AUDITOR’S REPORTING RESPONSIBILITIES IN TERMS OF THE REGULATIONS TO THE BANKS ACT

Introduction
In July 2002, SAICA issued Reporting to the Registrar of Banks in terms of the Regulations to the Banks Act, which provided guidance with regard to the auditor’s reporting responsibilities. The guidance included a suggested format for the various auditor’s reports to the Registrar of Banks, as required by the Regulations. The reports were based on the reporting requirements of the South African Auditing Standards applicable in 2002.

The Auditing and Assurance Standards Board (AASB) of the Public Accountants’ and Auditors’ Board (PAAB) adopted the entire suite of International Engagement Standards (IES) with effect from the 1 January 2005. The IES incorporate the International Standards on Auditing, International Standards on Review Engagements, International Standards on Assurance Engagements and International Standards on Related Services issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants. The IES, with which all South African registered auditors are required to comply, replaced the existing South African Auditing Standards.

During the past year, significant changes have occurred in respect of the IES relating to reporting, with revised reporting standards and exposure drafts issued by the IAASB. Consequently, the format of the reports for the Registrar contained in the SAICA 2002 guidance – Reporting to the Registrar of Banks in terms of the Regulations to the Banks Act, no longer meets the requirements of the IES. This has necessitated the revision of the auditor’s reports on the Regulations to the Banks Act, in order to comply with the reporting requirements of the IES.
.04 Certain of the regulatory requirements affect specific wording in the various reports, which do not comply with wording ordinarily used in the reporting standards of the IES. Furthermore, banking regulations in South Africa are also being reviewed and revised, in light of national and international developments in banking regulation.

.05 Consequently, the suggested format of the revised regulatory reports provided in Appendix I constitute transitional arrangements to align the current reports as closely as possible with the IES, with which all registered auditors are obliged to comply, pending finalisation of necessary amendments to the Regulations to the Banks Act.

.06 The South African Reserve Bank has been advised of the revised format of the regulatory reports set out in Appendix I to be provided by banks’ auditors.

Johannesburg
April 2006
I S Sehoole
Executive President
APPENDIX I

Report of the independent auditors of [insert name of bank] to the Registrar of Banks in compliance with Regulation 45(1) and 45(2)(a) of the Regulations to the Banks Act, 1990 (“the Regulations”)

We have audited the year-end DI 100, DI 110, DI 200 and DI 400 returns (“the returns”) of [insert name of bank] (“the bank”) as submitted to the Registrar of Banks (the Registrar) for the month of [insert month and year]. We have initialed the attached returns for identification purposes. The preparation of the returns in terms of the Banks Act, 1990 (“the Act”) and the Regulations is the responsibility of the directors of the bank. Our responsibility is to report on the bank’s financial position at [insert year-end] and the results of its operations, for the year then ended, as reflected in the above returns submitted to the Registrar as at the financial year-end, and to express our audit opinion on the returns listed above, based on our audit.

Scope
We conducted our audit of the returns in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether these returns are free of material misstatement. In addition to evidence obtained from procedures performed during our audit of the annual financial statements of the bank, on which we expressed an unqualified opinion, our audit of the returns, included:

- examining, on a test basis, evidence supporting the amounts and disclosures in the returns;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the presentation of the returns for compliance with the requirements of the Act and the Regulations.

We believe that our audit provides a reasonable basis for our opinion.
Audit opinion
In our opinion, the information contained in the returns at year-end in all material respects:

- reasonably reflects the information contained in the management accounts;
- is complete in so far as all relevant information contained in the accounting and other records at the reporting date has been extracted therefrom and recorded in the returns;
- is accurate in so far as it correctly reflects the information contained in, and extracted from, the accounting and other records at the reporting date;
- is prepared using the same accounting policies as those applied in the management accounts and statutory annual financial statements; and
- is prepared in accordance with the directives and instructions of the Act and the Regulations.*

Restriction on distribution
Our report is presented solely for the purposes set out in the first paragraph of the report and for the information of the Registrar and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the returns specified in the report and does not extend to the annual financial statements of the bank, taken as a whole.

[Name of firm/s]
Registered Auditors
Address
Date

* Where the auditor considers a modified opinion is required, whether a qualified opinion, adverse opinion, or disclaimer of opinion, or where an emphasis of matter is considered appropriate, the auditor should follow the guidance in the reporting standards contained in the International Standards on Auditing and modify the wording of the audit or review report accordingly.
Given the nature of the DI regulatory returns, it may be appropriate for any such modifications to be presented in a separate annexure to the
report, in a tabular or narrative format, that might include the following recommended headings:

- DI return number
- Line number
- Column number
- Observation providing the basis for the modified opinion
- Recommendation
- Amount of error
- Management response (completed by management)
- Date of resolution (completed by management)
Review report of the independent auditors of [insert name of bank] to the Registrar of Banks in compliance with Regulation 45(1) and 45(2)(a) of the Regulations to the Banks Act, 1990 (“the Regulations”)

We have reviewed the information contained in the year-end DI 300, DI 310, DI 401, DI 402, DI 403, DI 410, DI 420, DI 430, DI 500, DI 510, DI 520, DI 525, DI 600, DI 700, DI 701, DI 702 and DI 703 returns (“the returns”) of [insert name of bank] (“the bank”) as submitted to the Registrar of Banks (“the Registrar”) for the month of [insert month and year]. We have initialed the attached returns for identification purposes. The preparation of the returns in terms of the Banks Act, 1990 (“the Act”) and the Regulations is the responsibility of the directors of the bank. Our responsibility is to express our review opinion on the bank’s financial position at [insert year-end] and the results of its operations, for the year then ended, as reflected in the information contained in the above returns submitted to the Registrar.

Scope
We conducted our review in accordance with the International Standard on Review Engagements ISRE 2400, Engagements to review financial statements. This standard requires us to comply with ethical requirements, and to plan and perform our review to enable us to state whether, based on our procedures which do not provide all the evidence that would be required in an audit, anything has come to our attention that causes us to believe that the returns are not prepared, in all material respects, in accordance with the requirements of the Act and the Regulations. Our review was limited primarily to enquiries of bank personnel and analytical procedures applied to financial data, and thus provides less assurance than in an audit. We have not performed an audit of the information contained in the returns in accordance with International Standards on Auditing and, accordingly, we do not express an audit opinion.
Review opinion
Based on our review, nothing has come to our attention that causes us to believe that the information contained in the returns at year-end, in all material respects:

- does not reasonably reflect the information contained in the management accounts;
- is not complete in so far as all relevant information contained in the accounting and other records at the reporting date has been extracted therefrom and recorded in the returns;
- is not accurate in so far as it correctly reflects the information contained in, and extracted from, the accounting and other records at the reporting date;
- has not been prepared using the same accounting policies as those applied in the management accounts and statutory annual financial statements; and
- has not been prepared in accordance with the directives and instructions of the Act and the Regulations.*

Restriction on distribution
Our report is presented solely for the purposes set out in the first paragraph of the report, and for the information of the Registrar, and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the returns specified in the report and does not extend to the annual financial statements of the bank, taken as a whole.

[Name of firm/s]
Registered Auditors
Address
Date

** Where the auditor considers a modified opinion is required, whether a qualified opinion, adverse opinion, or disclaimer of opinion, or where an emphasis of matter is considered appropriate, the auditor should follow the guidance in the reporting standards contained in the International Standards on Auditing and modify the wording of the audit or review report accordingly.
Given the nature of the DI regulatory returns, it may be appropriate for any such modifications to be presented in a separate annexure to the report, in a tabular or narrative format, that might include the following recommended headings:

- DI return number
- Line number
- Column number
- Observation providing the basis for the modified opinion
- Recommendation
- Amount of error
- Management response (completed by management)
- Date of resolution (completed by management)
Review report of the independent auditors of [insert name of bank] to the Registrar of Banks in compliance with Regulation 45(2)(b) of the Regulations to the Banks Act, 1990 (“the Regulations”)

We have reviewed the information contained in the DI 100, DI 110, DI 200, DI 300, DI 310, DI 400, DI 401, DI 402, DI 403, DI 410, DI 420, DI 430, DI 500, DI 510, DI 520, DI 525, DI 600, DI 700, DI 701 and DI 702 returns (“the returns”) of [insert name of bank] (“the bank”) for the months other than that ended [insert date] submitted to the Registrar of Banks (“the Registrar”) in respect of the year ended [insert date]. The preparation of the returns in terms of the Banks Act, 1990 (“the Act”) and the Regulations is the responsibility of the directors of the bank. Our responsibility is to express our review opinion on the information contained in the above returns submitted to the Registrar other than at the financial year-end, based on our review.

Scope
We conducted our review in accordance with International Standard on Review Engagements ISRE 2400, Engagements to review financial statements. This standard requires us to comply with ethical requirements, and to plan and perform our review to enable us to state whether, based on our procedures, anything has come to our attention that causes us to believe that the returns are not prepared, in all material respects, in accordance with the requirements of the Act and the Regulations. Our review was limited primarily to enquiries of bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit in accordance with International Standards on Auditing and, accordingly, we do not express an audit opinion.

Review opinion
Based on our review, nothing has come to our attention that causes us to believe that the information contained in the returns in all material respects:

- does not reasonably reflect the information contained in the management accounts;
has not been prepared using the same accounting policies as those applied in the management accounts and statutory annual financial statements; and

has not been prepared in accordance with the directives and instructions of the Act and the Regulations.*

Restriction on distribution

Our report is presented solely for the purposes set out in the first paragraph of the report and for the information of the Registrar, and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the returns specified in the report and does not extend to the annual financial statements of the bank, taken as a whole.

[Name of firm/s]
Registered Auditors
Address
Date

* Where the auditor considers a modified opinion is required, whether a qualified opinion, adverse opinion, or disclaimer of opinion, or where an emphasis of matter is considered appropriate, the auditor should follow the guidance in the reporting standards contained in the International Standards on Auditing and should modify the wording of the audit or review report accordingly.

Given the nature of the DI regulatory returns, it may be appropriate for any such modifications to be presented in a separate annexure to the report, in a tabular or narrative format, that might include the following recommended headings:

- DI return number
- Line number
- Column number
- Observation providing the basis for the modified opinion
- Recommendation
- Amount of error
- Management response (completed by management)
- Date of resolution (completed by management)
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Factual findings report of the independent auditors of [insert name of bank] to the Registrar of Banks in compliance with Regulation 45(7) of the Regulations to the Banks Act, 1990 (“the Regulations”)

Scope
We have performed the procedures agreed with the Registrar of Banks (“the Registrar”) and management of [insert name of bank] (“the bank”), and described below in compliance with Regulation 45(7). We performed our engagement in accordance with the International Standard on Related Services ISRS 4400, Engagements to perform agreed-upon procedures regarding financial information. The procedures were performed solely to assist the Registrar in evaluating whether all forms DI 100 and DI 900 submitted by the bank during the year ended [insert financial year-end date] were in fact reconcilable with each other and whether any instances of non-compliance with the requirements of Regulations 20(6), 41(1)(a) and 41(1)(b) were identified. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of the Registrar and management.

The procedures are summarised as follows:

1. We inspected, for each month during the financial year ended [insert date], the reconciliation prepared by the bank between the DI 100 and the DI 900 returns.

2. We selected a sample of [state sample size] financial instruments, as agreed upon with management, comprising the liquid asset holdings reflected in the year-end DI 310 return for the month of [insert month and year] and performed the following procedures on the selected items:

   (a) For assets in possession of the bank, we inspected documents of title for prima facie evidence that the assets were unencumbered in compliance with Regulation 20(6).

   (b) For assets not in possession of the bank, we obtained confirmation from third parties that the assets were being held on behalf of the bank and exhibited prima facie evidence that the assets were unencumbered in compliance with Regulation 20(6).
3. We obtained specific written representation from bank management that the liquid assets reflected in the year-end DI 310 return for the month of [insert month and year] were unencumbered in compliance with Regulation 20(6).

4. We obtained from the company secretary a list of directors and executive officers appointed during the financial year ended [insert date] and inspected copies of the DI 020 returns prepared in respect of each appointee in compliance with Regulations 41(1)(a) and 41(1)(b).

Findings
We report our findings below:

1. The financial information included on the DI 900 returns for the year ended [insert date] was reconciled with that on the DI 100 returns. * The reconciling items reflected in the reconciliation for the month of [insert month and year] are set out in the attached schedule.

2. In terms of the sample of financial instruments selected:
   (a) For assets in possession of the bank, through physical inspection of documents.
   (b) For assets not in possession of the bank, through confirmation with third parties.

None of the selected liquid assets was found to be encumbered.*

3. The written representation obtained from bank management indicated that the liquid assets were unencumbered in compliance with Regulation 20(6).

4. DI 020 returns had been completed for all director and executive officer appointments during the year ended [insert date].*

*Detail any instances of non-compliance.

Because the above procedures do not constitute an audit, a review or other assurance engagement performed in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements, we do not express any assurance on our findings. Had we performed
additional procedures or had we performed an audit, a review or other assurance engagement, other matters might have come to our attention that would have been reported to you.

**Restriction on distribution**

Our report is presented solely for the purposes set forth in the first paragraph of this report and for the information of the Registrar, and is not to be used for any other purposes or to be distributed to any other parties. This report relates only to compliance with Regulation 45(7) as specified above, and does not extend to the annual financial statements or DI returns of the bank, taken as a whole.

[Name of firm/s]
Registered Auditors
Address
Date
Report of the independent auditors of [insert name of bank] to the Registrar of Banks in compliance with Regulation 45(3) and 45(4) of the Regulations to the Banks Act, 1990 (“the Regulations”)

We have completed our audit of the annual financial statements of [insert name of bank] (“the bank”) for the year ended [insert date] on which we expressed an unmodified opinion on [insert date]. Our audit of the annual financial statements was performed in accordance with International Standards on Auditing. We are required to report to the Registrar of Banks (“the Registrar”), in compliance with Regulations 45(3) and 45(4), on any significant weaknesses in the system of internal control that came to our attention while we were performing the necessary auditing procedures to enable us to furnish our reports in compliance with Regulation 45(2). Regulations 45(3) and 45(4) identify the following aspects of internal controls of the bank for which any significant weaknesses that came to our attention are to be reported, as:

Regulation 45(3)
- financial regulatory reporting; and
- compliance with the Banks Act, 1990 (“the Act”) and the Regulations.

Regulation 45(4)
- the policies, practices and procedures of the bank relating to
  - the granting of loans;
  - making of investments;
  - ongoing management of the loan and investment portfolios; and
  - loan loss provisions and reserves.

The preparation of the returns, compliance with the Act and the Regulations and the implementation of an effective system of internal control are the responsibilities of the directors of the bank.
AUDITOR’S REPORTING RESPONSIBILITIES IN TERMS OF THE REGULATIONS TO THE BANKS ACT

Scope
During our audit of the annual financial statements, we obtained an understanding of the bank and its environment, including its internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error. Our audit procedures were not necessarily, designed to evaluate the operating effectiveness of the internal controls and we have not performed any additional procedures for identifying weaknesses in internal controls for purposes of this engagement. We have relied on information obtained during the course of the audit of the annual financial statements and our audit and review, respectively, of the annual returns required by Regulation 45(2), for identifying weaknesses in internal financial controls for the purpose of this engagement.

Neither the Banks Act nor International Standards on Auditing define the term “significant weaknesses” in controls. Accordingly, we have exercised our judgment in identifying weaknesses in the system of internal controls that we consider “significant weaknesses” for the purposes of this report. Consequently, this report may not identify all “significant weaknesses” in internal controls.

Conclusion
Based on our audit of the annual financial statements of the bank and our audit and review, respectively, of the annual returns required by Regulation 45(2), for the year ended [insert date], we report as follows:

Regulation 45(3)
Our procedures did not reveal any significant weaknesses in the system of internal control regarding financial regulatory reporting and compliance with the Act and the Regulations.*

Regulation 45(4)
Our procedures did not reveal any significant weaknesses in the system of internal control regarding the policies, practices and procedures of the bank relating to the:

- granting of loans;
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- making of investments;
- ongoing management of the loan and investment portfolios; and
- loan loss provisions and reserves.*

*Or detail any significant weaknesses in internal controls that came to our attention

Restriction on distribution
Our report is presented solely for the purpose set out in the first paragraph of our report and for the information of the Registrar, and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to compliance with Regulations 45(3) and 45(4) as specified above, and does not extend to the financial statements of the bank, taken as a whole.

[Name of firm/s]  
Registered Auditor  
Address  
Date
Report of the independent auditors of [insert name of bank] to the Registrar of Banks in compliance with Regulation 38(6) of the Regulations to the Banks Act, 1990 (“the Regulations”)

We have completed our audit of the annual financial statements of [insert name of bank] (“the bank”) for the year ended [insert date] on which we expressed an unmodified opinion on [insert date]. Our audit of the annual financial statements was performed in accordance with International Standards on Auditing. The board of directors (“the board”) are ultimately responsible for the establishment and maintenance of an adequate and effective process of corporate governance, including effective risk management consistent with the nature and complexity of the bank’s activities (Regulation 38(1)). The board are also responsible annually for assessing and documenting whether the process of corporate governance implemented by the bank, for the year under review, successfully achieves the objectives determined by the board (Regulation 38(5)). As required by Regulation 38(6), we have reviewed the process followed by the board in assessing the corporate governance arrangements of the bank, including the management of risk, and the board’s findings contained in their annual report prepared in terms of Regulation 38(5). Our responsibility is to report to the Registrar of Banks (“the Registrar”), whether or not, any matters have come to our attention, to suggest that we do not concur with the findings reported by the board, and if so, to provide our reasons therefore.

Scope
During our audit of the annual financial statements, we obtained an understanding of the bank and its environment, including its internal financial controls and corporate governance processes, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error. In addition, we have performed such additional procedures, as we considered necessary, to evaluate the board’s process for assessing the corporate governance arrangements, including the management of risk, and have considered whether their findings reported are inconsistent with evidence obtained by us.
The Banks Act ("the Act") does not specify a corporate governance and risk-management framework, that provides objective criteria that may be applied in assessing whether the directors’ corporate governance arrangements, including the management of risk and their findings successfully achieve the objectives determined by the board, nor do International Auditing Standards contain a framework that provides objective criteria for an engagement of this nature. Consequently, we have drawn on guidance related to corporate governance principles in general, and those relating to the banking environment specifically, and exercised our judgement in assessing whether any matters have come to our attention, to suggest that we do not concur with the findings reported by the board.

Sources of guidance considered in exercising our judgement for purposes of this engagement included1:

- The guidance contained in International Standard on Auditing ISA 315, *Understanding the entity and its environment and assessing the risks of material misstatement*, as applied in the conduct of our audit;
- The corporate governance principles contained in *The King Report on Corporate Governance for South Africa* (2002);
- Sound risk management principles for banks issued by the Basel Committee on Banking Supervision; and
- Corporate governance, risk management and compliance requirements contained in the *Banks Act and related Regulations*.

**Inherent limitations**

Because of the inherent limitations of any process of corporate governance errors or fraud may not be prevented or detected, and because of the complexity and risk inherent in a bank’s activities, the process of corporate governance implemented may not successfully

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1 These are a few examples of sources of guidance related to corporate governance – there are many others. Auditors may specify other references deemed appropriate, and considered by them, or delete those included that have not been considered by them for purposes of this engagement.
achieve the objectives determined by the board. Furthermore, projections of the board’s findings from its annual assessment of the corporate governance processes, including risk management policies and procedures, to future periods are subject to the risk that the overall effectiveness may become inadequate because of changes in circumstances or that the degree of compliance with the laid down corporate governance processes may deteriorate.

Conclusion
Based on our work performed, and subject to the inherent limitations indicated above, nothing has come to our attention to suggest that we do not concur with the findings reported by the board of directors to the Registrar in terms of Regulation 38(5).*

Restriction on distribution
Our report is presented solely for the purposes set forth in the first paragraph of this report and for the information of the Registrar, and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to our compliance with Regulation 38(6) as specified above, and does not extend to the annual financial statements of the bank, taken as a whole.

[Name of firm/s]  
Registered Auditor  
Address  
Date

* If the auditor does not concur with the findings reported by the board of directors, the auditor shall provide reasons therefore.
Report of the independent auditors of [insert name of bank] to the Registrar of Banks in compliance with Regulation 39(4)(d) of the Regulations to the Banks Act, 1990 ("the Regulations")

We have completed our audit of the annual financial statements of [insert name of bank] ("the bank") for the year ended [insert date] on which we expressed an unmodified opinion on [insert date]. Our audit of the annual financial statements was performed in accordance with International Standards on Auditing. We are required, in terms of Regulation 39(4)(d), to report to the Registrar of Banks ("the Registrar"), on whether, or not, we concur with statements made in the directors’ annual report to the Registrar, in compliance with Regulation 39(4)(a), regarding the bank’s internal controls and the maintenance of high ethical standards; and Regulation 39(4)(b), as to whether the directors have any reason for believing the bank will not continue as a going concern for the year ahead. Should we not concur with any statements made, we are required to provide our reasons therefore. The implementation of an effective system of internal control, maintenance of high ethical standards, and disclosure of any reasons for believing that the bank will not be a going concern in the year ahead, and statements thereon, in the annual report to the Registrar required in terms of Regulation 39(4)(c), are the responsibilities of the bank’s directors.

Scope
During our audit of the annual financial statements, we obtained an understanding of the bank and its environment, including its internal financial controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error. In addition, during our audit, we have considered whether there is any reason to believe that the bank will not be a going concern in the year ahead.

We have relied on information obtained during the course of the audit of the annual financial statements for the purpose of this engagement, and for evaluating whether the statements made by the directors in their report are inconsistent with the audit evidence obtained by us.
AUDITOR'S REPORTING RESPONSIBILITIES IN TERMS OF THE REGULATIONS TO THE BANKS ACT

Our audit procedures were not necessarily designed to evaluate the operating effectiveness of the internal controls, nor were they necessarily designed to assess whether all bank employees maintained high ethical standards, as required, thereby ensuring that the bank’s business practices were conducted in a manner that was above reproach. We have not performed any additional procedures with respect to the specific matters reported on by the directors in terms of Regulation 39(4)(a).

Conclusion
Based on information obtained during the course of our audit of the annual financial statements of the bank for the year ended [insert date] we report that the directors’ statements made in terms of Regulation 39(4)(a) and (b) are not inconsistent with our audit evidence obtained. *

Restriction on distribution
Our report is presented solely for the purposes set forth in the first paragraph of this report and for the information of the Registrar, and is not to be used for any other purposes or to be distributed to any other parties. This report relates only to compliance with Regulation 39(4)(d) as specified above, and does not extend to the annual financial statements of the bank, taken as a whole.

[Name of firm/s]
Registered Auditor
Date
Address

* When the auditor does not concur with any of the directors’ statements, reasons therefore should be provided.