

IMPORT AND EXPORT TRANSACTIONS OF CORPORATES - EXCHANGE CONTROL DISPENSATION

Introduction

The Exchange Control Department of The South African Reserve Bank .01
(EXCON) has introduced procedures whereby certain corporates are
exempted from submitting supporting documentation for every foreign
exchange transaction related to an import transaction and has
streamlined the reconciliation process of export receipts.

In general, EXCON is moving the accountability for exchange control .02
compliance by these corporates from the authorised dealer to the
corporate and the verification thereof to its auditor.

The dispensation from EXCON is not available to all corporates and .03
generally will only be available to those that have adequate systems of
internal control and subject to EXCON's final approval. The
corporates will enter into certain contractual undertakings ("Imports
and/or Exports Undertakings") whereby they will apply for the
dispensation and undertake to comply with certain provisions.
Applications for the dispensation must be made through the
corporate's authorised dealer. Both the auditor and the authorised
dealer are to complete standard forms whereby they provide EXCON
with their consent to be involved in the undertakings.

Circular 6/94 was issued in February 1994. It was compiled in .04
conjunction with EXCON in order to give guidance on the types of
procedures that an auditor should apply when testing compliance with
the Imports and/or Exports Undertakings executed by the qualifying
corporates.

- .05 Subsequent discussions with Institute members, representatives from EXCON and the Association of Corporate Treasurers, and authorised dealers, identified certain of the audit procedures set out in Circular 6/94 that were inconsistent with the assurance implied by the wording of the special reports in the appendices to Circular 6/94. Therefore, after extensive consultation with the above parties, it was agreed to withdraw Circular 6/94 and replace it with Circular 9/94.

The duties of the auditor

- .06 The auditor should be conversant with the provisions of the Imports and/or Exports Undertakings and should carry out factual findings procedures to determine whether or not the entity complies with the undertakings. Copies of the Exchange Control regulations and rulings are obtainable from the corporate or its authorised dealer.
- .07 The auditor should issue an auditor's consent, which is part of the undertaking, at Schedule V for the import undertaking and Schedule VI for the export undertaking, stating that the auditor is prepared to undertake the factual findings engagement and reporting procedures contemplated in the undertaking and in this circular. In terms of the consent letter, the auditor should inform EXCON if ceasing to hold office as the entity's auditor.
- .08 This circular contains the agreed wording for an auditor's report on the results of the factual findings procedures that the auditor should perform in terms of the undertaking.
- .09 EXCON also requires that the auditor should test that the corporate does comply with the relevant regulations and rulings (forming an integral part of the undertakings). The assurance required is that of factual findings as set out in auditing statement AU334 (Revised) on "Special Reports on Factual Findings". The auditor should have a sound knowledge of all the regulations and rulings concerning the dispensation granted to the corporate by EXCON..
- .10 It is not possible to set a standard audit programme in regard to the compliance by the corporate with the terms of the undertakings that will be suitable for all situations. The nature and extent of the procedures performed will depend upon two principal factors: first, the

extent and results of audit procedures carried out in order to express an opinion on the financial statements of the corporate as a whole; and second, the nature of the business carried on and systems applied by the corporate.

Set out below are examples of the types of factual findings procedures .11 which may assist the auditor to obtain assurance about the corporate's compliance with the undertaking. The listed procedures are not exhaustive nor do they set out the extent of testing required. Checking of detail would be performed on a test basis.

Where the procedures refer to a representative sample, the sample size .12 should be determined with reference to the value and/or number of the total import/export transactions undertaken by the corporate, rather than the annual financial statements as a whole. As a consequence, a greater number of selections would have to be made of import/export transactions than would have been required in a statutory audit of the corporate's annual financial statements.

Administration requirements

Procedures to test for compliance with administrative requirements .13 should normally include the following:

- .13.1 Test the system of reporting of all unmatured foreign currency purchased/sold, cover taken via Forward Exchange Contracts (FECs), options, futures and any other derivative instruments and commitments (including outstanding loans). Test a sample of reports to ensure that cover taken does not exceed ascertained firm foreign exchange commitments.
- .13.2 Test the entity's records of outstanding FECs. Options, futures and other derivative instruments. This can be done by obtaining confirmation from the corporate's authorised dealer of all FECs in issue, and on a test basis agreeing this to the entity's records.
- .13.3 Ensure that the copies of Forms A, together with their supporting documentation, are filed in an orderly manner so

that each purchase of foreign currency can readily be traced to the relevant accounting entries.

- .13.4 Ensure that the copies of Forms E and F178 are filed in an orderly manner so that each export of goods can readily be traced to the relevant accounting entries.
- .13.5 Ensure that the copies of the Forms A, E and F178 and corresponding supporting documents are retained for at least five years.
- .13.6 Examine "The Entity's Authorised Dealer's Consent", and ensure it is in terms of the Imports and/or Exports Undertakings issued by EXCON.
- .13.7 Examine the Imports and/or Exports Undertaking and ensure that it is signed by the authorised signatories and that subsidiary companies are bound by the holding company's undertaking, if applicable.

Imports

- .14 Procedures to test for compliance with the Imports Undertaking should normally include selecting a representative sample of Payaways as reflected on the bank account and performing the following procedures:
 - .14.1 Agree details to the invoice, bill of lading (or other transport document) and bill of entry.
 - .14.2 Examine the bill of entry for evidence that the corporate has an import permit, where applicable. (Note: this procedure should provide sufficient evidence that the entity has the import permit).
 - .14.3 Ensure that additional amounts, over the actual price of the goods, fall into one of the following categories:
 - .14.3.1 Freight charges.
 - .14.3.2 Insurance cover.

- .14.3.3 Buying commissions not exceeding 5% of the invoice value of the goods.
 - .14.3.4 Other incidental handling charges incurred in the purchase and shipment of the goods but not included in the actual price as defined.
 - .14.3.5 Weight adjustments, quality allowances, etc. Examine documentary evidence of the arrangements in terms of which the amount payable is due.
- .14.4 Ensure that the invoice, bill of lading (or other transport document) and bill of entry have been endorsed "exchange provided" to indicate that foreign exchange has been provided or that the system in operation provides evidence of this.
- .14.5 Agree details to Form A.
- .14.6 Ensure goods were received in South Africa within four months from the date payment was made.
- .14.7 Where feasible, consider the reasonableness of the transaction value/insurance value with reference to current market prices. Where this is not feasible, this uncertainty should be highlighted in the auditor's report.

Exports

Procedures to test for compliance with the Export Undertaking should normally include selecting a representative sample of export sales and performing the following procedures: .15

- .15.1 Agree details to the invoice either by quantity (description) or value, whichever is appropriate.
- .15.2 Agree details to the Form F178.
- .15.3 Agree sales value to the order/contract.
- .15.4 Ensure receipt of funds was in terms of the order/contract.

- .15.5 Where feasible, consider the reasonableness of the transaction value/insurance value with reference to current market prices. Where this is not feasible, this uncertainty should be highlighted in the auditor's report.
- .15.6 Ensure that all exports, except those for which payment has already been received or in respect of which payment will be received within seven days of shipment, are covered forward within a period not later than seven days after shipment and remain covered until the proceeds are received.
- .15.7 Ensure currency proceeds were received within six months from date of shipment. If not, ensure the corporate has notified its banker/authorised dealer or obtained approval from the authorised dealer to grant credit for up to twelve months.
- .15.8 Ensure that any receipt of foreign exchange into a customer foreign currency account (CFC) is brought onshore within seven days.
- .15.9 Ensure that any deductions from the price of goods are within reasonable bounds and fall into one of the following categories:
 - .15.9.1 Selling commissions.
 - .15.9.2 Agent's fees.
 - .15.9.3 Weight/quality deductions.
- .15.10 Where the goods are on a consignment basis, ensure the following:
 - .15.10.1 The corporate has approval from the authorised dealer to export on a consignment basis.
 - .15.10.2 Goods not sold within six months of shipment or a longer period, as determined by the authorised dealer, have been reported to the authorised dealer.

.15.10.3 The goods have been sold and that the full export proceeds have been accounted for by following up the transaction to the sales account.

.15.11 Agree to copy of Form E.

Examine the periodic export schedule reconciliation prepared by the .16 entity and verify on a test basis.

Reporting

A specimen auditor's report is provided as Appendix 1 to this Circular. .17 Where the auditor's procedures in terms of the engagement reveal significant noncompliance by the corporate with any of the provisions of the Imports and/or Exports Undertakings, and the noncompliance is an illegal act or other irregularity as defined in auditing statement AU005 (Revised) on "The Auditor's Responsibility to Detect and report Illegal Acts, other Irregularities and Errors", it should be noted in the auditor's report unless clearly immaterial and isolated.

**Johannesburg
August 1994**

**K G Mockler
Chief Executive**

APPENDIX I**SPECIMEN AUDITORS' REPORT IN CONNECTION WITH THE IMPORTS/EXPORTS* UNDERTAKING IN FAVOUR OF THE EXCHANGE CONTROL DEPARTMENT OF THE SOUTH AFRICAN RESERVE BANK****Report of the independent auditors to the Exchange Control Department of The South African Reserve Bank (EXCON)**

We are the appointed independent auditors of (name of client) and at its request, we have performed certain agreed procedures on the books, documents and other records of the company relating to import/export transactions in respect of the year/period* ended

The control systems and compliance with the Import/Export* Undertaking are the responsibility of the company's directors. Our responsibility is to report on the results of the agreed procedures. This report is furnished solely for the information of EXCON in connection with the exemption provided by EXCON in favour of the company, in terms of the provisions of the Imports/Exports* Undertaking, and should be used only for this purpose.

We have studied the contents of the Imports/Exports* Undertaking and carried out the agreed procedures as set out in Circular 9/94 on Import and Export Transactions of Corporates – Exchange Control Dispensation issued by The South African Institute of Chartered Accountants.

We accordingly report that no material exceptions that require to be brought to your attention were noted. This assurance is that of factual findings as set out in auditing statement AU 334 (Revised) on "Special Reports on Factual Findings".

(Note: If the auditor's procedures reveal any material noncompliance by the client with any of the provisions of the Imports/Exports Undertaking, the above paragraph should read as follows:*

The following incidences of noncompliance by (name of client) with the requirements of the Imports/Exports* Undertaking were noted:

(If it is not feasible for the auditor to provide assurance as to the reasonableness of the transaction values, an additional paragraph should be inserted as follows:

We were unable to assess the reasonableness of the values of the following transaction(s):

<u>Description of item</u>	<u>Transaction value in foreign currency</u>
.....
.....
.....)

Auditors CA(SA)
Address
Date

* Delete where not applicable