TEMPLATE LETTERS FOR AUDITORS:
COMPLIANCE WITH THE REPORTING REQUIREMENTS OF SECTION 45 -
DUTY TO REPORT ON REPORTABLE IRREGULARITIES

Introduction
The enactment of the Auditing Profession Act (Act 26 of 2005) has placed a requirement on auditors relating to reportable irregularities.

The purpose of this circular is to provide guidance to auditors regarding the form and content of the letters to be sent to both the Independent Regulatory Board for Auditors (IRBA) and the management boards of their clients in order to comply with the requirements of section 45 of the Auditing Profession Act. Further guidance relating to reportable irregularities can be found in Reportable Irregularities: A Guide for Registered Auditors, which was issued by the IRBA in June 2006.

Appendix A – Template letter to the IRBA, Initial Report: Reportable Irregularity
Appendix B – Template letter to the management board of the client: Reportable Irregularity
Appendix C – Template letter to the IRBA, Subsequent Report: Reportable Irregularity

The applicable sections of the Auditing Profession Act are reproduced here for information purposes.

“45. Duty to report on irregularities

(1) An individual registered auditor referred to in section 44(l)(a) of an entity that is satisfied or has reason to believe that a reportable irregularity has taken place or is taking place in respect of that entity must, without delay, send a written report to the Regulatory Board.
(b) The report must give particulars of the reportable irregularity referred to in subsection (1)(a) and must include such other information and particulars as the registered auditor considers appropriate.

(2) (a) The registered auditor must within three days of sending the report to the Regulatory Board notify the members of the management board of the entity in writing of the sending of the report referred to in subsection (1) and the provisions of this section.

(b) A copy of the report to the Regulatory Board must accompany the notice.

(3) The registered auditor must as soon as reasonably possible but no later that 30 days from the date on which the report referred to in subsection (1) was sent to the Regulatory Board –

(a) take all reasonable measures to discuss the report referred to in subsection (1) with the members of the management board of the entity;

(b) afford the members of the management board of the entity an opportunity to make representations in respect of the report; and

(c) send another report to the Regulatory Board, which report must include –

(i) a statement that the registered auditor is of the opinion that –

(aa) no reportable irregularity has taken place or is taking place; or

(bb) the suspected reportable irregularity is no longer taking place and that adequate steps have been taken for the prevention or recovery of any loss as a result thereof, if relevant; or

(cc) the reportable irregularity is continuing; and

(ii) detailed particulars and information supporting the statement referred to in subparagraph (i).
(4) The Regulatory Board must as soon as possible after receipt of a report containing a statement referred to in paragraph (c)(i)(cc) of subsection (3), notify any appropriate regulator in writing of the details of the reportable irregularity to which the report relates and provide it with a copy of the report.

(5) For the purpose of the reports referred to in subsections (1) and (3) a registered auditor may carry out such investigations as the registered auditor may consider necessary and, in performing any duty referred to in the preceding provisions of this section, the registered auditor must have regard to all the information which comes to the knowledge of the registered auditor from any source.

(6) Where any entity is sequestrated or liquidated, whether provisionally or finally, and a registered auditor referred to in section 44(l)(a) at the time of the sequestration or liquidation –

(a) has sent or is about to send a report referred to in subsection (1) or (3), the report must also be submitted to a provisional trustee or trustee, or a provisional liquidator or liquidator, as the case may be, at the same time as the report is sent to the Regulatory Board or as soon as reasonably possible after his or her appointment; or

(b) has not sent a report referred to in subsection (1) or (3), and is requested by a provisional trustee or trustee, or a provisional liquidator or liquidator, as the case may be, to send a report, the registered auditor must as soon as reasonably possible –

(i) send the report together with a motivation as to why a report was not sent; or

(ii) submit a notice that in the registered auditor’s opinion no report needed to be submitted, together with a justification of the opinion.”

Johannesburg
May 2007
IS Sehoole
Executive President
Appendix A

Template letter to the IRBA, Initial Report: Reportable Irregularity

[Firm Letterhead]

[Date]

Adv FF Opperman
Professional Manager: Compliance
Independent Regulatory Board for Auditors
PO Box 751595
Garden View
2047

Dear Sir

INITIAL REPORT: REPORTABLE IRREGULARITY
NAME OF AUDITEE: [INSERT THE NAME OF THE AUDIT CLIENT]
REGISTRATION NUMBER: [INSERT THE ENTITY’S REGISTRATION NUMBER]

This letter is in accordance with the requirements of the Auditing Profession Act No. 26 of 2005 (the Act), section 45 – Duty to report on irregularities.

My firm has been engaged by [insert name of entity] to:

[Delete if not applicable]

1. Audit the company’s annual financial statements.

2. Audit the entity’s financial statements with the objective of expressing an opinion as to their fairness with an identified financial reporting framework.
3. Audit financial and other information, prepared in accordance with suitable criteria, with the objective of expressing an opinion on the financial and other information.

4. Review interim financial and other information with the objective of expressing a limited assurance opinion on the interim financial or other information.

I have reason to believe that a reportable irregularity, as defined in the Act, has taken, or is taking place. I am not able to make a legal determination in respect of the suspected unlawful act or omission, but have exercised professional judgement, based on the evidence or information which has come to my knowledge, including undertaking further investigations of information as were considered necessary in the circumstances.

Particulars of the reportable irregularity are:

[Provide particulars, including any other information and particulars considered appropriate]

Please acknowledge receipt of this report.

Yours sincerely

[Name of registered auditor]¹
Registered Auditor
Chartered Accountant (SA)

¹ The registered auditor that sends this report should be the registered auditor responsible and accountable for the audit as determined in section 44(1) of the Auditing Profession Act.
Appendix B

Template letter to management board of the client: Reportable Irregularity

[Firm Letterhead]

[Date]

[Members of the management board]
[Name of entity]
[Address]

Dear Members

REPORTABLE IRREGULARITY

This letter is in accordance with the requirements of the Auditing Profession Act, No. 26 of 2005, (the Act), section 45 – Duty to report on irregularities.

The Act defines a reportable irregularity as any unlawful act or omission committed by any person responsible for the management of an entity, which -
(a) has caused or is likely to cause material financial loss to the entity or to any partner, member, shareholder, creditor or investor of the entity in respect of his, her or its dealings with the entity; or
(b) is fraudulent or amounts to theft; or
(c) represents a material breach of any fiduciary duty owed by such person to the entity or any partner, member, shareholder, creditor or investor of the entity under any law applying to the entity or the conduct or management thereof.

I have reason to believe that a reportable irregularity has taken or is taking place and, as required by the Act, I have reported particulars of the irregularity to the Independent Regulatory Board for Auditors (IRBA) in a written report dated [insert date] a copy of which is attached. As indicated in that letter, I am not at present able to make a legal determination in respect of the suspected unlawful act or
omission, but have exercised professional judgement, based on the
evidence or information which has come to my knowledge, including
undertaking further investigations of information as were considered
necessary in the circumstances.

The Act requires me as soon as is reasonably possible, but no later than
30 days from the date on which the individual auditor’s report was
forwarded to the IRBA, to send another report to the IRBA which must include:

1. A statement that I am of the opinion that:
   (a) no reportable irregularity is taking place; or
   (b) the suspected reportable irregularity is no longer taking place
      and that adequate steps have been taken for the prevention or
      recovery of any loss as a result thereof, if relevant; or
   (c) the reportable irregularity is continuing.

2. Detailed particulars and information supporting the statement
   above.

Please note that, where the reportable irregularity is continuing, the
IRBA has a responsibility to notify any appropriate regulator in writing
of the details of the reportable irregularity and to provide it with a copy
of my report.

I invite you to discuss my report to the IRBA, at a meeting to be
arranged as soon as possible, and at that meeting I will afford you the
opportunity to make representations in respect of my report.

Yours sincerely
[Name of registered auditor]²
Registered Auditor

² The registered auditor that sends this report should be the registered
auditor responsible and accountable for the audit as determined in
section 44(1) of the Auditing Profession Act.
Chartered Accountant (SA)
Appendix C

Template letter to the IRBA, Subsequent Report: Reportable Irregularity

[Firm Letterhead]

(Date)

Adv FF Opperman
Professional Manager: Compliance
Independent Regulatory Board for Auditors
PO Box 751595
Garden View
2047

Dear Sir

SUBSEQUENT REPORT: REPORTABLE IRREGULARITY
NAME OF AUDITEE: [INSERT THE NAME OF THE AUDIT CLIENT]
REGISTRATION NUMBER: [INSERT THE ENTITY’S REGISTRATION NUMBER]

I refer to my report of [date of initial report].

I have included a copy of the written notice which was sent together with the abovementioned report to the members of the management board of the entity within three days of my having sent the first written report to you.

I have discussed that report with the members of the management board and have afforded them an opportunity to make representations in respect of the report. I have also undertaken such further investigations as I considered necessary.

I have included written representations made by members of the management board of the entity in respect of the report. [Delete if not applicable]
[OR]

Although I have taken all reasonable measures to communicate with the management board in respect of the suspected reportable irregularity, the board has failed or declined to engage in discussions with me. However, I have undertaken such further investigations as I considered necessary / I have also been unable to undertake such further investigations as I considered necessary. [Delete if not applicable]

I report that in my opinion no reportable irregularity has taken place or is taking place / the reportable irregularity is no longer taking place and that adequate steps have been taken for the prevention or recovery of any loss as a result thereof, if relevant / the reportable irregularity is continuing [Delete if not applicable].

Details and information in support of my statement above are as follows:

[Provide details and information]

Please acknowledge receipt of this report.

Yours sincerely
[Name of registered auditor]3
Registered Auditor
Chartered Accountant (SA)

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3 The registered auditor that sends this report should be the registered auditor responsible and accountable for the audit as determined in section 44(1) of the Auditing Profession Act.