

INFORMATION NOTICE

VOLUNTARY AUDITS

A voluntary audit is an audit, which is not compelled or mandated by law. It is an audit that is exercised by choice, hence the very essence of it being 'voluntary'.

As postulated by 'The Economic Times' (online, website, 13 April 2016), the following definition and description of an audit, has been provided:

Definition: Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organisation.

Description: Audit can be done internally by employees or heads of a particular department and externally by an outside firm or an independent auditor. The idea is to check and verify the accounts by an independent authority to ensure that all books of accounts are done in a fair manner and there is no misrepresentation or fraud that is being conducted.

The definition alluded to above is consistent with various other definitions as espoused by different institutions and academics. An audit provides a reasonable assurance to annual financial

The term 'voluntary' is only a descriptive word, which is defined as 'something that is done or undertaken out of one's own free will, without being forced'.

Another definition provided for the afore-stated term is 'freedom and spontaneity of choice or action without any compulsion'.

Pursuant to the above definitions, an audit is a set process, which consists of certain criteria, to ensure a certain level of assurance; a very high level at that. It is referred to as a reasonable assurance, following a rigorous and intense process of verification of an entity's accounting books and operations. Hence, an audit is an audit and the process that an audit comprises is specific and defined, albeit broad. It also comprises specific criteria, which is unique to an audit. All the stated criteria in terms of the Auditing Professions Act, No. 26 of 2005, as well as the Companies Act, No. 71 of 2008 (as amended), hereinafter referred to as 'The Companies Act', must be included in an audit. The term 'voluntary' only describes **HOW** the audit came about....whether by choice or by law, and not **WHAT** it should include, in terms of criteria and requirements. Otherwise, omitting any of the audit criteria, would then beg the question 'would we still be able to call the amended process/ omission of certain criteria....an audit?'

This would, indeed, greatly compromise the integrity and high standard of an audit.

In addition to the afore-stated, a scrutiny of the relevant Section of The Companies Act, is very clear in respect of the audit requirements and criteria. The wording of the relevant Sections is unambiguous and direct.

Section 30 (2) of The Companies Act, 2008, as amended, states:

(2) The annual financial statements must -

(a) be audited, in the case of a public company; or

(b) *in the case of any other profit or non-profit company –*

(i) be audited, if so required by the regulations made in terms of subsection (7).....

(ii) be either –

(aa) **audited voluntarily if the company's Memorandum of Incorporation, or a shareholders resolution, so requires or if the Company's board has so determined....**

One has to be mindful of the afore-stated provision, with special emphasis on (2) read with (2)(b)(ii)(aa)...as this is a requirement in terms of the Companies Act, as alluded to above.

Then, following from the afore-stated, attention must be drawn to Section 30 (4), which states:

(4) The annual financial statements of each company that is required in terms of this Act to have its annual financial statements audited, must include particulars showing –

(a) **The remuneration, as defined in subsection (6), and benefits received by each director, or individual holding any prescribed office in the company;**

Subsections 4 (b) through to (e) also states specifically all other amounts relative to a director, that must be disclosed in the audited annual financial statements.

Pursuant to the afore-stated provisions, it is clear that since The Companies Act requires that a company be voluntarily audited, should its Memorandum of Incorporation, a shareholders resolution, or the board of directors so determines same, this is then a requirement in terms of the Act. Hence, moving on to subsection 4, it is stated that if the Act requires this, then the audit must include the disclosure of remuneration, and other amounts (specified above) in respect of each director.

All requirements relevant to a mandatory audit will then also include a 'voluntary audit' as per the afore-stated provisions. The criteria must remain the same for both types of audit. The Companies Act makes no mention, nor an inference, to anything stating the contrary. Neither is there a mention of selective criteria with regards to an audit, be it mandatory or voluntary.

As alluded to above an audit is an intense process, which provides a reasonable assurance. The level and quality of this assurance is, by its very nature, of a very high standard. The very purpose and intention of an audit requires an intrinsic and intense investigation, verification, and disclosure of specific information relative to the subject of an audit. Omitting any

requirement from it, will not only compromise this level and quality of assurance, but de-value the audit process. In addition, by not adhering to all the requirements in respect of an audit, as specified in Section 30, same renders this tantamount to a contravention of The Companies Act, as alluded to above.

Conclusion

All entities which file audited annual financial statements, regardless of it being mandatory or voluntary, must ensure that there is disclosure of directors' remuneration, as prescribed in Section 30 (4), *inter alia*.



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Commissioner: CIPC

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