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Submitted electronically to the SARB Financial Surveillance Department
To: Dalton Appolis at dalton.appolis@resbank.co.za

Dear Dalton

SAICA SUBMISSION ON THE QUARTERLY ASSET ALLOCATION REPORTS

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have approximately 47,000 members from various constituencies, including members in public practice, business, the public sector, education and other industries. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We would like to engage the SARB, Financial Surveillance Department in gaining insight on the need for the quarterly asset allocation reports (QAARs) and bring forward concerns noted by our members in terms of the said reports. These engagements are aimed at bringing forward members concerns and potentially assisting with solutions in ensuring there is a uniform understanding of the required procedures and were necessary update of the reports.

We thank you for the opportunity to engage in terms of the reports. Our comments have been provided below.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Kedibone Pilusa (kedibonep@saica.co.za).

Yours sincerely

Signed electronically

Kedibone Pilusa
Project Director: MIB Technical

Overall comments

Section B.2 of the Currency and Exchanges Manual for Authorised Dealers outlines reporting requirements on foreign portfolios by South African institutional investors and requires the submission of their quarterly asset allocation reports (QAARs). These reports need to be reviewed by a registered auditor and section B.2(H) details the agreed upon procedures to be performed for retirement funds, insurers, investment managers and Collective Investment Scheme (CIS) management companies.

SAICA engages its members within the financial services sector on a regular basis through project groups. We noted a common concern amongst the insurance, investment management and the retirement funds project groups in terms of the quarterly asset allocation reports. Our members are seeking a greater understanding of what the reports are used for and in terms of which legislation the report addresses. This will assist in ensuring the needs of the SARB are better addressed. There is a level of auditor judgement in terms of the procedures performed and the industries would like to engage the SARB further to establish what the SARB requires from the reports.

Below are the set procedures and the challenges noted by our members for your consideration and further engagement;

Procedures per Section B.2 of the Currency and Exchanges Manual for Authorised Dealers	**Difficulties noted during testing**
1. We will inspect the four quarterly asset allocation reports to observe that they were duly certified by the authorized Official and submitted within two months after the respective quarter end.	**All entities:** As the reports are now submitted electronically, we would just like to ask for clarity on whether or not the procedure may need to be revisited as the actual QAARs may no longer show any evidence of being “duly certified by the authorized Official”.
2. We will use the portfolio or similar statements supplied by the directors, for the last quarter as at the financial year-end, to:	
2.1 Agree the classification of the assets and their fair value as reflected in asset classes A to F of the quarterly asset allocation report to the portfolio or similar statements, list of direct investments and general ledger.	**All entities:** With regards to the unit trusts that hold investments in other funds, such as fund of funds, comparing the underlying investments to the portfolio statements is not a straightforward task. The SARB submission takes on a look through approach and therefore what is classified as a fund in the portfolio statements will be classified based on the underlying investments in the SARB submission. Therefore we cannot solely rely on the portfolio statements of the funds included in the scheme as we need to inspect the underlying portfolio

	statements of all the underlying funds that have been invested in. This makes the testing more time consuming and can lead to various levels of look through if the fund of fund is invested in a fund that is invested in another fund (the flow through principle) This is very difficult to perform on a 100% basis for each fund due to the manual nature of the classification performed by management. Should the procedure read "...or general ledger.", or is it the intention that the auditor should agree the report to all three? **Comment from a CIS engagement:** Where a fund is invested in another CIS – the asset manager doesn't perform a look through while the client does, so the client's asset allocation report and asset manager's asset allocation report never ties in and it tends to become an impossible task to properly reconcile. As such a finding is routinely raised due to the fact that the audit team cannot spend and undue amount trying to reconcile.
2.2 Agree the classification between the institutional and retail assets as per quarterly asset allocation report to the list of direct investments.	The members seek further clarity as to what the purpose for the SARB wanting this split is. **Comment from a CIS engagement:** The split between retail and institutional is quite difficult for some clients to obtain. Once again the process is very manual and time consuming for management which results in this being very time consuming to test if it can be tested at all. In some cases, it is more practical to disclose that this could not be tested in the findings report. **Comment from a Reinsurance engagement:** The SARB report doesn't really align with this type of client – i.e. procedure 2.2 relates to the split between institutional and retail investors although a reinsurer will never have investors. **Comment from an insurance engagement**

	It is a real struggle to get a split between retail and institutional assets and therefore a proper retail and institutional asset listing. This leads the audit team to not being able to select a sample as they did not have a complete list to choose from. It was also struggle to get a proper look through that allows the audit team to accurately aggregate balances – the client performed this using very detailed splits that were extremely difficult to follow and could not be linked back to the total investments with ease. A case of costs exceeding benefits. For a client that has retail and institutional investors, it is difficult to agree the investments to portfolio statements (PS) as PS do not split out the balance between retail and institutional. This makes performing the SARB specific procedure virtually impossible. To perform this, you would need to rely on a client calculated split between retail and institutional and then apply it to the PS. This is the same procedure applied to the total investment listing (detailed above) in order to strip out a retail and institutional asset listing.
2.3 Agree the classification between Rand denominated assets, foreign assets and foreign currency denominated assets in respect of institutional and retail assets as per the quarterly asset allocation report to the list of direct investments.	**Comment from a CIS engagement:** Similar to 2.1 above, with regards to the unit trusts that hold investments in other funds, such as fund of funds, comparing the underlying investments to the portfolio statements is not a straightforward task. The SARB submission takes on a look through approach and therefore what is classified as a fund in the portfolio statements will be classified based on the underlying investments in the SARB submission. Therefore we cannot solely rely on the portfolio statements of the funds included in the scheme as we need to inspect the underlying portfolio statements of all the underlying funds that have been invested in. This makes the testing more time consuming and can lead to various levels of look through if the fund of fund is invested in a fund that is invested in another fund.
3. We will re-perform the calculation of the African allowance as reflected in category G1 and the foreign asset holding percentages as reflected in category H and I of the last quarterly asset allocation report as at the financial year end.	**All entities:** None noted.

4. We will agree the reconciliation of the last quarterly asset allocation report as at the financial year end to the audited annual financial statements and examine the evidence for reconciling items.	**All entities:** **Comment from a CIS engagement / Investment Managers:** For certain entities, some of the assets contained on the QAAR may be off-balance sheet, in other words, not included on the financial statements of the entity that is submitting the report. Currently in these cases the auditors would just note that the procedure could not be performed. Please be aware of this.
5. For the last quarterly report, a sample of the lesser of 25 or 30%, of individual investments from the list of investments provided by management for each class of Assets (A to F), for each of the following categories for both institutional and retail investors: A. Rand denominated domestics assets B. Rand denominated foreign assets C. Foreign currency denominated assets	The members would like to understand why classification of assets A to F is of such importance to the SARB rather than local/foreign. **Comment from a CIS engagement:** The procedure is quite vague on how exactly to calculate the sample size, i.e. is it the lesser of 30% of the value of investments or 30% of the number of investments? Should retail and institutional be split or tested together? The sample sizes are large. For example, if you determine your sample size to be 25 then you are testing 25 per class of assets (25*6=150), per retail and institutional (150*2=300), per the categories A – C noted in the procedure alongside (300*2=600). This results in a sample size of 600, which is a significant sample size and may not a true reflection of the objective of the procedure.
5.1 We will agree the investments to portfolio or similar statements;	**Comment from a CIS engagement:** As noted above, a similar difficulty arises as mentioned when testing the classification procedure due to funds investing in other funds. We have to perform a look through in order to trace the market value as it cannot be traced to the fund's portfolio statement. Similarly to 2.1 above, statements might not contain classification information. The client's weightings would have to be applied to agree the statements to the classifications on a line by line basis. The valuations per portfolio or similar statements (obtained from third parties - for custodied assets

	for example) may not agree to the valuations that ultimately end up on the financial statements.
5.2 We will inspect the valuation of the investment and agree that they were valued at the fair value in terms of the Fund's accounting policies; and	**All entities:** None noted, as tested substantively as part of the audit of the funds. We would like to bring to the SARB's attention that the term fair value is not defined and thus there is a possibility of different interpretation. As this is not an audit we cannot express assurance as the procedure seems to be implying. It may not be clear from the valuation of the investments that assets were 'valued at fair value' without performing substantive testing. We would suggest that perhaps the procedure be changed to simply query what the accounting policy is with respect to the valuation of the assets in the QAAR report. However this then may bring up the same issue as noted in procedure 4 with assets that are 'off-balance sheet'. In addition it is worth noting that not all assets may be measured at fair value, some may be at amortised cost for example. A factual findings report should be limited to providing findings and not audit evidence that is only obtainable through an audit. Therefore the reference to valuation is a difficult matter to address when the one is not the auditor of the assets under reporting.
5.3 We will agree that foreign assets were translated at the relevant exchange rates ruling at the end of the last quarter.	**All entities:** None noted, as tested substantively as part of the audit of the funds.
6. We will select a sample of the lesser of 25 or 30% of institutional investors from the list of investments provided by management for the last quarter and agree that the institution has been disclosed as an institution on the list of institutional investors provided to Exchange Control for that quarter.	**All entities:** None noted.
7. We will select a sample of the lesser of 25 or 30% of institutions which issued investment certificates in respect of institutional assets and inspect evidence that the institutions are retirement funds, long- term insurers, collective	**All entities:** None noted.

investment scheme management companies or registered investment managers (if applicable).	
8. We will observe whether the amounts have been recorded in R'000.	**All entities:** None noted.