

INDEPENDENT REVIEWS OF ANNUAL FINANCIAL STATEMENTS, REPORTABLE IRREGULARITIES REGULATION 29 (12) REPORTING



Companies and Intellectual
Property Commission

a member of **the dti** group

Thikhathali Mulaudzi

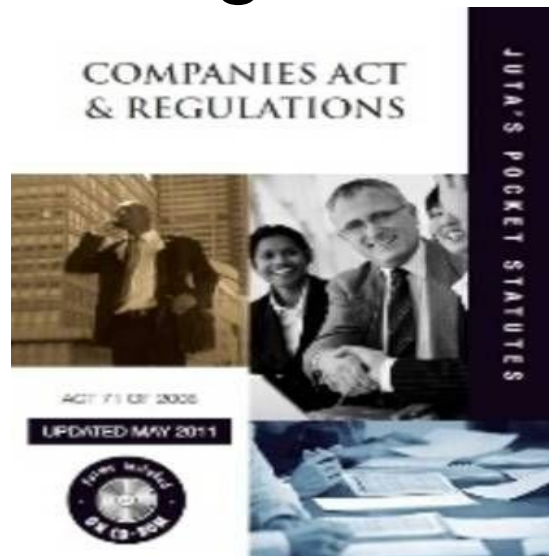
29 October 2021

11h00 am



PURPOSE OF THE PRESENTATION

To outline the role and responsibility of CIPC, as a regulator, when it comes to the procedure and reporting requirements of the Independent Review Regime as stipulated in Regulation 29 of the Companies Regulation 2011.



STRUCTURE

- Independent review definition
- Reportable irregularity
- Reporting process
- Role by CIPC and Independent reviewer
- Report by Professional bodies

WHAT IS AN INDEPENDENT REVIEW (IR)

An independent review is an alternate assurance engagement wherein limited assurance is provided on a set of annual financial statements as opposed to that of a reasonable assurance provided by an auditor as per an audit of annual financial statements.



WHO IS AN INDEPENDENT REVIEWER

- **‘Independent Reviewer’**, means a person referred to in regulation 29(4) and who has been appointed to perform an independent review under this regulation;
- i.e. registered auditor or a member , in good standing, of a professional body accredited in terms of S33 of APA



WHAT IS A REPORTABLE IRREGULARITY

- **`reportable irregularity'**, means any act or omission committed by any person responsible for the management of a company, which-
 - Unlawfully has caused or is likely to cause material, financial loss to the company or to any member, shareholder, creditor or investor of the company in respect of his, her or its dealings with that entity; or
 - Is fraudulent or amounts to theft; or
 - Causes or has caused the company to trade under insolvent circumstances.



WHEN SHOULD AN INDEPENDENT REVIEW BE CARRIED OUT

- **Regulation 29 (4) states that** `An independent review of a company's annual financial statements must be carried out-
 - In the case of a company whose public interest score for the particular financial year was at least 100, by a registered auditor, or a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Professions Act; or

- In the case of a company whose public interest score for a particular financial year was less than 100, by-
 - A registered auditor, or a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Professions Act; or
 - A person who is qualified to be appointed as an accounting officer of a close corporation in terms of section 60(1), (2) and (4) of the Close Corporations Act, 1984 (Act 69 of 1984).

PROCESS OF REPORTING RI



- **SR6**
- Trigger: reasonable grounds of reportable irregularity identified
- Action: Send written report to Commission



- **SR7**
- Action: Send written report to board of reported company within 3 business days
- Note: Copy of report to CIPC must accompany notice



- **SR8**
- Action: Independent reviewer must, within 20 business days from date of submission of report to CIPC:



- (a) discuss report with members of board of company
- (b) afford members of board of company chance to give feedback on reported issues as per the report



- (c) Send another report to CIPC which must incl: (i) that the IR is of opinion that (aa) no RI has or is taking place (bb) suspected RI is no longer taking place & steps have been taken to remedy situation where relevant (cc) RI is continuing
- (ii) detailed particulars & info supporting point (i) above



- Action: CIPC must, ASAP post receipt of report (SR29 [8(c)(i)(cc)]); notify any appropriate regulator in writing of the details of the RI, provide it with copy of report and may investigate any alleged contravention of the Act.

CIPC ROLE ON RI

- The CIPC must:
 - Notify any appropriate regulator in writing of the details of the RI to which the report relates to and provide it with a copy of the report; and
 - May investigate any alleged contravention of the Act.
 - E-mail address for reporting Independent Review RI's

independentreview@cipc.co.za



INDEPENDENT REVIEWER'S ROLE ON RI

- an independent reviewer may:
 - Carry out such investigations as s/he deems necessary; and
 - In performing any duty referred to in the preceding provisions, the IR must have regard to all info which comes to his/her knowledge from any source.



BENEFITS OF INDEPENDENT REVIEW

- More cost effective.
- More convenient & less burdensome.
- Simpler and less requirements; less rigorous.
 - The aim of an IR is to ultimately lower regulatory burden for SMME's to ensure affordability and sustainability for small businesses, hence promoting entrepreneurship.



CHALLENGES

- Failure by independent reviewers to adhere to procedure as set out in Regulation 29.
- 2nd report's are not followed by a 1st report.
- No indication from the independent reviewer that s/he has even investigated the reportable irregularity (IR).
- Still not many RI reports forthcoming from the independent reviewer/s.



ANNUAL REPORT TO BE FILED AT CIPC

- All professional bodies incorporated under **Section 60 of the Close Corporations Act, No. 69 of 1984**, whose members are entitled to perform an independent review as contemplated in sub regulation (4)(b)(ii), must annually file a report with the Commission demonstrating that:
 - a) It has proper mechanisms for ensuring that its members participate in continued professional development and achievement of professional competence;



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- b) it has mechanisms to ensure that its members are disciplined where appropriate;
- c) it is, and is likely to continue to be, financially and operationally viable for the foreseeable future;
- d) it keeps and maintains a proper register of its members;
- e) it has in place appropriate programmes and structures to ensure that that it is actively endeavouring to achieve the objective of being representative of all sectors of the South African population; and
- f) If it meets any other requirements that may be determined by the Commission from

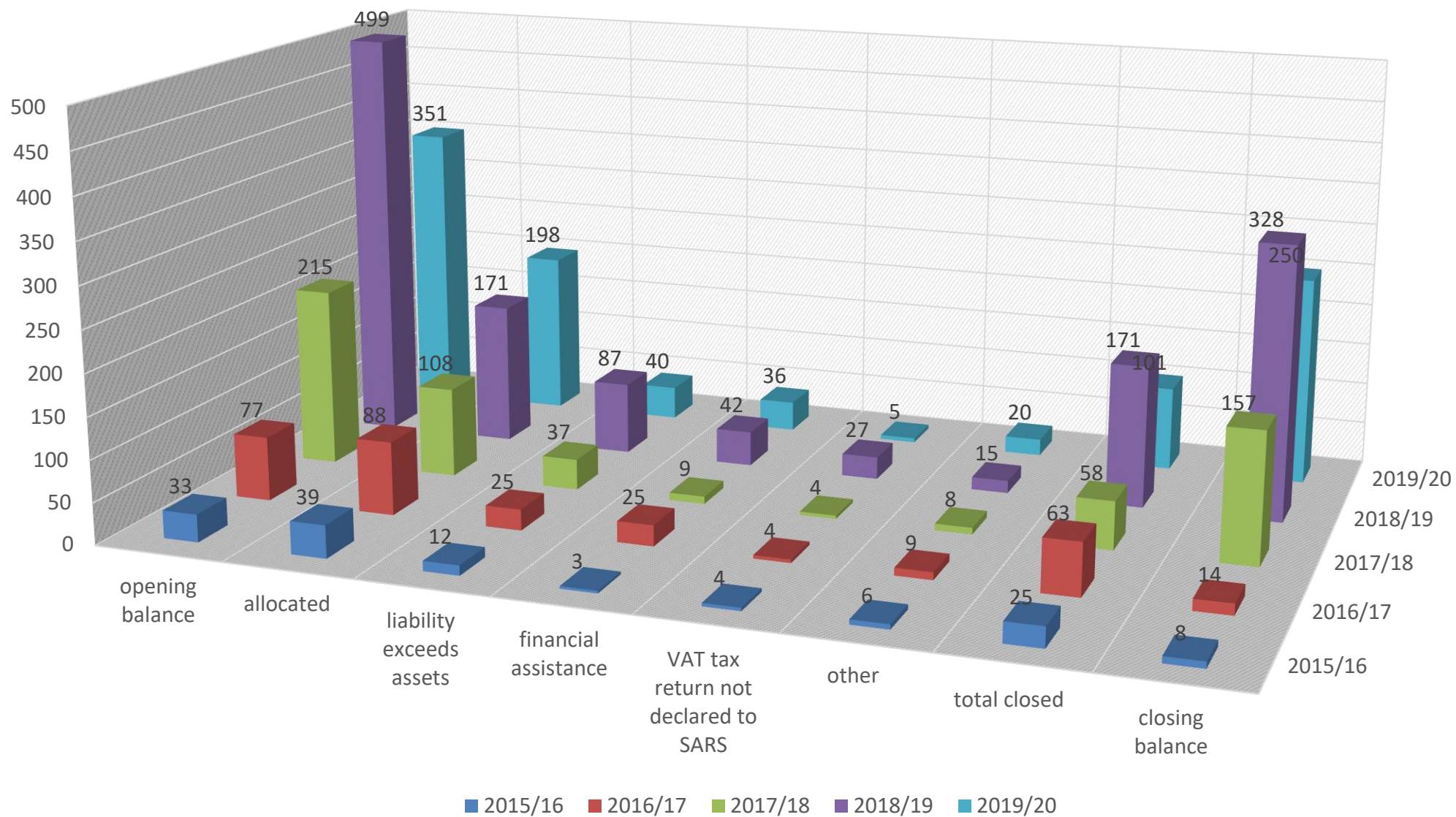
STATISTICS

| Item | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---------------------------------|---------|---------|---------|---------|---------|
| Opening Balance | 33 | 77 | 215 | 499 | 358 |
| Allocated | 39 | 88 | 108 | 171 | 198 |
| Liability Exceeds Assets | 12 | 25 | 37 | 87 | 40 |
| Financial Assistance | 3 | 25 | 9 | 42 | 36 |
| VAT Return Not Declared To SARS | 4 | 4 | 4 | 27 | 5 |
| Other | 6 | 9 | 8 | 15 | 20 |
| Total Closed | 25 | 63 | 58 | 171 | 101 |
| Closing Balance | 8 | 14 | 157 | 328 | 250 |

Independent Reviews

Number of cases ranging 2015 to 2019

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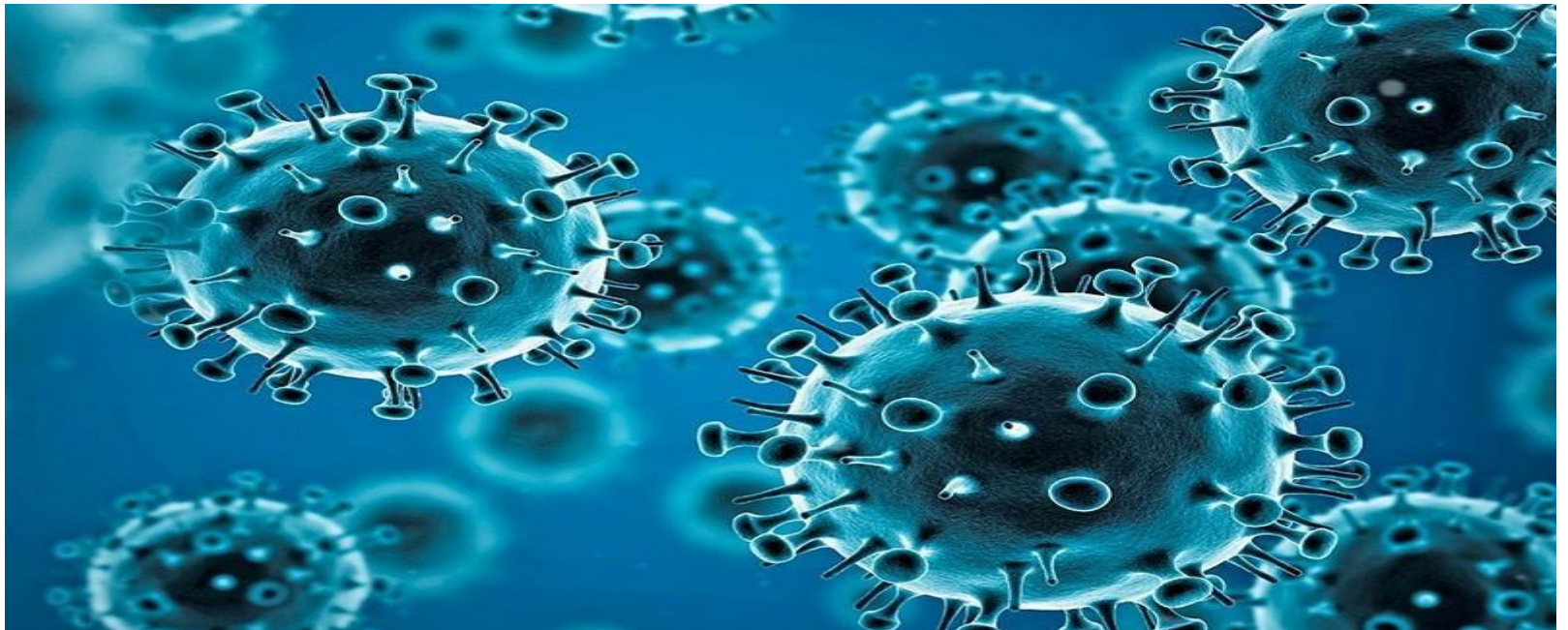
CONCLUSION

- It is extremely imperative that Accounting practitioners and auditors that are involved with the function of independent review, *familiarise themselves with the process* as afore-stated with regards to the reporting of the reportable irregularities that emanate from the independent review of Annual financial statements.
- As only then can there be a smooth, stream-lined, and efficient process to ensure that these reportable irregularities are timeously and correctly reported to the Commission and attended to accordingly.



CONCLUSION

- Covid-19 and tough economic conditions continues to have an impact on the industry. This is evident on the low numbers of received matters.





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THANK YOU

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