

Approval of Company Financial Statements

September 2019

The South African Companies Act has specific requirements on the approval of financial statements

Section 30(3) of the Companies Act states the following:

- "The annual financial statements of a company must:*
- a. Include an auditor's report, if the statements are audited;*
 - b. Include a report by the directors with respect to the state of affairs, the business and profit or loss of the company, or the group of companies...*
 - c. **Be approved by the board and signed by an authorised director;** and*
 - d. Be presented to the first shareholders meeting after the statements have been approved by the board."*

ISA 560.5(b) defines the **date of approval of the financial statements** as follows:

"The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements."

The act of approval of the financial statements requires the completion of the following 2 steps:

1. The board of directors must approve the financial statements; and
2. The financial statements must be signed by a director who has been authorised by the board to do so.

Note: If there is a change in the board of directors subsequent to year end but before the Annual Financial Statements ('AFS') are approved, the directors at the time of sign-off should approve and sign the AFS as they are the empowering directors at the time of sign-off

If any of these steps are not completed, the act of approval has not occurred.

The ISAs further require that the auditor's report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.

Therefore, only once section 30(3)(c) of the Companies Act was satisfied, i.e. once the financial statements were approved by the board of directors and signed by an authorised director, will the auditor be able to date and sign the auditor's report on the financial statements.

Note:

Audit documentation

Sufficient appropriate audit evidence of the following should be included in the audit file:

- ❖ Approval process of the AFS
- ❖ Evidence of the authorised director to sign the AFS (through inspection of minutes)
- ❖ Evidence of the final set of AFS signed by the authorised director and should be marked as "final version"
- ❖ Evidence of review of the final AFS
- ❖ Final signed auditor's report

The audit documentation must include identifying characteristics to allow an experienced auditor, having no previous connection with the audit, to clearly identify the final and approved version of the company's AFS and the final signed version of the auditor's report in the audit file.

The draft versions of the financial statements should be removed from the audit file and only the final version should be placed on the audit file. It is recommended that a final version properly referenced to the lead sheets and the approved financial statements be kept on the final audit file.