guidance should be provided regarding the approach to be used when performing an independent review, and the standards should include examples of procedures to be performed and the form of the review report.

The negative form of reporting is an area that should be further researched and addressed in the revised review standard(s). A stand-alone set of standards is likely to enhance the quality of reviews because they would be simpler to refer to and would obviate the need to analyse the ISAs in search of review-specific guidance.

The respondents were of the opinion that CA(SA)s and RAs are already qualified to perform independent reviews, but they had mixed perceptions regarding the competence of members of the ACCA, SAIPA and SAIGA to perform independent reviews. However, one should take the self-interest and subjectivity of the respondents into account.

The study further evaluated whether CA(SA)s are qualified to perform independent reviews. CA(SA)s appear to meet the requirements to perform independent reviews as they are members of the SAICA, a professional accountancy body that only registers practitioners with an adequate level of training and experience, and it has adequate monitoring and disciplinary processes in place to ensure compliance with the required standard(s) and code of ethical conduct. However, due to the lack of a

statutory mandate and their lack of independence from the parties being regulated, the regulation of CA(SA)s might not necessarily be in the public interest. A co-regulatory system, where the statutory regulator of the audit profession, the IRBA, oversees the regulation of CA(SA)s performing independent reviews, might ensure that the regulation of CA(SA)s is performed in the public interest, thus enabling them to be considered competent to perform independent reviews of companies' financial statements.

When interpreting the results, one should bear in mind that the response rate was low. It might not therefore be accurate to extend the results of this study to the entire CA(SA) population. This study, however, might be valuable to the different role players involved with independent reviews.

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