

Ref# 738169

30 June 2019

SE Mazibuko

South African Reserve Bank

370 Helen Joseph Street

Pretoria

Email: [FNS-Development@resbank.co.za](mailto:FNS-Development@resbank.co.za)

Dear Sir/Madam

**SAICA COMMENT LETTER ON THE SOUTH AFRICAN RESERVE BANK'S FINANCIAL SURVEILLANCE DEPARTMENT OFFSHORING AND CLOUD COMPUTING POSITION PAPER**

The South African Institute of Chartered Accountants (SAICA) is the home of Chartered Accountants in South Africa – we currently have over 45,000 members from various constituencies, including members in public practice ( $\pm 30\%$ ), members in business ( $\pm 49\%$ ), in the public sector ( $\pm 4\%$ ), education ( $\pm 2.0\%$ ) and other members ( $\pm 15\%$ ). 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).

In response to your **Offshoring and cloud computing position paper (Paper)**, please find included the comments prepared by SAICA. Please note that these comments have been prepared by the Assurance division and since our area of specialty is audit and assurance, the scope of our comment letter is limited to Section 6.9 – Annual Audits of the paper.

We welcome the opportunity to comment on the Paper. Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli ([thandokuhlem@saica.co.za](mailto:thandokuhlem@saica.co.za)) or Hayley Barker Hoogwerf ([hayleyb@saica.co.za](mailto:hayleyb@saica.co.za)).

Yours sincerely

***Signed electronically***

**Thandokuhle Myoli**

**Project Director: Assurance**

## **SAICA'S COMMENTS**

### **INTRODUCTION**

1. These comments have been prepared by the Assurance division and since our area of speciality is audit and assurance, the scope of our submission is limited to Section 6.9 'Annual audits' of the paper. This comment letter only responds to the requirement of an audit as defined in the Auditing Profession Act No. 26 of 2005 (APA) and not to internal audits. Due to the fact that this section is not too extensive, we have analysed each paragraph separately.
2. In addition to this comment letter, we urge FinSurv to consult with Independent Regulatory Board for Auditors (IRBA) and SAICA in order to clarify their information needs and audit expectations to prevent any audit expectation gaps that may arise.

## 6.9 ANNUAL AUDITS

6.9.1 A reporting entity must perform annual internal and external audits (including penetration testing), which results should be submitted to FinSurv within six months after its financial year end.

3. Section 6.9.1 makes reference to both internal and external audit. Internal and external audits are different in their scope and the type of assurance provided by each engagement also differs.
4. The APA states that “audit means the examination of, in accordance with prescribed or applicable auditing standards –
  - a. Financial statements with the objective of expressing an opinion as to their fairness or compliance with an identified financial reporting framework and any applicable statutory requirements; or
  - b. Financial and other information, prepared in accordance with suitable criteria, with the objective of expressing an opinion on the financial and other information.”

The term ‘audit’ when referring to an external audit should have the meaning set out in the APA.

5. While an internal audit may be performed internally by the reporting entity, an external audit engagement cannot be performed by the reporting entity. The manner in which paragraph 6.9.1 is currently written suggests that an external audit may be performed internally by reporting entities. This is not the case.
6. The inclusion of the requirements under the same section also creates confusion in section 6.9.3 as it is not clear whether it is the external or internal auditor that must produce reports on the items listed in 6.9.3(i) - (ix).
7. To this end, we propose that the requirements for an internal and an external audit be included in different sections in the paper and the related reporting requirements be clearly indicated.
8. To provide further clarity on the external audit requirements, we suggest that the definition of a registered auditor should be included in the Description of Key Concepts section and aligned to the definition in the APA, which states that a registered auditor is an individual or firm registered as an auditor with the IRBA. The paper should clarify that an external audit can only be performed by a registered auditor.
9. FinSurv specifically requires an audit of the items listed on 6.9.3(i) – (ix). This is however not the only option available in terms of enhancing the creditability of the reported information. We recommend that FinSurv review the pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) and prescribed for use in South Africa to determine the types of engagements that may be performed and based on the information needs, determine which type of engagement is most suitable. There are three main types of engagements contained in the pronouncements that may be considered, as follows:
  - Audits and reviews of historical financial information (to obtain reasonable assurance and limited assurance respectively as a basis for the practitioner’s opinion / conclusion) – ISAs and International Standards on Review Engagements (ISREs).

- Assurance engagements other than audits or reviews of historical financial information (to obtain either reasonable assurance or limited assurance as a basis for the practitioner's opinion / conclusion) – International Standards on Assurance Engagements (ISAEs), specifically ISAE 3000 (R).

When the registered auditor is required to express an opinion or conclusion on any particular subject matter or subject matter information, the implication is that an assurance engagement is required. Depending on the nature of the subject matter or subject matter information, and the information needs of the intended users, such engagements can provide either reasonable assurance or limited assurance in accordance with ISAs, ISREs or (ISAEs), as applicable.

In a reasonable assurance engagement, the auditor's conclusion is expressed in the positive form that conveys the assurance practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter (Framework, paragraph 84). In a limited assurance engagement, the auditor's conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the subject matter information is materially misstated (ISAE 3000(R) paragraph 69 (I)(iii)).

- Related services (no assurance is obtained or expressed) – International Standards on Related Services (ISRSs), specifically ISRS 4400, Agreed upon Procedures (AUP). When performing an AUP engagement, the practitioner issues a Report of Factual Findings relating to the identified subject matter or subject matter information. No assurance is expressed in such report. Users of the report assess the procedures and findings reported on themselves and draw their own conclusions from the practitioner's work and the report is restricted to those parties that have agreed to the procedures to be performed so as to avoid misinterpretation of the results. (ISRS 4400 paragraphs 5 and 6).

#### **Preconditions for Assurance Engagements other than Audits or reviews of Historical Financial Information**

10. The registered auditor can only accept an engagement if the preconditions for an audit or an assurance engagement are met. The preconditions for an assurance engagement are as follows (as discussed in International Framework for Assurance Engagements):

- The roles and responsibilities of the appropriate parties are suitable in the circumstances (i.e. referring to the different roles of the reporting entity, FinSurv and the registered auditor)
- The engagement exhibits all of the following characteristics
  - The underlying subject matter is appropriate
  - The criteria to be applied in the preparation of the subject matter information are suitable, including that they exhibit the following characteristics:
    - Relevance
    - Completeness
    - Reliability
    - Neutrality
    - Understandability
  - The criteria is available to the intended users
  - The registered auditor expects to be able to obtain evidence to support his/her opinion/ conclusion
  - The opinion/ conclusion is to be contained in a written report

- The engagement has to have a rational purpose, including that the registered auditor expects to obtain a meaningful level of assurance
11. Based on the information provided in the paper, it is not clear whether the preconditions are met. If the preconditions are not met, an assurance engagement cannot be performed. As indicated above, we recommend that FinSurv engage IRBA and SAICA in this regard.
12. The paper refers to the concept of 'Penetration testing'. This has, however not been defined in the 'Description of Key Concepts' section of the paper, nor has it been further explained in other sections. It is therefore not clear what is meant by this, or what is required from the auditor in this regard. This needs to be defined and FinSurv needs to determine whether this will fall in the internal or external auditor's scope.

6.9.2 External audits must be performed by a South African registered auditing firm in compliance with FinSurv requirements.

13. The requirements for eligibility to be appointed as the external auditor have not been included in the paper. In South Africa, the requirements include that the firm and individual responsible for the audit engagement be registered with the IRBA. If there are additional specific requirements that Finserve will impose, we propose that the paper either explicitly include such additional requirements or refer to where these requirements are stipulated.

6.9.3 The auditors must produce an annual report confirming the following:

- (i) FinSurv data is extracted from the accounting system;
- (ii) the logic utilized to extract the FinSurv data complies with the Exchange Control Regulations and FinSurv reporting standards, as specified in the Authorised Dealer manual, the ADLA Manual, Business and Technical Specification as well as the Operations Manual;
- (iii) Extraction of FinSurv data from the accounting system and loading of the data to the reporting system is automated;
- (iv) Extraction and loading of FinSurv data takes place at least once per day;
- (v) The accounting system generates a daily reconciliation report according to the requirements stipulated in the Authorised Dealer Manual and the ADLA Manual;
- (vi) The logic utilized to generate the reconciliation report complies with the Exchange Control Regulations and reporting standards, as specified in the Authorised Dealer Manual, the ADLA Manual, Business and Technical Specification as well as the Operations manual;
- (vii) That same source methodologies were strictly followed;

14. Section 6.9.3 makes reference to an 'annual report'. Companies produce Annual Reports, which is a comprehensive report on company's activities and financial performance throughout the preceding year. The use of the term 'annual report' in the paper may therefore create confusion. We propose that FinSurv rather remove the reference to an 'annual report' and merely make reference to the report produced by the external auditor.

15. FinSurv has an extensive list of items that requires the auditor to report on. It is possible that some of the items are more suited to an assurance engagement and others an AUP engagement. This means that reporting entities may need to enter into a hybrid engagement.
16. A hybrid engagement is a single engagement that draws on the requirements of various IAASB pronouncements. Common examples of hybrid engagements include engagements that combine reasonable assurance engagements, limited assurance engagements and non-assurance engagements; or engagements mandated by regulators. In South Africa, hybrid engagements have emerged mainly as a result of regulatory requirements. Examples of such engagements include those performed in compliance with the Financial Markets Act and JSE Directive DG1.7 (Annual Stockbroker's Audit Report), and The Banks Act 94 of 1990 and Regulation 46 of The Regulations Relating to Banks (Reports to the Registrar of Banks on the Statutory Returns).
17. We encourage FinSurv to interact with SAICA and the IRBA in terms of finding an innovative way to develop a report that caters for the information needs. This may entail a hybrid engagement that combines assurance engagements and AUP engagements.