

Appendix A

2. PROPOSED REPORTING

In order to address the requirements of Rule 18, a three tier reporting approach is proposed. Matters will be dealt with as part of the audit opinion, report on other legal requirements included in the report of the independent auditor or as part of a separate assurance report. The regulator has indicated that they require Assurance and so the proposed framework for the separate assurance report is *International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

An evaluation of Rule 18 reporting in the context of Assurance engagement requirements is as follows:

Requirement	Comment
Tri party relationship	<ul style="list-style-type: none"> • Practitioner • Intended user – Securities and Exchange Commission • Responsible party – Directors of the licensee
Underlying subject matter	<p>At present, SEC does not require any return, report or statement from licensees specifically covering the customer money or securities that they administer.</p> <p>A pre-condition that will enable practitioners issue a report directly to the SEC is that a statement on customer money and securities be prepared by licensee. The format will have to be proposed by the SEC. An example statement is as shown in Appendix 4.</p> <p>The directors and management will take responsibility for the statement issued.</p>
Criteria	Requirements of rule 18 summarised below.
Evidence	We expect that sufficient and appropriate evidence to support conclusion will be available.
An assurance report	Limited assurance will be provided.

In order to address the requirement that the report be addressed directly to the SEC, practitioners will include in the LOE with the client, a paragraph describing auditor's reporting responsibilities to SEC.

The practitioner will issue a letter to the SEC referring to the independent auditors report on the financial statements where some of the matters are covered in the opinion and the report on other legal and regulatory requirements. A set of the audited financial statements will accompany the letter to SEC together with the separate assurance report where matters not covered in the auditor's report on the financial statements are addressed.

A summary of how the requirements will be addressed is as follows:

SEC ACT rule 18.

Requirement	Audit report - Opinion/ Audit report – Legal requirements/ Separate Assurance Report
(1) The auditor's report shall be addressed to the Commission and shall state whether the annual financial statements of the licensee have been audited in accordance with approved auditing standards.	Auditor's letter to SEC referring to the independent auditor's report on the accompanying financial statements, which indicates that the audit was carried out in accordance with ISA.
(2) The auditor's report shall also state whether in the opinion of the auditor-	
(a) the annual financial statements of the licensee have been properly prepared in accordance with these Rules;	Auditor's report – Report on Other Legal and Regulatory Requirements (see Appendix 3)
(b) in the case of the balance sheet, a true and fair view is given of the state of affairs of the licensee as at the end of the financial year;	Auditor's report – Opinion
(c) in the case of the profit and loss account, a true and fair view is given of the profit or loss of the licensee for the financial year;	Auditor's report – Opinion
(d) the licensee has, throughout the financial year, kept proper accounting records in accordance with the requirements of these Rules;	Auditor's report – Report on Other Legal and Regulatory Requirements (see Appendix 3)
(e) the licensee has, throughout the financial year, kept customer money properly segregated in accordance with Part IV; (Refer to "Part IV of Rule 18: Customer Money below)	Separate Assurance Report – ISAE 3000 (See Appendix 5)
(f) the balance sheet and the profit and loss account are in agreement with the licensee's accounting records;	Auditor's report – Report on Other Legal and Regulatory Requirements (see Appendix 3)
(g) he has obtained all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of his audit;	Auditor's report – Report on Other Legal and Regulatory Requirements (see Appendix 3)
(h) the licensee has maintained throughout the financial year systems adequate to enable him to identify documents of title, or documents evidencing title, to securities held in safekeeping for the licensee's customers in accordance with rule twenty-nine of the Securities (Conduct of Business) Rules, 1993; and (Rule 29: Client Assets below).	Separate Assurance Report – ISAE 3000 (See Appendix 5)
(i) the licensee was in compliance with the requirements of rule twenty-nine of the Securities (Conduct of Business) Rules, 1993 as at the date on which the balance sheet was prepared. (Refer to Appendix 2)	Separate Assurance Report – ISAE 3000 (See Appendix 5)

Appendix 1 - PART IV of RULE 18: CUSTOMER MONEY

20. This Part applies to any customer money held or received by a licensee in the course of carrying on securities business. Application
21. For the purposes of these Rules customer money is money of any currency which, in the course of carrying on securities business, a licensee holds or receives on behalf of a customer or which a licensee owes to a customer. Customer money
22. A licensee shall pay all customer money coming into his hands for or from a customer into a specially created customer bank account which is segregated from any account holding money belonging to the licensee. Duty to segregate
23. Customer money, unless paid out to or for a customer, must be kept in an account at a licensed bank on trust for the customer. Duty to keep customer money safe
24. Customer money shall be held by the licensee on trust for the respective customers for whom that customer money is received or held according to their respective shares in it. Customer money to be held on trust
25. A licensee shall account properly and promptly for customer money and, in particular, shall ensure that-
- (a) customer money and other money do not become mixed;
 - (b) the licensee can at all times be sure how much customer money stands to the credit of each customer; and
 - (c) money belonging to one customer is not used for another customer. Accounting for and use of customer money
26. A licensee who receives or holds customer money shall open one or more customer bank accounts with a licensed bank. Customer bank account
27. (1) Subject to subrule (2), money may be withdrawn from a customer bank account only if-Payment only of a customer bank account
- (a) it is not customer money;
 - (b) it is properly required for payment to or on behalf of a customer; or
 - (c) it is properly transferred to another customer bank account or into a bank account in the customer's own name.
- (2) A licensee may withdraw money from a customer bank account for or towards payment of its own fees or commission only if the fees or commissions accord with the arrangements agreed with the customer.

Appendix 2 - Rule 29 of conduct of business rules

29. A licensee who has custody of a customer's securities in connection with or with a view to securities business shall-

(a) keep safe, or arrange for the safekeeping of, any documents of title, or documents evidencing title, relating to them; and

(b) ensure that any securities that he buys or holds for a customer are properly registered in his name or, with the consent of the customer, in the name of an appropriate nominee.

Appendix 3 – Illustrative Independent auditor’s report for a Bank licensee under SEC (extract)

**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF XYZ BANK ZAMBIA LIMITED**

Report on the financial statements

We have audited the accompanying financial statements of XYZ Bank Zambia Limited, which comprise the statement of financial position as at 31 December 2015 and the statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Director’s responsibility for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Zambian Companies Act, the Zambian Banking and Financial Services Act and the Securities Act of Zambia and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of XYZ Bank Zambia Limited as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Zambian Companies Act, the Zambian Banking and Financial Services Act and the Securities Act of Zambia.

Report on other legal requirements

The Zambia Companies Act requires that in carrying out our audit we consider whether the company has kept proper accounting records, other records and registers as required by this Act.

In our opinion, based on our examination of those records, the company has kept proper accounting records, other records and registers as required by the Zambia Companies Act.

In accordance with the requirements of the Zambian Banking and Financial Services Act, we confirm that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- no transactions or conditions affecting the well-being of the bank have come to our attention that in our opinion are not satisfactory and require rectification;
- we are not aware of any transaction that has not been within the powers of the bank or which was contrary to the Zambian Banking and Financial Services Act;
- there is no non-performing or restructured loan owing to the bank whose principal amount exceeds 5% of the regulatory capital of the bank;
- the company has complied with the provisions of the Zambian Banking and Financial Services Act and the regulations, guidelines and prescriptions issued under the Act.

In accordance with requirements of the Schedule IV, Rule 18 of The Securities Act, Cap 254 of the Laws of Zambia we confirm that:

- the annual financial statements of the licensee have been properly prepared in accordance with SEC Rules;
- the licensee has, throughout the financial year, kept proper accounting records in accordance with the requirements of the SEC Rules;
- the statement of financial position and statement of comprehensive income are in agreement with the licensee's accounting records;
- we has obtained all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of his audit;

**ZICA Chartered Accountants
Lusaka, Zambia**

**A. Practitioner
Partner
ZICA practicing certificate number 123456**

Appendix 4 - : Proposed licensee statement on customer money and customer securities

XYZ Bank Zambia Limited
Customer money and securities statements
For the year ended 31 December 2015

Customer money

	ZMW
Customer money held at start of the year	XXX
Money received	XXX
Money paid out	(XXX)
Customer money held at end of the year	XXX
Balances held in bank accounts	XXX
Variance	XXX

Customer securities

	ZMW
Value of customer securities at start of the year	XXX
Investments	XXX
Disposals	XXX
Gains/ (losses)	XXX/ (XXX)
Value of customer securities at end of the year	XXX