



Guide to  
Accounting  
Officer  
Engagements  
for NPOs

**saiba**

SOUTHERN AFRICAN INSTITUTE  
FOR BUSINESS ACCOUNTANTS

The Southern African Institute for Business Accountants NPC  
10 Centuria Park  
265 Von Willich Ave  
Centurion  
0046

For further information on this guide, please email [technical@saiba.org.za](mailto:technical@saiba.org.za). Registered SAIBA members in good standing may download this publication from: <http://www.saiba.org.za>

The mission of SAIBA is to serve the public interest, strengthen the accountancy profession in Southern Africa and contribute to the development of a strong regional economy by establishing and promoting adherence to high-quality professional standards, furthering co-operation on such standards and speaking out on public interest issues where the profession's expertise is most relevant. This will enable SAIBA to deliver trusted advisors to Southern African NPOs.

Publication copyright © August 2015 by SAIBA. All rights reserved. Permission is granted to make copies of this work provided that such copies are for use in academic classrooms or for personal use and are not sold or disseminated and provided that each copy bears the following credit line: "Publication copyright © August 2015 by Southern African Institute for Business Accountants (SAIBA). All rights reserved. Used with permission." Otherwise, written permission from SAIBA is required to reproduce, store or transmit this document, except as permitted by law.

SAIBA assumes no liability or guarantee whatsoever for damages of any type, including and without limitation for direct, special, indirect, or consequential damages associated with the use of this publication. This publication does not constitute legal advice. Users of this document should obtain their own legal advice before applying the content of this document.

# ● Table of contents

Preface .....	5
Request for comment .....	6
Introduction to Non-Profit Organisations .....	7
Registered Non-Profit Organisations (NPOs).....	9
Overview .....	9
Registration in terms of the NPO Act .....	10
Key obligations of registered NPOs .....	11
License to Practice .....	15
Engagement standards, ethics and quality control.....	16
Engagement framework for NPO accounting officer reports.....	19
Definition and objective of an accounting officer reporting engagement for NPOs...20	
Scope of the framework .....	20
General principle of an accounting officer engagement for an NPO .....	21
Defining the terms of the engagement .....	22
Planning .....	23
Documentation .....	23
Procedures and evidence .....	23
Conclusions and reporting .....	25

Appendix 1 .....27

# ● Preface

This SAIBA Guide to Accounting Officer Engagements for NPOs (the Guide), was commissioned by the SAIBA Small and Medium Practices (SMP) Committee to provide guidance to Business Accountants in Practice (SA) or BAP(SA) on how to perform an accounting officer engagement for a non-profit organisation (NPO).

SAIBA would like to acknowledge specific contributors to the guide. Ricardo Wyngaard from Ricardo Wyngaard Attorneys ([www.nonprofitlawyer.co.za](http://www.nonprofitlawyer.co.za)) and Nicolaas van Wyk, BAP(SA), CEO of SAIBA.

The Guide provides BAP(SA)s with a broad understanding of the NPO Act whilst focusing on the specific obligations of the accounting officer. As such the Guide will help BAP(SA)s operate with greater compliance and professionalism and in a so doing help them cope in an increasingly complex and competitive environment.

Professor Dovhani Thakhathi  
Chairperson  
SAIBA  
August 2015

# ● Request for comment

This is the first version of the Guide. We consider the Guide to be of high quality and useful in its present form, but like any first edition, it can be improved. Hence, we are committed to updating the Guide on a regular basis to ensure it reflects current best practice and is as functional as possible.

The next update is scheduled for 2016. We welcome comments from members and other stakeholders. These comments will be used to assess the Guide's usefulness and to improve it prior to publishing the second edition.

Please submit your comments to

[technical@saiba.org.za](mailto:technical@saiba.org.za)

# ● Introduction to Non-Profit Organisations

1. Non-profit organisations in South Africa can essentially be established through three forms of legal entities, namely: voluntary associations, non-profit trusts, and non-profit companies.

## *Voluntary Associations*

A voluntary association is in essence an agreement between three or more people to achieve a common object, which cannot be the making of profits. It is a popular amongst smaller and informal community-based initiatives. It is regulated by common law and not statute. Voluntary associations are not required to register with a public office in order for it to exist. The voluntary association must meet three requirements in order to have legal personality, namely:

- Have perpetual succession,
- Be able to hold property distinct from its members, and
- Stipulate that no member has any rights by reason of his membership to the property of the voluntary association.

## *Non-profit Trusts*

A trust is established in terms of the Trust Property Control Act, of 1988. In essence, a trust is established when ownership of property is transferred (by written agreement, testamentary writing, or court order) to another party, to be administered for the benefit of certain persons or the achievement of a particular goal. The Master of the High Court oversees the appointment of trustees and polices the proper performance of the trustees' duties with respect to the trust property. The Trust Property Control Act requires that the first trustees must lodge the trust deed with the Master of the High Court. Trustees can only act in their capacity as trustees after having been authorised in writing by the Master.

### *Non-profit Companies*

The Companies Act, No. 71 of 2008 was signed into law during April 2009 and came into operation on 01 May 2011 and replaces the Companies Act of 1973. The Companies Act recognises the non-profit company (NPC) as a separate category of company that must have a minimum of 3 directors and that can be established with or without members. The NPC can be incorporated for a public benefit object or an object relating to one or more cultural or social activities, or communal or group interests. The NPC is registered with the Companies Commission.

# ● Registered Non-Profit Organisations (NPOs)

## Overview

2. The Nonprofit Organisations Act (the NPO Act) provides for a voluntary registration facility for non-profit organisations. Section 2 of the NPO Act lists its objects as being to encourage and support NPOs in their contribution to meeting the diverse needs of the population of the Republic of South Africa.
3. The NPO Act defines a non-profit organisation, as a trust, company or other association of persons established for a public purpose and the income and property of which are not distributable to its members or office-bearers except as reasonable compensation for services rendered.
4. The NPO Act defines a registered non-profit organisation as a non-profit organisation registered in terms of section 13 of the NPO Act. Only nonprofit organisations, as defined in the NPO Act, can apply for registration in terms of the NPO Act.
5. In pursuing this broad objective, the NPO Act lists five specific objectives. Probably the most important being the creation of an enabling environment in which NPOs can flourish. The others are:
  - Establishing an administrative and regulatory framework within which nonprofit organisations can conduct their affairs;
  - Encouraging nonprofit organisations to maintain adequate standards of governance, transparency and accountability and to improve those standards;
  - Creating an environment within which the public may have access to

- information concerning registered nonprofit organisations; and
- Promoting a spirit of co-operation and shared responsibility within government, donors and amongst other interested persons in their dealings with nonprofit organisations.
6. The NPO Act is made up of five chapters. Two substantive chapters are dealing with the creation of an enabling environment and the registration of NPOs under the NPO Act. Chapter 2 of the NPO Act is entitled *Creation of an Enabling Environment* whilst Chapter 3 is entitled *Registration of Nonprofit Organisations*.

## Registration in terms of the NPO Act

7. Section 12 of the NPO Act lays down a number of prescribed conditions that must be complied with in order for a non-profit organisation to be eligible for registration in terms of the NPO Act. Its founding document (or the law in terms of which it has been established) must cover the required clauses captured in section 12 of the NPO Act.
8. A prescribed application form must be completed when application is made for registration in terms of the Non-profit Organisations Act. A registered nonprofit organisation is issued with a certificate of registration, which is sufficient proof that the organisation is registered in terms of the NPO Act and is a body corporate.
9. Section 16(1)(c) of the NPO Act provides that the certificate of registration of a NPO, or a duly certified copy of the certificate, is sufficient proof that the registered NPO is a body corporate (except for non-profit trusts).
10. A registered NPO is required to reflect its registered status and registration number on all of its documents.

## Key obligations of registered NPOs

### Accounting Records and Financial Statements

11. The NPO Act requires that all registered NPOs must, to the standards of generally accepted accounting practice:
  - Keep, accounting records of its income, expenditure, assets and liabilities. This will include all cash and credit transactions.
  - Draw up financial statements within six (6) months of its financial year-end, which must include an income, and expenditure statement, and a balance sheet reflecting its assets and liabilities.
12. Every NPO must preserve each of its books of account, supporting vouchers, records of subscriptions or levies paid by its members, income and expenditure statements, balance sheets and accounting officer's reports, in an original or reproduced form.
13. The NPO Act does not define the meaning of generally accepted accounting practice (gaap). However it is commonly understood to mean that financial statements must be drawn up to what is common within a particular industry or sector. Generally NPOs prepare financial statements using the following conventions:
  - International Financial Reporting Standards (IFRS),
  - International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs),
  - Modified cash basis of accounting or other basis suitable to the activities and nature of the NPO.
14. An NPO should select a reporting convention by considering the following:
  - Any legislative requirements applicable to the NPO,
  - The specifications from donors or government grants,
  - The nature and scope of the activities of the NPO.

### Accounting officer's report

15. The NPO Act requires that all registered NPOs appoint an accounting officer to hold office. Chapter 1 of the NPO Act defines an accounting officer, in relation to a nonprofit organisation, as a person contemplated in section 60 of the Close

Corporations Act, 1984.

16. Section 60 of the Close Corporations Act empowers the Minister of the Department of Trade and Industry to issue a notice appointing professional bodies whose members may act as accounting officers. SAIBA has been appointed as controlling body for accounting officers since 1987. Only those SAIBA members with the designation BAP(SA) are recognized as accounting officers.
17. The accounting officer has a duty in terms of the NPO Act to compile a written report within eight (8) months of the organisation's financial year-end. The accounting officer's report must be submitted to the NPO and state whether the:
  - Financial statements of the organisation are consistent with its accounting records,
  - Accounting policies of the organisation are appropriate and have been appropriately applied in the preparation of the financial statements, and the
  - NPO has complied with the provisions of the NPO Act and of its constitution, which relate to financial matters.
18. The accounting officer also has a reporting duty to the NPO Directorate. If the accounting officer of a NPO becomes aware of any instance in which the NPO has failed to comply with the financial provisions of the NPO Act or its constitution, the accounting officer must notify the NPO Directorate of this non-compliance. The notice must be sent within one (1) month after becoming aware of the failure and must be in writing with sufficient detail to describe the nature of the non-compliance.
19. The duty to report to the NPO Directorate supersedes the duty of confidentiality owed to the organisation by the accounting officer.
20. It is the duty of an NPO to appoint an accounting officer. If an accounting officer accepts the appointment then the terms of the engagement should be specified in an engagement letter issued by the accounting officer to the NPO.
21. The accounting officer should ensure, with representatives of the entity and, where appropriate, with other specified parties who will receive copies of the report, that there is a clear understanding regarding the accounting officer engagement procedures and the conditions of the engagement.

22. It is important to note that the NPO Act does not specify the procedures that the accounting officer should follow prior to issuing an accounting officer report for the NPO. The accounting officer should therefore agree the scope and procedures with the NPO. This agreement should be stipulated in an engagement letter.
23. It is common cause that accounting officers should perform their duties to a professional standard as is expected of a professional acting in the public interest.
24. Accounting officer are required therefore to perform their duties in terms of:
  - Common law requirements of care, skill and diligence,
  - Contractual requirements as agreed to between the parties,
  - Professional standards and codes applicable to accounting officers that are members of a professional body such as SAIBA,
  - Any other statutory requirements and obligations.
25. Professional accounting bodies such as SAIBA require that their members acting as accounting officer do so in terms of specific industry standards. These standards are designed to protect the interest of the NPO and ensure the accounting officer performs their duties diligently and comprehensively.
26. This guide explains the specific framework and standards that the accounting officer should agree with the client and adopt.

### **Duty to provide reports and information**

27. Every NPO must, in writing, provide the NPO Directorate with:
  - A narrative report of its activities in the prescribed manner together with its financial statements and the accounting officer's report within nine (9) months after the end of its financial year,
  - The names and physical, business and residential addresses of its office-bearers within one month after any appointment or election of its office-bearers even if their appointment or election did not result in any changes to its office-bearers,
  - A physical address in the Republic for the service of documents
  - A notice of any change of address within one month before a new address for service of documents will take effect.

28. The narrative report consists of the following three sections:

*Section A: Basic details about the organisation on the form provided.*

*Section B: The organisation's major achievements over the year, in response to the questions provided.*

*Section C: List of important meetings held by the organisation during the year, and details of any changes to your constitution.*

29. The NPO Directorate may cause any document or a narrative, financial or other report that is submitted to the director to be scrutinised, or, by means of a notice, require a NPO to submit any information or document reasonably required in order to enable the director to determine whether the organisation is complying with:

- The material provisions of its constitution,
- Any condition or term of any benefit or allowance confirmed on the organisation in terms of a Ministerial decision,
- The required accounting and financial reporting obligations

30. An NPO must submit the information or document contemplated within one (1) month after receipt of the notice.

# ● License to Practice

31. Only those SABA members that have obtained the designation Business Accountant in Practice (SA) or BAP(SA) are licensed to assist with the preparation of financial statements for an NPO and issue accounting officer reports.
32. Performing the work of an accountant or accounting officer should be performed in terms of relevant statutory requirements, common law requirements related to professional competence, due care, a code of conduct issued by a professional body, and the SAIBA engagement framework set out in this guide. An accountant's or accounting officer report may only be issued once all the above requirements are met.
33. A BAP(SA) may therefore perform the following services for NPOs:
  - Compiling financial statements as an accountant. A BAP(SA) should apply the international standard on compilation engagement (ISRS4410) when assisting an NPO with preparing financial statements.
  - Issuing an accounting officer report as an accounting officer. A BAP(SA) should as a minimum apply the SAIBA framework as contained in this guide when issuing an accounting officer report for an NPO. The framework requires that the BAP(SA) follow certain procedures and apply professional judgment prior to issuing the accounting officer report.
34. The SAIBA framework incorporates elements of the International Standards on related Services, specifically international standard on agreed upon procedures (ISRS 4400).
35. ISRS 4400 applies when a BAP(SA) confirms whether the:
  - NPOs financial statements are consistent with its accounting records,
  - NPO has complied with the provisions of the NPO Act and of its constitution, which relate to financial matters.
36. Professional judgment, within the context of the SAIBA framework, applies when the accounting officer confirms whether the accounting policies of the NPO are appropriate and have been appropriately applied in the preparation of the financial statements.

# ● Engagement standards, ethics and quality control

37. The duties of accounting officers are explicitly stated in the NPO Act. However, in addition to these statutory duties, accounting officers have certain common law duties such as:
- Performing engagements with professional competence and due professional care,
  - Planning and supervising the engagement performance, and
  - Obtaining sufficient relevant data to afford a reasonable basis for issuing an accounting officer report.
38. In addition to the above duties an accounting officer should comply with the code of ethics of the professional body of which he is a member. SAIBA has adopted the IFAC Code of Ethics for Professional Accountants ('the Code')
39. Part A of the IFAC Code sets out the fundamental principles that should be observed by all professional accountants. These are:
- Integrity,
  - Objectivity,
  - Professional competence and due care,
  - Confidentiality, and
  - Professional behaviour.
40. Part B of the IFAC Code illustrates how the conceptual framework contained in Part A is to be applied by professional accountants who offer their services for a fee ie act in private or public practice. The Code advises that any threats to the conceptual framework should be avoided. Part B of the Code provides a case study approach to explaining the principles that should be followed with regard to:
- Professional appointment,
  - Conflicts of interest,

- Second opinions,
  - Fees and other types of remuneration,
  - Marketing of professional services,
  - Gifts and hospitality,
  - Custody of client assets, and
  - Independence related to audit and review and other assurance engagements.
41. A system of quality control will provide a firm of accounting officers with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or accounting officer are appropriate in the circumstances.
42. Accounting officers should therefore adopt a standard of quality control appropriate for the engagements they undertake. It is preferable that professional firms adopt the IFAC International Standard on Quality Control (ISQC1) with amendments as required in the circumstances.
43. ISQC1<sup>1</sup> to firms of accountants performing audits and reviews of financial statement, other assurance and related services. Related services are defined as the standards for agreed upon procedures and compilations. However it is common cause that accounting officers should ensure the quality of their work. In addition the ISQC1 allows that if circumstances dictate a firm may depart from a requirement of ISQC1 if the requirement is not relevant to the services provided.<sup>2</sup> A firm of accounting officers should therefore adopt a system of quality control derived from ISQC1.
44. The table below illustrates the relationship between ethics, quality control and engagement standards as they relate to IFAC requirements and IFAC governed reporting engagements.
45. The following diagram illustrates the framework within which assurance and non-assurance services should be performed. It also clearly distinguishes between assurance and non-assurance services or related services. Reporting engagements should be performed in compliance with:

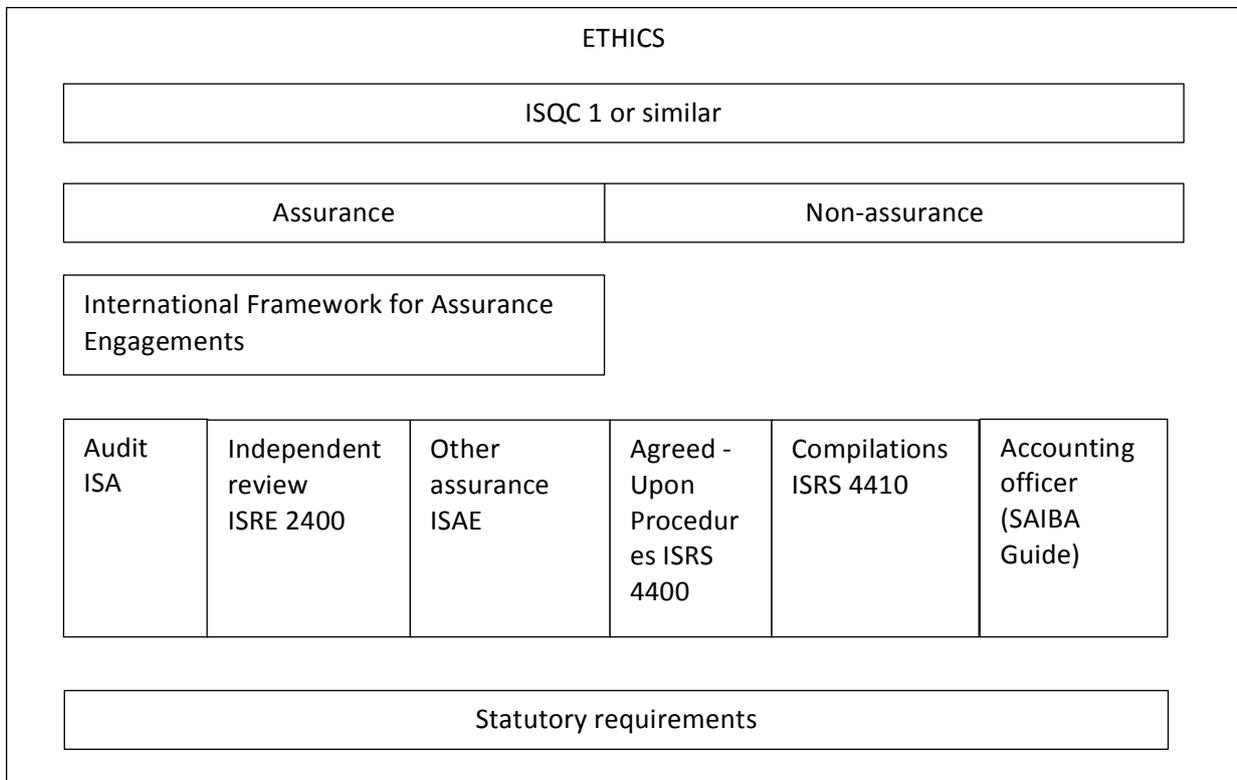
---

<sup>1</sup> Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements, 2010 Edition Part 1, IFAC

<sup>2</sup> Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements, 2010 Edition Part 1, IFAC

- A code of ethics. This code should preferably be aligned with the Code of Ethics as issued by IFAC, as is SAIBA’s code.
- ISQC1 or a similar quality control policy and procedures. Adoption of quality control standards will assist the firm with ensuring that laws and regulations are adhered to and that reports issued are appropriate.
- Assurance engagements should be performed in terms of ISAs, ISRE, or ISAE. Non-assurance (i.e. related services) should be performed in terms of ISRSs.

46. Accounting officer engagements can also be placed within this framework.



# ● Engagement framework for NPO accounting officer reports

47. There are currently 13 statutes mandating the appointment of an accounting officer. One of these is the NPO Act. SAIBA recommends that members follow this framework when performing accounting officer engagements for NPOs.
48. It is important that members and their clients agree to the elements of the framework. The framework should also be amended and expanded in accordance with the member's own professional judgment.
49. The framework does not have legal backing and is not expressly required by any statute. However SAIBA believes that adherence to the framework will enable members to:
  - Reduce their engagement liability. The framework clarifies the performance objectives of members when issuing accounting officers reports,
  - Improve the clients understanding of the work that will be performed.
50. Adherence to the framework does not mean that the member has complied with all legal requirements for the purposes of accounting officer engagements. Members should ensure compliance with:
  - All common law requirements,
  - All statutory requirements,
  - Any other requirements as agreed to with the client.
51. The following paragraphs present the elements of the framework. The list is not exhaustive and should be used as a starting point for negotiations between the member and the client.

## Definition and objective of an accounting officer reporting engagement for NPOs

52. In terms of this framework 'accounting officer engagements' means an engagement in which an accounting officer issues an accounting officer report as required by a the NPO Act.
53. Section 17(2) of the NPO Act requires that within two months after drawing up its financial statements, every NPO must arrange for a written report to be compiled by an accounting officer and submitted to the organisation stating whether or not:
- The financial statements of the organisation are consistent with its accounting records,
  - The accounting policies of the organisation are appropriate and have been appropriately applied in the preparation of the financial statements,
  - The organisation has complied with the provisions of the NPO Act and of its constitution which relate to financial matters.
54. An accounting officer engagement performed for an NPO does not meet the definition of 'assurance engagements' as defined in the International Framework for Assurance Engagements (IFAE) issued by IFAC.<sup>3</sup>

## Scope of the framework

55. This framework only applies to an accounting officer engagement performed in terms of the NPO Act. Services performed by an accounting officer in addition to those required as part of a statute or regulation is not subject to this framework.

---

<sup>3</sup> Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements, 2010 Edition Part 1, IFAC

## General principle of an accounting officer engagement for an NPO

56. The accounting officer should comply with the Code of Ethics for Professional Accountants issued by the IFAC. Ethical principles governing the accounting officer engagement are:
- Integrity;
  - Objectivity;
  - Professional competence and due care;
  - Confidentiality;
  - Professional behavior; and
  - Technical standards.
57. Independence is not a prerequisite before a person may accept the appointment to issue an accounting officer report. The NPO Act does not place any limitation on whether the accounting officer may also prepare the financial statements or be a director or employee of the NPO. The engagement letter between the NPO and the accounting officer should therefore address this issue.
58. The NPO Act requires that an NPO must to the standards of generally accepted accounting practice prepare financial statements. In reviewing the appropriateness of the accounting policies as applied by the entity the accounting officer should have regard to the requirements of fair presentation.
59. An accounting office should conduct an accounting officer engagement in accordance with this framework. The framework incorporates ISRS 4400.
60. ISRS 4400 applies when a BAP(SA) confirms whether the:
- NPOs financial statements are consistent with its accounting records,
  - NPO has complied with the provisions of the NPO Act and of its constitution, which relate to financial matters.
61. Professional judgment, within the context of the SAIBA framework, applies when the accounting officer confirms whether the accounting policies of the NPO are appropriate and have been appropriately applied in the preparation of the financial statements.

## Defining the terms of the engagement

62. The accounting officer should ensure, with representatives of the entity and, where appropriate, with other specified parties who will receive copies of the report, that there is a clear understanding regarding the accounting officer engagement procedures and the conditions of the engagement.
63. Matters to be agreed include the following:
- The objective of the service being performed
  - Management responsibility for the financial statements
  - The scope of the report, including reference to this framework (or relevant national standards or practices)
  - Unrestricted access to whatever records, documentation and other information requested in connection with the engagement
  - A sample of the report expected to be issued
  - The fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist
  - A statement that an audit is not being performed and that an audit opinion will not be expressed. To emphasize this point and to avoid confusion, the practitioner may also consider pointing out that an accounting officer engagement will not satisfy any statutory or third party requirements for an audit.
  - That the accounting officer will use the SAIBA Framework Applicable to Accounting Officer Engagements for NPOs which incorporates ISRS 4400.
  - Other matters to include related to independence, fees charged, liability to third parties, distribution of the report, and any limits on damage claims.
64. The terms of the engagement should be drafted in an engagement letter and should be agreed to with the representative of the entity. An example of the report to be issued should accompany the engagement letter.
65. An example engagement letters is provided in Appendix 1. BAP(SA)s should apply professional judgment and obtain legal advice prior to using the suggested letter.

## Planning<sup>4</sup>

66. The accounting officer should plan the work so that an effective engagement will be performed.
67. In planning the performance of an accounting officer engagement, the accounting officer should obtain knowledge of the business including:
- Accounting principles used in the industry
  - The entity's organization
  - The entity's accounting systems; operating characteristics and the nature of the entity's assets, liabilities, revenues and expenses, and
  - An understanding of the entity's production and distribution methods, product lines, operating locations and related parties.
68. This knowledge will enable the accounting officer to perform relevant inquiries, design procedures to obtain evidence, assess the responses and other information obtained from the entity.

## Documentation

69. The accounting officer should document matters, which are important in providing evidence to support the findings and conclusions reached in the accounting officer's report, and evidence that the engagement was carried out in accordance with this framework and the terms of any additional requirements as specified.

## Procedures and evidence

70. Based on the planning performed the accounting officer should determine the procedures necessary in the circumstances.
71. The accounting officer should apply judgment in determining the nature, timing and extent of the procedures necessary to issue an accounting officers report. Judgment will be affected by:

---

<sup>4</sup> Similar to planning required in ISRE 2400, *Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*, 2010 Edition Part 1, IFAC p230.

- The knowledge acquired from previous engagements,
- The practitioner's knowledge of the business, accounting principles and practices of the industry,
- Management integrity,
- An assessment of whether the applied accounting policies will enable fair presentation of financial statements,
- The entity's accounting systems,
- The extent to which a particular item is affected by management judgment
- The materiality of transactions and account balances.

72. The following provides a list of suggested procedures the accounting officer should perform:

- Obtain an understanding of the business, including the internal and external business environment, the needs of the users of the financial statements and any legislation that may affect the presentation and disclosure of the financial statements,
- Perform inquiries about the entity's accounting principles and practices,
- Perform inquiries about the entity's procedures for recording, classifying and summarizing transactions, accumulating information for disclosure in the financial statements and preparing financial statements,
- Compare the financial statements with the trial balance,
- Compare the trial balance with the ledgers,
- Compare the financial statements with the registers, lists or schedules of debtors, creditors, inventory and fixed assets,
- Compare the bank reconciliation with the bank statements, and ledgers,
- Perform inquiries about material assertions in the accounting policies,
- Perform analytical procedures to identify relationships and unusual items,
- Inquire about events subsequent to the date of the financial statements,
- If the accounting officer has reason to believe that financial information has been materially misstated, he may carry out additional procedures to inspect subsidiary accounting records,
- Inquire about decisions and actions by the entity and its representatives that may affect the accounting policies,
- Obtain confirmation that the organisation has met the requirements related to accounting records and other financial matters as prescribed in the NPO Act and the NPOs constitution,

- Read the financial statements to determine agreement with accounting records and consider whether the financial statements conform to the accounting policies,
  - Obtain management representation where appropriate.
73. Whilst performing the suggested procedures, the accounting officer may become aware of a contravention of a relevant statute. If required, such a contravention needs to be stated in the accounting officer report.
74. Unless otherwise required by a statute or regulation the accounting officer is not generally required to:
- Obtain an understanding of internal controls,
  - Perform substantive testing, or
  - Perform a test of balances

## Conclusions and reporting

75. The accounting officer report shall contain a clear affirmation that conforms to the requirements of a relevant statute of regulation.
76. Based on the work performed the accounting officer should assess whether a positive or negative affirmation should be made.
77. The report should be drafted in a manner that will enable the reader to understand the nature of the work that was performed. The report should indicate that an audit was not performed and that an audit opinion is not expressed.
78. An accounting officer report should contain the following elements:
- Title
  - Addressee
  - Opening or introductory paragraph including:
    - Identification of specific financial or non-financial information to which the procedures have been applied
    - A listing of general procedures performed
    - A statement of the responsibility of the entity's management or owners and the responsibility of the accounting officer

- A statement that the procedures performed were those deemed necessary in the circumstances
- A statement that the engagement was performed as a result of a relevant statute, regulation or other agreement
- A description of any factual findings related to a contravention of a relevant statute of regulation where relevant
- A statement that the procedures performed do not constitute an assurance engagement and as such, no assurance is expressed
- A statement that had the accounting officer performed additional procedures, or performed an assurance engagement, other matters might have come to light that would have been reported
- A statement indicating whether the report is restricted in distribution
- A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole
- Date of the report
- Accounting officers address
- Accounting officer's signature, designation, professional membership and member number.

79. An example accounting officer report is provided in Appendix 1. BAP(SA)s should apply professional judgment and obtain legal advice prior to using the suggested report.

# ● Appendix 1

## **ILLUSTRATIVE ACCOUNTING OFFICER ENGAGEMENT LETTER**

The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances.

### **LETTERHEAD OF ACCOUNTING OFFICER**

Our ref.: [insert]

[Date]

The Management

[Name of NPO]

[Address]

## **ENGAGEMENT LETTER TO PERFORM AN ACCOUNTING OFFICER ENGAGEMENT**

Dear ....:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

### **OBJECTIVE AND SCOPE OF THE ACCOUNTING OFFICER ENGAGEMENT AND OUR RESPONSIBILITIES**

We will perform the following services:

- We will perform an accounting officer engagement as required by section 17(2) and 18(4) of the Non-Profit Organisation Act, 1997.
- We are required to determine whether the financial statements of the organisation are consistent with its accounting records and whether the organisation has complied with the provisions of the NPO Act and of its constitution which relate to financial matters; and will do so by adopting such procedures and conducting such enquiries in relation to the accounting records, accounting system, the NPO Act and the NPO constitution as we agreed with you and considered necessary in the circumstances.

- We are also required to review the accounting policies of the organisation are appropriate and have been appropriately applied in the preparation of the financial statements; and make a statement on whether we consider that they are appropriate to the NPO.
- We are also required to report any financial contraventions to the NPO Directorate. If we become aware of any instance in which the organisation has failed to comply with the financial provisions of the NPO Act or its constitution, we must notify the NPO Directorate of the occurrence, within one month after becoming aware of it, and in writing with sufficient detail to describe the nature of the noncompliance. The duty imposed on us in terms of the NPO Act supersedes the duty of confidentiality owed to your organisation by us. We will also include any such contraventions in our accounting officer report issued to the NPO.

We will not perform an audit or review of such financial statements and, accordingly, we will not express an assurance opinion on them. Only a registered auditor may issue an audit on a set of financial statements.

We have adopted the SAIBA Engagement Framework for Accounting Officer Engagements for NPOs to assist us in performing accounting officer engagements.

This Framework requires that we plan and perform the accounting officer engagement in a manner that will enable us to assess whether a positive or negative affirmation should be made in terms of underlying statutory requirements. An accounting officer engagement is primarily limited to inquiries of company personnel and thus do not provide any form of assurance. An example accounting officer engagement report is included below.

An accounting officer engagement differs significantly from an audit or review of financial statements, in which the auditor or independent reviewer provides assurance that the financial statements, taken as a whole, are free of material misstatement.

An accounting officer engagement does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled cheques or bank images); and other procedures ordinarily performed in an audit. Accordingly, an accounting officer engagement does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit. Therefore, an accounting officer engagement

provides no assurance related to financial statements and whether they provide a true and fair view.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our accounting officer engagement procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our accounting officer engagement procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

As we discussed with you, it is our understanding that the accountants or other professionals that prepared or reported on your \_\_\_\_\_ financial statements is unaware of a matter that would make them recall any report that they might have issued on your financial statements.

Furthermore, we understand that we are authorized to communicate with the predecessor accountant or professional to discuss matters relevant to the current accounting officer engagement and to inspect working papers that may facilitate the performance of the current engagement. If during our current engagement, matters come to our attention that affect either the \_\_\_\_\_ financial statements or the accounting officer engagement report on those statements, we will communicate such matters to the predecessor accountant.

This engagement letter authorizes us to perform an accounting officer engagement for your NPO. Any other services that you may request from us will be subject to separate engagement letters.

We may, if you request also assist you with setting accounting systems, preparing financial statements and submitting annual narrative reports to the NPO Directorate. However this does not form part of our primary accounting officer duties.

## **MANAGEMENT RESPONSIBILITIES**

You are responsible for

- a) Making all management decisions and performing all management functions;
- b) Designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;

- c) Evaluating the adequacy and results of the services performed;
- d) Accepting responsibility for the results of the services; and
- e) Establishing and maintaining internal controls, including monitoring ongoing activities.
- f) Our accounting officer duties will be conducted on the basis that you acknowledge and understand that you have responsibility:
  - a. For the preparation and fair presentation of the financial statements in accordance with any prescribed financial reporting framework and the requirements of relevant statutes;
  - b. For such internal control as you determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
  - c. To provide us with access to all information of which you are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters, additional information that we may request from you for the purpose of the engagement, and
  - d. Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our accounting officer engagement procedures, we will require certain written representations from management about the financial statements and matters related thereto.

If, for any reason, we are unable to complete our accounting officer engagement of your financial statements, we will not issue a report on such statements as a result of this engagement. You undertake to provide us with full access to all financial and related information to complete our work.

If there is a delay in producing your report we will notify you of the reasons thereof and provide expected completion dates. We will use all reasonable efforts to complete the engagement as described in this letter within the agreed-upon time frames. However, we shall not be liable for failures or delays in performance that arise from causes beyond my control, including the untimely performance by your company of its obligations.

## **ACCESS AND REPORTS TO REGULATORY AUTHORITIES**

Accounting officers may be required to submit information related to your business and any related financial information to relevant statutory authorities that are empowered by law or regulation to request this information. In some instances we are not allowed to inform you should we receive such a request. By accepting this engagement letter you authorize us to share your business detail and related financial information with these authorities.

We may also be required to provide access to our working papers or your client documentation to our professional membership body.

## **USE AND DISTRIBUTION**

An accounting officer report is issued to the NPO. Using the report in any other circumstances may not be appropriate. If you need a copy of our report then you may request a copy from our offices. You are not allowed to reproduce or alter our reports.

## **ACCESS TO WORKING PAPERS**

Any document produced, altered or originated by us remains our property and will not be shared with any party. You may on request obtain access to our working papers on our premises. Any costs will be for your own account and access is determined in terms of the Promotion of Access to Information Act, 2000.

## **DISPUTE RESOLUTION**

Any dispute that may arise between our firm or any staff member and the NPO or management will be subject to our Dispute Resolution Policy. Any matter must be referred to our firm to be resolved. If any matter remains unresolved we may refer the matter to our professional body to mediate the issue.

## **INDEMNITY AND LIMITATION OF LIABILITY**

You hereby agree to indemnify, defend (by counsel retained and instructed by me), and hold harmless our firm and its partners, agents, or employees, from and against any and all losses, costs (including legal fees), damages, expenses, claims, demands, or liabilities arising out of or in consequence of:

- The breach by your company, or its directors, officers, agents, or employees, of any of the covenants made by your company herein, including, without restricting the generality of the foregoing, the misuse of, or the unauthorized dissemination of, my report or the financial statements in reference to which the report is issued, or any other work product made available to you by my firm; and
- The services performed by our firm pursuant to this engagement, unless, and to the extent that, such losses, costs, damages, and expenses are found by a court of competent jurisdiction to have been due to the negligence of our firm. In the event that the matter is settled out of court, we will mutually agree on the extent of the indemnification to be provided by your company.

Our liability in terms of this engagement is limited, in accordance with all applicable law, to the fees charged by us for the engagement.

## **FEES**

Our fee for these services will be based on the number of hours required by the staff assigned to complete the engagement. In accordance with our recent discussion, we believe that the engagement fee will not exceed Rxxxx. However, if we encounter unexpected circumstances that require us to devote more staff hours to the engagement than estimated, we will discuss the matter with you.

We look forward to a continued relationship with your company, and we are available to discuss the contents of this letter or other professional services you may desire.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely,

---

Accounting Officer  
Business Accountant in Practice (SA)  
SAIBA 1234  
Date  
Address

---

Management  
NPO  
Date

## ILLUSTRATIVE REPORT TO BE ISSUED

### Report of the accounting officer to ABC NPO

#### *Part I*

We have performed the duties of accounting officer to **ABC NPO** for the year ended 28 February 20xx as required by Section 17 of the Non-profit Organisations Act, 1997.

The annual financial statements set out on pages ... to ... are the responsibility of the members. No assurance is required by the Act to be carried out and no assurance engagement was conducted. Accordingly, we do not imply or express an opinion or any other form of assurance on the annual financial statements.

We report, as required in terms of section 17(2) of the Non Profit Organisations Act, 1997 of South Africa, having adopted such procedures and conducting such enquiries in relation to the accounting records as we have agreed with you, that:

- The financial statements of the organisation are [consistent / non consistent] with its accounting records;
- The accounting policies of the organisation are [appropriate / not appropriate] and [have been appropriately / have not been appropriately] applied in the preparation of the financial statements; and
- The organisation [has complied / has not complied] with the provisions of the NPO Act and of its constitution which relate to financial matters.

#### *Part II*

##### **Scope**

We have performed the duties of accounting officer as required by Section 62 of the Act and dealt with in Part I of this report, in terms of the procedures agreed with you and described below and in accordance with the framework for accounting officer engagements as adopted by our firm.

The procedures were undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures regarding financial information (ISRS 4400).

The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of **ABC NPO**. The procedures were performed solely to assist you in [*state purpose e.g. complying with the requirements of the Section 17(2) Non Profit Organisations Act, 1997*] and should be used by you only for this purpose and shall not be distributed to other parties. The procedures are summarized as follows:

*[Insert list of procedures. Examples provided below]*

*Examples:*

- 1. We obtained and checked the trial balance as at (date) prepared by ABC NPO, and we compared the line items and totals to the financial statements.*
- 2. We compare the closing and opening balances of prior and current financial years;*
- 3. We obtained the bank reconciliations and compared the balance with the amount reflected on the trial balance;*
- 4. We obtained a schedule of receivables and determined whether the total agrees with the trial balance;*
- 5. Where applicable we obtained the inventory list and determined whether: (a) the total agrees with the balance in the trial balance; and obtained confirmation that the list is based on a physical count of inventory;*
- 6. We obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determined whether it agrees with the trial balance;*
- 7. We obtained a schedule of trade payables and determined whether the total agreed with the trial balance.*
- 8. We obtained a schedule of trade receivables and determined whether the total agreed with the trial balance.*
- 9. We obtained the VAT reconciliation schedule and determined whether the totals agrees with the amounts as reflected in the trial balance.*
- 10. We read the accounting policies as presented to us by the organisation and considered whether they are appropriate.*
- 11. We obtained confirmation from staff and management that the organisation are keeping accounting records and have prepared financial statements as prescribed by the NPO Act and the organisations constitution.*

## **Findings**

*We report our findings below:*

*[Insert list of findings. Examples provided below]*

- a. With respect to item 1 we found the addition [to be correct/ not correct] and the line items and the total amounts to be in agreement;*

- b. *With respect to item 2 we found the balances to be [in agreement/not in agreement];*
- c. *With respect to item 3 we found the amounts to be [in agreement/not in agreement];*
- d. *With respect to item 4 we found the amounts to be [in agreement/not in agreement];*
- e. *With respect to item 5 we found the amounts to be [in agreement/not in agreement] and [based/not based] on a physical count of inventory;*
- f. *With respect to item 6 we found the amounts to be [in agreement/not in agreement];*
- g. *With respect to item 7 we found the amounts to be [in agreement/not in agreement];*
- h. *With respect to item 8 we found the amounts to be [in agreement/not in agreement];*
- i. *With respect to item 9 we found the amounts to be [in agreement/not in agreement];*
- j. *With respect to item 10 we [found/did not find] the affirmation by creditors.*
- k. *With respect to item 11 we found that the accounting policies and framework are [in agreement/not in agreement].*
- l. *With respect to item 12 we found that the the organisation [has/has not] complied with the provisions of the NPO Act and of its constitution which relate to financial matters.*

Because the above procedures do not constitute an assurance engagement made in accordance with International Standards on Auditing or International Standards on Review Engagements we do not express any assurance on the annual financial statements.

Had we performed additional procedures or had we performed an assurance engagement of the financial statements in accordance with a relevant International Standards such as the International Standard on Review Engagements, other matters might have come to our attention that would have been reported to you.

Part II of this report is solely for the purpose set out in the first paragraph thereof and for your information, and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the accounts and items specified above, and do not extend to the annual financial statements taken as a whole.

**Emphasis of matter (Dependent on circumstances – Select or delete the matter that applies / does not apply)**

[We wish to draw attention to the fact that the annual financial statements are not in agreement with the accounting records as required by Section 17 of the Non Profit Organisations Act, 1997.]

[We wish to draw attention to a matter relating to the appropriateness of the accounting policies applied. As stated in note 1 to the financial statements, the organisation applies *[note the appropriate accounting framework e.g IFRS or IFRS for SME or Modified Cash Basis of Accounting]*. According to this framework it is appropriate to the business of the organisation to value inventory at the lower of cost and net realizable value however the organisation has valued inventory at cost less anticipated selling costs.]

[We wish to draw attention to a contravention(s) of the Non Profit Organisations Act, 1997 which came to our knowledge during the performance of our duties as accounting officer. We are not required to perform specific procedures to identify contraventions of the Act. *[Refer to the relevant section(s) contravened and explain the nature of the contravention]*.]

[We wish to draw attention to the fact that a member/partner/employee of our firm is also a member of the organisation and all the members have consented in writing to our appointment as accounting officer under these circumstances.]

[Accounting Officer name and signature]

Business Accountant in Practice (SA) Designation number xxxxx

Date

Address