

LEARNING UNIT 2 –THE AUDITING PROFESSION ACT (APA) NO 26 OF 2005



Duration: 4 hours 48 minutes

Your time should be divided between two aspects:

- **Obtaining the required knowledge**
This entails working through this learning unit. It is important to note that a significant part of this learning unit has been covered in your undergraduate studies. Since The Auditing Profession Act (APA) was covered in your undergraduate studies (it is assumed knowledge), we allow some time in this LU to refresh your memory and work through some notes and questions to assist in honing your critical thinking and decision-making skills. If the time allowed is not enough, you will have to refresh your memory regarding the sections you already covered in your prior studies **in your own time**.
- **Application of knowledge**
This entails the completion of the self-assessment questions included in this learning unit. After completion of the learning unit, you will have the opportunity to test your knowledge by completing some questions which will comprise of integrated activities covering other learning units, these integrated questions will be included in your additional resources folder.

The following time allocation is recommended:

APA		Minutes
2.1	Introduction	1
2.2	Learning Outcome and Assessment Criteria	1
2.3	Learning Assumed to be in Place	2
2.4	Background	5
2.5	Exam Technique	2
2.6	Self-assessment question 2.1	34
2.7	Announcements	3
2.8	Lectures	240
Total		288



2.1 INTRODUCTION

The Auditing Profession Act, No. 26 of 2005 (APA), as administered by the Independent Regulatory Board for Auditors (IRBA), regulates the auditing profession in South Africa. Together with the Companies Act and the International Standards on Auditing (ISAs), the APA forms part of the statutory framework governing the conduct, duties, and responsibilities of registered auditors.

As a student of auditing, it is essential that you have a sound understanding of the APA, particularly its application in practice. In professional and examination contexts, auditors are required not only to understand the legislative requirements, but also to apply them when evaluating conduct, compliance, and potential reportable irregularities.



2.2 LEARNING OUTCOME AND ASSESSMENT CRITERIA

Exercise and apply the statutory requirements of the Auditing Profession Act in practical situations, including the identification, evaluation, and assessment of non-adherence practices and potential reportable irregularities in accordance with section 1 of the APA.:

Learning outcome	Assessment criteria
Exercise APA statutory requirements in practical situations.	<ul style="list-style-type: none"> • Discuss and apply APA statutory requirements in given case studies. • Carry out evaluations of non-adherence practices and make recommendations.

2.3 LEARNING ASSUMED TO BE IN PLACE

The Auditing Profession Act (APA), as regulated by the Independent Regulatory Board for Auditors (IRBA), was covered as part of your undergraduate studies and is regarded as assumed knowledge. Students are expected to be familiar with the overall structure of the APA, key definitions, and the role of the IRBA.

This learning unit focuses on refreshing and applying selected sections of the APA that are frequently examined, particularly those relating to the duties of registered auditors and reportable irregularities. If you are not sufficiently familiar with the APA, you should revise the relevant sections independently before attempting the application questions in this learning unit.

SAICA Student Handbook 2025/2026, volume 2B:

- Auditing Profession Act no 26 of 2005



COMMENT

You are advised to study the APA directly from the SAICA Student Handbook, as this

legislation may be available during the test and/or examination in terms of the open-book policy. However, reliance on the availability of the legislation should not replace a thorough understanding of its structure, definitions, and application, as effective exam performance requires familiarity rather than searching during the assessment. (<https://saicawebprstorage.blob.core.windows.net/uploads/resources/IAC-Regulations-2025.pdf>).

2.4 BACKGROUND

The APA applies to Registered Auditors (RAs) and sets out their professional duties, responsibilities, and potential liabilities. In assessments, students are expected not only to recall the statutory provisions of the APA, but to apply them to realistic audit scenarios.

This learning unit highlights areas of the APA with which students typically experience difficulty, particularly those that require professional judgement and structured analysis. These include definitions and reportable irregularities, which are high-frequency examinable areas at IAC level. The omission of certain sections in this learning unit does not imply that they are less important.

Section 1 – definitions of terms used in the APA, such as "reportable irregularity" (RI)
Ensure that you use the correct terminology and refer to the correct definition when discussing issues pertaining to the APA.

Sections 37 and 38 – registration procedures for individual and firms as registered auditors.

Section 41 – conduct by and liability of registered auditors relating to public practice.

Section 44 – duties in relation to an audit

Section 45 – duty to report on irregularities
Refer to the IRBA guide – IRREG – for guidance on what constitutes an RI. (Appendix 7 of the IRREG includes examples which illustrates the application of the guide in determining the existence of a reportable irregularity).

Section 46 – limitation of the auditor's liability
This section includes the requirements an auditor must meet to be held liable by third parties who relied on an inappropriate opinion given. Section 46(8) states that the auditor cannot through agreement or in any other way limit or reduce the liability they incurred during a statutory audit.

Section 52 – reportable irregularities and false statements in connection with audits

Not every unlawful act or omission constitutes a reportable irregularity. In order for a reportable irregularity to exist, all elements of the statutory definition in section 1 of the APA must be satisfied. Students must therefore assess each requirement cumulatively when evaluating scenarios involving potential non-compliance.



2.5 EXAMINATION TECHNIQUE

RI's should be assessed as per the definition. It is your responsibility to read the scenario with the intention of identifying possible RI's. It is very important to test whether it is a RI by comparing the given information to the definition and requirements of a RI in section 1 of the APA. Marks will be allocated for applying the theory to the scenario and not for merely stating

the theory.

Marks are awarded for the structured application of the statutory definition of a reportable irregularity to the facts of the scenario, rather than for merely stating the theory. Students should use the mark allocation as guidance and clearly link each element of the definition to the information provided. Where required, reporting responsibilities in terms of section 45 of the APA should only be discussed if specifically relevant to the question.

4.6 Self-Assessment Question

This question requires the integrated application of the Auditing Profession Act and the Companies Act. Students should carefully analyse the scenario and apply the statutory requirements to determine whether a reportable irregularity exists, rather than relying on generic descriptions of the legislation.

QUESTION 2.1 – SELF ASSESSMENT QUESTION

13 marks

Activity	Estimated Time		
	Reading and Writing	Marking and review	Total
Med Manage (Pty) Ltd	26 minutes	8 minutes	34 minutes

Background information

You are an audit senior at Bakeng & Kgomotso Auditors Incorporated (B&K), currently involved in the finalisation stage of the statutory annual audit of Med Group Limited (Med) and its two subsidiaries, Medschem Medical Scheme (Medschem) and Medmanage (Pty) Ltd (Medmanage), for the financial year ended 31 January 2026. Med is a Johannesburg Stock Exchange (JSE) listed company in the health care industry of South Africa. The final materiality for the 2026 statutory annual audit is set at R3 million for Medschem, R1,2 million for Medmanage and R 4 million for the consolidated financial statements of Med.

Medschem is an independent non-profit medical scheme governed by the Medical Schemes Act and regulated by the Council for Medical Schemes. Medschem has a good record of diligently paying their clients' qualifying medical costs and providing excellent service to its members. Medschem is administered separately by Medmanage, an authorised financial services provider and for-profit private company. By separating medical scheme and administration functions between Medschem and Medmanage, the Med group of companies has been able to gain a significant competitive advantage by expanding its offerings to the health care market without contravening the Medical Schemes Act.

Raw material procurement from Bestpack

A decision was taken at a Medmanage board meeting before year end, to procure the necessary repackaging and labelling raw materials for the Swiss vitamin supplements from Bestpack (Pty) Ltd. Bestpack is a family business that is renowned for providing high quality packaging materials at affordable prices.

Medmanage's marketing director, Mr Adrian Viljoen, owns 15% of the equity interest of Bestpack and the remaining interest is held by his son. His son is also the managing director of Bestpack. Due to this relationship, Medmanage was able to negotiate a lucrative discount on the contract. As such, the entire board of directors, including Mr Adrian Viljoen, unanimously voted in favour of the contract at the board meeting.

REQUIRED	Marks
Determine whether a reportable irregularity exists in terms of the Auditing Profession Act with regards to MEd manage (Pty) Ltd's board decision to award the procurement of packaging materials contract to Bestpack.	12
Communication skills – clarity of expression	1

SUGGESTED SOLUTION

Determine whether a reportable irregularity exists in terms of the Auditing Profession Act with regards to Medmanage (Pty) Ltd's board decision to award the procurement of packaging materials contract to Bestpack

1. **Whether an unlawful act or omission has occurred (How?):**
 - Adrian Viljoen contravened section 75 of the Companies Act by not declaring his interest in and voting on the contract with Bestpack. (1)
2. **Whether the unlawful act has been committed by someone responsible for management of the entity (Who?):**
 - The unlawful act was committed by Adrian Viljoen, the marketing director of Medmanage. (1)
3. **Whether the unlawful act could result in a material financial loss to any partner, member, shareholder, creditor, or investor (Who?):**
 - The contract is void as Adrian Viljoen did not comply with the requirements of section 75 (section 75(7)), unless ratified by the shareholders or the court. (1)
 - This could result in:
 - Penalties to Medmanage levied by Bestpack if the contract is declared void. (1)
 - Financial loss to Bestpack if the contract is cancelled. (1)
4. **However, the shareholders of Medmanage would probably ratify the contract as it appears very beneficial for Medmanage (e.g., good quality at affordable prices, including lucrative discounts) and would most probably not result in financial loss to any party.** (1)
5. **Whether it relates to fraud or theft (Why?):**
 - The unlawful act does not seem to relate to fraud or theft as it may not be intentional, and the contract terms are fair and beneficial to Medmanage. (1)OR
 - Adrian Viljoen might have intentionally, fraudulently not declared his interest to win a contract for his son. (1)
6. **Whether the unlawful act constitutes a material breach of fiduciary duty (Why?):**
 - Non-compliance with section 75 is a significant breach of the Companies Act, which would be considered a material breach of a director's duty of care, skill, and diligence. (1)
 - If the agreement was indeed the best available option for Medmanage (e.g., good quality at affordable prices, including lucrative discounts), it could be argued that this does not amount to a material breach of his fiduciary duty as Adrian Viljoen acted in the best interest of the company. (1)OR
 - Based on the above, a reportable irregularity exists. (1)
7. **Conclusion:**
 - Based on the above, if a reportable irregularity (RI) exists, the auditor will need to

report it to the IRBA. (1)

8. Communication Skills:

- Clarity of expression. (1)

Available Marks: 17
Maximum Marks: 13



EXAM TECHNIQUES IN ANSWERING THIS QUESTION

This is a straightforward application question. Students should focus on identifying what the examiner requires and applying the relevant statutory provisions to the facts provided. APA questions are often embedded within broader audit or ethics questions, making careful reading of the required and disciplined application of the law essential.

Please remember to provide a conclusion on the question as many students tend to forget this.

Remember that, at times, APA may be asked as part of a bigger question such as:
"Discuss the professional responsibilities of the auditor"

2.7 Announcements

Please refer to the **Additional Resources** folder for Learning Unit 2 for some additional resources on the content of this Learning Unit.

2.8 Lectures

Lectures will be held during the year. Additional learning material and questions will also be loaded under the **Additional Resources** folder. Refer to the **Announcements** for additional information on lectures.