



INDEPENDENT REGULATORY BOARD FOR AUDITORS

NEWS

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Solid anchors to build on

This year's achievements and
lessons learnt will help
strengthen the profession

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FROM THE CEO'S DESK

We have reached the end of another year that brought with it successes and challenges. The IRBA continued to enjoy exciting developments in the profession and some of the greatest achievements. This year South Africa maintained its number one ranking for auditing and reporting standards in the World Economic Forum Global competitiveness index, for the sixth year in a row, we issued the new auditor reporting standards, had a successful roadshow and for the first time – we have issued a Public Inspections Report.

Consistent with our vision to uphold the highest standards, this report is part of our commitment to promote and maintain consistent and sustainable high levels of audit quality. We improved our inspection processes to focus on a risk-based approach and also introduced a remedial action process that is aimed at assisting those firms and practitioners who have shown deficiencies in their quality control policies and procedures.

The Public Inspections Report 2014/2015: Striving for Consistent, Sustainable High Audit Quality acknowledges that audit quality is not at the desired level, following inspections conducted over the past few years. To read the summary of the report turn to page 13.

The IRBA also issued its third integrated report and strengthened its involvement with regards to progressing the development of assurance on integrated reports by establishing a task force to provide thought leadership in this area, and through representation by the former Director: Standards on the relevant task force of the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Throughout the year, we have engaged with various stakeholders, including registered auditors, on the work of the IRBA and how we can all work together to improve the economic development of our country. In this edition, we cover feedback that we received from the recent roadshows where auditors raised their concerns about the profession and also made recommendations on how we can work together. The IRBA team promised to follow up on the issues, where possible, and we have started to respond to some of the challenges raised. Turn to page 17 for more detail from the roadshows.

In the coming weeks we will be launching our new and improved communication channels, including an upgraded website and a newsletter that will reach the whole of the continent as part of our strategy to share information with our counterparts in Africa. The website will be a much easier tool to

use and navigate and will still have all the relevant information that you need. Let us know your thoughts on the new website as you familiarise yourself with it.

I would like to welcome Jillian Bailey to our team as Director: Investigations. The position was created following the recommendations of the World Bank Report on the Observance of Standards and Codes (ROSC) to strengthen our investigations function. The legal department has now been split into two separate departments – Legal and Investigations.

Jillian is a CA (SA) with a wealth of experience in regulation, auditing, business and management. She was a director at the Public Accountants and Auditors Board (PAAB), the predecessor to the IRBA, as well as at the IRBA before joining the Auditor-General as Head of Audit, after which she played a major role in strengthening an Internal Audit Consulting Department at a large consulting firm. We welcome Jillian back to the IRBA and look forward to even more robust investigations.

In addition to our continuing representation on international structures of the International Forum of Independent Audit Regulators (IFIAR), which mandate is to share best practice and challenges in audit regulation, we are pleased that Imran Vanker, Director: Standards, and Laine Katzin, Director: Education, Training and Professional Development, got appointed to the IAASB and the International Accounting Education Standards Board (IAESB) of IFAC, respectively. These appointments contribute to the IRBA's vision to influence standard-setting at an international level and ensure that South Africa remains at the forefront of global developments in the auditing arena.

I wish to thank our stakeholders for the support and efforts that contribute to maintaining confidence in the profession, and the auditors for delivering a service that strengthens the protection of the public.

I wish you a happy holiday season filled with cheer and joy. May we have the courage and strength to face the New Year and continue to build a successful and reputable profession to serve and protect the public.



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STANDARDS

In this issue the following topics are discussed:

- New and revised Auditor Reporting Standards.
- ISA 720 (Revised) and auditor focus on “other information”.
- Revised auditing standards on disclosures.
- IFRS 9: Financial Instruments.
- Proposed Guide for Registered Auditors: Reporting Responsibilities of the Reporting Accountant Related to Property Entities in Terms of the JSE Listings Requirements.
- Proposed SAAPS 3 (Revised 2015) on Illustrative Reports.
- Updates on BEE verification assurance related matters.
- Proposed ISA 810 (Revised) on Engagements to Report on Summary Financial Statements.
- Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations: Proposed Amendments to the IAASB's International Standards.
- Withdrawal of reports.
- Warnings on pronouncements issued.
- Statistics on reportable irregularities.

New and revised Auditor Reporting Standards

The Council for Medical Schemes (the CMS) is the first regulator in South Africa to require auditors of medical schemes to report on key audit matters (KAMs) in their audit reports on medical schemes' financial statements for the year ending 31 December 2016 and onwards. There are several benefits to regulators mandating the disclosure of KAMs in auditor reports. Some of these are to:

- Enhance communication between auditors and investors, as well as those charged with corporate governance.
- Increase user confidence in audit reports and financial statements.
- Increase transparency, audit quality and enhanced information value.
- Increase attention by management and financial statement preparers to disclosures referencing the auditor's report.
- Renew auditor focus on matters to be reported that could result in an increase in professional scepticism.
- Enhance financial reporting in the public interest.

Circular 65 of 2015, Auditor's Reports: Key Audit Matters, which introduces this requirement, is on the CMS website (<http://www.medicalschemes.com/files/Circulars/Circular65Of2015.pdf>).

Practitioners are reminded that the new standards are effective for audits of financial statements for periods ending on or after 15 December 2016. Resources on the new and revised Auditor Reporting Standards are available on the IRBA (<http://www.irba.co.za/index.php/auditing-standards-functions-55/252-international-clarity-pronouncements-adopted-and-i/882-the-new-and-revised-auditor-reporting-standards>) and the IAASB (<http://www.iaasb.org/new-auditors-report>) websites.

ISA 720 (Revised) – Auditor focus on “other information” included in annual reports

Standards Department staff has published an article in the December 2015 edition of the *Accountancy SA* magazine. The article addresses questions such as: What are the main changes in relation to the scope and auditor's work effort? What will be communicated in the auditor's report about other information? What are the newly introduced documentation requirements? Auditors are alerted to this article for insight to this important topic as in recent years the detail included in entities' annual reports as well as other corporate and external reports, besides the audited financial statements and the auditor's report, has changed significantly.

ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information, is available on the IRBA website (<http://www.irba.co.za/index.php/auditing-standards-functions-55/252-international-clarity-pronouncements-adopted-and-i/831-2014-auditing-standards>).

An overview of the revised standard, At a Glance: ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information, is available on the IAASB website (<http://www.ifac.org/publications-resources/glance-isa-720-revised-auditor-s-responsibilities-relating-other-information>).

Revised Auditing Standards on Disclosures

The IRBA Board adopts the IAASB's Addressing Disclosures in the Audit of Financial Statements – Revised International Standards on Auditing (ISAs) and Related Conforming Amendments

The IRBA Board has approved the following revised ISAs for adoption, issue and prescription by registered auditors in South Africa:

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- ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*;
- ISA 210, *Agreeing the Terms of Audit Engagements*;
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*;
- ISA 260 (Revised), *Communication with Those Charged with Governance*;
- ISA 300, *Planning an Audit of Financial Statements*;
- ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*;
- ISA 320, *Materiality in Planning and Performing an Audit*;
- ISA 330, *The Auditor's Responses to Assessed Risks*;
- ISA 450, *Evaluation of Misstatements Identified during the Audit*;
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; and
- Related conforming amendments to other ISAs.

The changes that have been made to the ISAs are intended to provide workable solutions for issues relating to the perceived need for auditors to address disclosures more explicitly as part of the financial statement audit. The IAASB believes that these changes to the ISAs will further contribute to high-quality audits and, through this, an enhanced focus on disclosures by preparers as well as higher quality financial reporting.

The revised ISAs are effective for audits of financial statements for periods ending on or after 15 December 2016. Early adoption is permitted.

The communiqué and revised ISAs are available on the IRBA website.

Committee for Auditing Standards (CFAS)

IFRS 9: Financial Instruments

The South African Institute of Chartered Accountants' (SAICA) Banking Project Group has established a subcommittee, the IFRS 9 Implementation Working Group, to address industry issues related to the implementation of IFRS 9, Financial Instruments, specifically the impairment requirements. The IRBA is represented on the working group. The IRBA, through the IFRS 9 Implementation Working Group and the IAASB's

Financial Institutions Working Group, will consider whether South Africa-specific auditing guidance is required especially on the impairment requirements contained in IFRS 9. Auditors are strongly encouraged to prepare for the implementation and assess the impact of IFRS 9 on their audit procedures.

Proposed Guide for Registered Auditors: Reporting Responsibilities of the Reporting Accountant Related to Property Entities in Terms of the JSE Listings Requirements

The CFAS approved the release of the proposed *Guide for Registered Auditors: Reporting Responsibilities of the Reporting Accountant Related to Property Entities in Terms of the JSE Listings Requirements* (proposed Guide) in August 2015, for exposure for public comment by 30 October 2015.

The proposed Guide provides guidance to JSE-accredited reporting accountants of JSE-listed entities that report on property related transactions, in accordance with the JSE Limited Listings Requirements (the Listings Requirements). It is aimed at assisting reporting accountants with the applicable assurance engagements and related reporting accountants' reports for:

- Engagement in terms of paragraph 13.15 of the Listings Requirements on an entity's forecast statement of profit or loss and other comprehensive income as well as the vacancy and lease expiry profile of the property portfolio as a whole (forecast information) and/or;
- Engagement in terms of paragraph 13.16(e) of the Listings Requirements to issue a review conclusion on the assets and/or liabilities acquired by the applicant issuer, as reflected in the adjustment column of the pro forma statement of financial position.

This proposed Guide:

- Replaces the previous SAICA Circular 9/2005, The Reporting Accountant's Reporting Responsibilities in Terms of Section 13 of the Listings Requirements of the JSE Limited Relating to Property Companies (issued August 2005), which is to be withdrawn by the institute. The proposed Guide addresses and updates matters in terms of paragraph 13.15 of the JSE Listings Requirements previously dealt with in the SAICA circular.
- Provides guidance on the reporting accountant's reporting responsibilities in terms of paragraph 13.16(e) of the JSE

STANDARDS cont.

Listings Requirements relating to the provision by the reporting accountant of a review conclusion on the assets and/or liabilities acquired by the applicant issuer in terms of the transaction as reflected in the adjustment column of the pro forma statement of financial position contained in a circular and the related illustrative reporting accountant's report.

The JSE Limited is running a concurrent public consultation process for the proposed revisions to the JSE Limited Listings Requirements.

It is expected that the Guide will be issued early in 2016.

Proposed South African Auditing Practice Statement (SAAPS) 3 (Revised 2015), *Illustrative Reports*

The CFAS approved the release of the proposed SAAPS 3 (Revised 2015), *Illustrative Reports*, in August 2015 for exposure for public comment by 19 October 2015.

The proposed SAAPS 3 (Revised 2015) provides guidance to registered auditors on the layout and wording of assurance reports, in accordance with the requirements of the ISAs and the International Standards on Review Engagements (ISREs) and in compliance with South African jurisdictional requirements, mainly the Companies Act, 2008 (Act No.71 of 2008) and the Public Audit Act, 2004 (Act No.25 of 2004).

The proposed SAAPS 3 (Revised 2015):

- Contains conforming amendments arising from the revised Auditor Reporting Standards;
- Provides assistance to auditors on how key audit matters are addressed in the auditor's report, in accordance with the new ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report; and
- Provides practical assistance to auditors when reporting in terms of ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information.

These ISAs are effective for audits of financial statements for periods ending on or after 15 December 2016.

It is expected that SAAPS 3 (Revised 2015) will be issued early in 2016.

B-BBEE Verification Assurance

The Broad-Based Black Economic Empowerment Amendment Act's (the B-BBEE Amendment Act) focus on fronting

The Department of Trade and Industry's (DTI) amendments to the Broad-Based Black Economic Empowerment Act (the B-BBEE Act), No.53 of 2003, indicate a stringent stance on transformation through B-BBEE legislation.

Among the amendments to note is the clarity on fronting indicators as well as the responsibilities and the consequences where these indicators are positively identified.

The IRBA has identified the reporting of fronting practices by auditors to the Broad-Based Black Economic Empowerment Commission (the Commission) as a high risk area. Auditors do not always assess the risk of fronting practices or design appropriate procedures to address the risk and their responsibilities to report fronting practices to the Commission.

The definition of "fronting practice" in terms of the B-BBEE Amendment Act, No.46 of 2013, in Section 1(e) is wide and includes "... a transaction, arrangement or other act or conduct that directly or indirectly undermines or frustrates the achievement of the objectives of this Act or the implementation of any of the provisions of this Act". A further non-exhaustive list of practices is provided in terms of the definition of "fronting practice" and it includes the following:

- (a) *Black persons who are appointed to an enterprise are discouraged or inhibited from substantially participating in the core activities of that enterprise;*
- (b) *Economic benefits received as a result of the broad-based black economic empowerment status of an enterprise do not flow to black people in the ratio specified in the relevant legal documentation;*
- (c) *Conclusion of a legal relationship with a black person for the purpose of that enterprise achieving a certain level of broad-based black economic empowerment compliance without granting that black person the economic benefits that would reasonably be expected to be associated with the status or position held by that black person; or*
- (d) *Conclusion of an agreement with another enterprise in order to achieve or enhance broad-based black economic empowerment status in circumstances in which –*

STANDARDS cont.

- (i) *There are significant limitations, whether implicit or explicit, on the identity of suppliers, service providers, clients or customers;*
- (ii) *The maintenance of business operations is reasonably considered to be improbable, having regard to the resources available;*
- (iii) *The terms and conditions were not negotiated at arm's length and on a fair and reasonable basis.*

Section 13O of the B-BBEE Amendment Act states that:

- (1) A person commits an offence if that person knowingly:
 - (a) *Misrepresents or attempts to misrepresent the broad-based black economic empowerment status of an enterprise;*
 - (b) *Provides false information or misrepresents information to a B-BBEE verification professional in order to secure a particular broad-based black economic empowerment status or any benefit associated with compliance with this Act;*
 - (c) *Provides false information or misrepresents information relevant to assessing the broad-based black economic empowerment status of an enterprise to any organ of state or public entity; or*
 - (d) *Engages in a fronting practice.*
- (2) *A B-BBEE verification professional or any procurement officer or other official of an organ of state or public entity who becomes aware of the commission of, or any attempt to commit, any offence referred to in subsection (1) and fails to report it to an appropriate law enforcement agency is guilty of an offence.*

Section 13O(2) therefore requires an auditor to report an offence that the auditor becomes aware of, in terms of Section 13O(1), failing which the auditor is guilty of an offence.

No formal auditor report format has been prescribed by the Commission for the reporting by auditors of fronting practices. A report completed by the auditor detailing the auditor's findings in a format that has been designed by the auditor is currently acceptable for reporting to the Commission.

The amended B-BBEE Verification Manual issued for comment

The DTI issued the amended *Verification of and Reporting on Broad-Based Black Economic Empowerment in Terms of the Codes of Good Practice* manual for a 30-day public commentary period effective from 1 November 2015 to 30 November 2015, on 6 November 2015, per Government Gazette No.39378.

Sector charters and codes

At the time of writing, there were many developments in respect of sector specific charters. B-BBEE approved registered auditors (BARs) are urged to be circumspect and diligent in accepting and undertaking assignments, especially in identifying what rules would apply to the specific industry. In the event of doubt, queries should be referred to the BEE Unit of the DTI.

The International Audit and Assurance Standards Board (IAASB)

Proposed ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

The IAASB published the proposed ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*, on 3 August 2015 for exposure for public comment by 2 November 2015. Proposed ISA 810 (Revised) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor. The IAASB is proposing limited conforming amendments to ISA 810 as a result of the issuance of its new and revised Auditor Reporting Standards, which address auditor reporting on general purpose financial statements.

A CFAS task group submitted a comment letter to the IAASB, and the exposure draft as well as the comment letters submitted are available on the IAASB website (<https://www.ifac.org/publications-resources/proposed-international-standard-auditing-isa-810-revised>).

STANDARDS cont.

Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations: Proposed Amendments to the IAASB's International Standards

The IAASB published the exposure draft *Proposed Amendments to the IAASB's International Standards – Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations* on 23 July 2015 for public comment by 21 October 2015. The amendments are in response to the International Ethics Standards Board for Accountants' (IESBA) May 2015 Re-Exposure Draft, *Responding to Non-Compliance with Laws and Regulations* (NOCLAR).

A CFAS task group submitted a comment letter to the IAASB, and the exposure draft as well as the comment letters submitted are available on the IAASB website (<https://www.ifac.org/publications-resources/responding-non-compliance-or-suspected-non-compliance-laws-and-regulations>).

Withdrawal of reports

The following reports have been withdrawn from use with immediate effect:

- Pro-forma Independent Report to the Executive Committee of the Financial Sector Charter Council in respect of "Part 2 Verification of Access Supporting Documentation".

- Pro-forma Independent Assurance Provider's Report to the Executive Committee of the Financial Sector Charter Council in respect of Black Economic Empowerment (BEE) Performance.
- ITAC Motor Industry Development Programme (MIDP) reports:
 - o Report of the Independent Registered Auditor to the International Trade Administration Commission of South Africa (ITAC) in connection with an Application for Company Specific Percentage(s) in terms of the Motor Industry Development Programme.
 - o Assurance Report of the Independent <Auditor OR Assurance Provider> to the Directors/Members/Owners and the International Trade Administration Commission of South Africa (ITAC) in connection with Foreign Currency Usage (DA190) in terms of the Motor Industry Development Programme.
 - o Report of the Independent Auditor to the International Trade Administration Commission of South Africa (ITAC) in connection with an Application for Productive Asset Allowance (PAA) of the Motor Industry Development Programme.
 - o Assurance Report of the Independent <Auditor OR Assurance Provider> to the International Trade Administration Commission of South Africa (ITAC) in connection with an Application for Import Rebate Credit Certificates (IRCCs) in terms of the Motor Industry Development Programme.

Warnings on Pronouncements Issued

This is an alert to registered auditors that warnings have been inserted in the following pronouncements, illustrative auditor reports and circulars issued by the IRBA and available on its website (<http://www.irba.co.za/index.php/auditing-standards-functions-55/252-international-clarity-pronouncements-adopted-and-i/831-2014-auditing-standards>).

These warnings note that the pronouncements, illustrative auditor reports and circulars have not been revised or updated for changes emanating from the underlying legislation and/or applicable auditing pronouncement/s.

Pronouncement

SASAE 3502 – B-BBEE Verification Assurance

SAAPS 4 – Enquiries Regarding Litigation and Claims

SAAPS 5 – Reporting on Donor Funding Engagements

Guide for Registered Auditors: Access to Audit Working Papers Guide

Guide for Registered Auditors: The Financial Advisory and Intermediary Services (FAIS) Audit Guide

STANDARDS cont.

Illustrative Auditor Reports

Section 19(3) FAIS report

International Trade Administration Commission of South Africa (ITAC) – Automotive Production and Development Programme (APDP) reports:

- Company Specific Percentage/s Application for Vehicle Assembly Allowance (VAA)
- Declaration of Imported Component Values (Form C1)
- Production Rebate Credit Certificates (PRCCs)
- Standard Materials and Component Declaration (SMD)

Assurance report prepared to meet the Johannesburg Stock Exchange (JSE) Listing Requirements: Independent reporting accountant's assurance report on the compilation of pro forma financial information included in a prospectus/pre-listing statement/circular

Annual Stockbroker's audit reports submitted to the JSE Limited in terms of the Securities Services Act and JSE Directive DG 1.7

Auditor's report on the audit of Estate Agent's Trust Account

South African Reserve Bank (SARB) Exchange Control Department (Excon) – Circular 13/2006 Import & Export Undertakings: Auditors' limited assurance report on import and/or export transactions of companies granted exchange control dispensation

The report of the independent auditor of Credit Providers to the Board of Directors and the National Credit Regulator in compliance with Regulation 68 of the Regulations to the National Credit Act, 2006

Circulars

Omsendbrief 01/2009 – Vertaling van IAASB Glossary of Terms (December 2006)

Circular 1/2006 – Giving Second Opinions

Estate Agency Affairs Board Alert

Auditors of estate agents' trust accounts are alerted to a notification on audit compliance issued by the Estate Agency Affairs Board (EAAB) on 23 November 2015. The notification highlights:

- **Enhancements to the MyEAAB Auditors Portal**
The EAAB has enhanced the effectiveness and efficiency of the MyEAAB Auditors Portal.
- **Verification of submitted audit reports**
One of the enhancements to the auditors' portal is the automated generation of the Preliminary Verification of Audit Report Letter. Various noncompliance issues raised by the auditor will now automatically result in the letter

requesting additional information from the principal(s) of the estate agency firms.

The notification may be accessed on the EAAB website. If there are any questions about the notification, auditors may contact the EAAB Audit Compliance Department at audit@eaab.org.za. The EAAB has also asked the IRBA to alert RAs to the requirements of The Management Rules issued in terms of the Sectional Titles Act, 1986 – particularly Management Rule 29(2)(b), which addresses the need for fidelity guarantees.

REPORTABLE IRREGULARITIES

Reportable irregularities (RIs) received				
	Year to date 30 September 2015		Year ended 31 March 2015	
Number of reports received and files closed within 40 days	379	99%	946	98%
Number of 2nd reports received late (after due date)	3	1%	15	2%
Total number of RIs received	382	100%	961	100%

Continuing/not continuing RIs: Of the total number of RIs received				
	Year to date 30 September 2015		Year ended 31 March 2015	
Continuing	193	50%	487	50%
Not continuing	186	49%	468	49%
Did not exist	3	1%	6	1%
Total number of RIs received	382	100%	961	100%

Type of entity: Of the total number of RIs received			
	Year to date 30 September 2015		
(Proprietary) Limited	239	63%	
Retirement fund	24	6%	
Close corporation	23	6%	
Limited	19	5%	
Attorneys trust account	17	4%	
School	12	3%	
NPO/Section 21 company	12	3%	
Estate agent	11	3%	
Body corporate	10	3%	
Political party	3	1%	
Other entities	12	3%	
Total number of RIs received	382	100%	

Number of RIs reported to the top five regulators*	
	Number of RIs reported Year to date 30 September 2015
Companies and Intellectual Property Commission (CIPC)	116
South African Revenue Service (SARS)	98
Department of Labour	44
Financial Services Board (FSB)	16
South African Reserve Bank (SARB)	7

REPORTABLE IRREGULARITIES cont.

* Top five regulators to which RIs were reported, of all regulators, for the six months ended 30 September 2015. Each continuing RI report received may be sent to more than one regulator.

Committees and task groups

Registered auditors with an interest in participating in IRBA structures on technical aspects are welcome to contact us. We have a range of task groups and projects, and we would value the opportunity to welcome new participants. In particular, we are keen for the perspectives of practitioners from small and medium practices (SMPs), and other specialists.



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LEGAL

A CALL FOR NOMINATIONS

In keeping with regulatory requirements, the IRBA has various statutory committees to assist it with carrying out its mandate, which is mainly focused on protecting the public interest and promoting the integrity of the auditing profession. The core values that guide this mandate are independence, objectivity, commitment, transparency and accountability.

In addition, the IRBA is required to “actively review and engage with auditors and audit firms to ensure that professional standards are of the highest quality”. When there are reported transgressions, the IRBA is required to investigate alleged improper conduct, conduct disciplinary hearings and impose sanctions for improper conduct.

The two committees that are mandated with supporting the IRBA carry out its investigating and disciplinary functions are the Investigating Committee and the Disciplinary Committee. To perform their statutory duties well, these committees need to have members with appropriate skills, competencies and experience. However, for proper governance and transparency, committee members serve only limited terms before new members have to be recruited.

Presently, both committees have vacancies that have resulted from terms of office that have ended as well as resignations, in some cases. The Investigating Committee has four vacancies that will need to be filled by three registered auditors and a senior lawyer. The regulatory requirement for this committee is that it “must include individuals with significant legal experience”.

The three existing vacancies in the Disciplinary Committee will require a senior counsel or a retired judge for the position of deputy chairman; someone who is or was a registered auditor in public practice; and an individual who is or was a practising attorney or advocate.

Once appointed, members will be eligible to serve on the committees for three years, with the option to renew their terms of office only once. However, in the case of the Disciplinary Committee terms of office are renewable twice. Interested individuals should please send their applications and CVs to Jill Levendal at jlevendal@irba.co.za by 15 January 2015.

NOTE TO READERS

Due to the early publication of this issue of *IRBA News*, the Legal section's list of matters that were considered between October and December will appear in the January-March issue alongside the 2016 first quarter listings.



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INSPECTIONS

The IRBA issues its Public Inspections Report for 2015

The IRBA's latest *Public Inspections Report 2014/2015: Striving for Consistent, Sustainable High Audit Quality* acknowledges that audit quality requires improvement, as inspections performed over the past financial year show. The IRBA Inspection Committee reported on 37 audit firm and 375 audit engagement inspections for the year. Most firms showed one or more deficiencies, including ethics (independence), engagement performance and monitoring, which require urgent improvement.

A significant number of individual audit engagement files also showed deficiencies that need urgent attention. A total of 16% of firms and 6% of engagement partners were referred to the Investigating Committee of the IRBA due to fundamental or continued noncompliance with international auditing and financial reporting standards, professional codes and legislative requirements. The report also emphasises the need for audit firms to urgently address ethics and independence matters, as well as engagement quality.

However, caution should be applied in extrapolating the inspection results across the entire audit population. The IRBA adopted a risk-based inspection methodology that is biased towards higher-risk audit areas and specific risk indicators. This means any deficiency in these areas could potentially create risks to the public, if not appropriately responded to by the auditor. The risk-based approach also assists the IRBA to focus on those identified areas where deficiencies are likely. An assessment that an audit is unsatisfactory does not necessarily mean that an inappropriate audit opinion was expressed, the financial statements were misstated, or there has been misconduct on the part of the firm or registered auditor.

As part of its commitment to promote auditors to achieve and maintain consistent sustainable high levels of audit quality and produce reliable audit reports on financial information, the IRBA implemented the recommendations from the *2013 World Bank Report on the Observance of Standards and Codes: Auditing and Accounting* (ROSC) that were adopted by the Minister of Finance. These recommendations are aimed at

improving the inspection processes and making them more robust, and they include implementing a risk-based approach and strengthening financial statement reviews.

The IRBA has now gone a step further in its inspection procedures and implemented a Remedial Action Process that is aimed at assisting those firms and practitioners who have shown deficiencies in their firm's quality control policies and procedures or audit files. During this process, the IRBA remains aware of its independence. The Remedial Action Process is part of the IRBA's commitment to promote consistent sustainable high audit quality by ensuring that audit firms and practitioners promptly address the root causes of significant inspection deficiencies that have been raised during an inspection. Through this more formal process, practitioners and firms are required to submit a root cause analysis and an action plan on how they will address reported deficiencies and improve their audit quality. In addition, they have to submit a written undertaking that acknowledges that they will address all significant audit quality deficiencies that were reported to them.

This process can be highly effective and yield the necessary improvements needed, but only if leadership at the firms buys into the remediation process in a constructive manner and then develops and implements appropriate remedial plans and strategies.

The IRBA's aim is to encourage appropriate corrective action by communicating and engaging more with affected firms and practitioners, providing them with an opportunity for the best possible outcome during their re-inspection. Those firms that identified the root causes and implemented appropriate remedial action plans were found more likely to be satisfactory upon re-inspection.

High-quality auditing and accounting are not only essential for reliable financial reporting, but are also critical in protecting the public interest and boosting investor confidence. In fact, compliance with auditing standards, ethics, financial reporting standards and legislative requirements is fundamental in

INSPECTIONS cont.

ensuring a reliable profession that can effectively compete internationally.

To some extent, the role that the IRBA plays in not only regulating the industry, but also constantly improving the standards, is the reason South Africa was ranked first in the world out of 140 countries for the strength of its auditing and reporting standards, for six consecutive years, in the World Economic Forum's *Global Competitiveness Report 2014-2015* rankings.

However, complacency could easily erode all the gains that have been attained. As such, the IRBA is committed to engaging other role players in the financial auditing sector – including other regulators, audit firms, audit committees, internal auditors, specialists, consultants and management –

and appreciating the importance of their respective roles in achieving and maintaining consistent sustainable high levels of audit quality, although the primary responsibility remains with the auditor. The IRBA has also agreed to strengthen collaboration with SAICA to engage more with auditors through available SAICA structures and forums.

The auditing profession is one of the few professions that are inspected on a regular basis. Inspections and regulation are not only critical to ensure that the highest standards are maintained in a profession, but also to provide the public and investors with the confidence that they can rely on the work of auditors. Confidence stimulates investment, and investment creates employment and growth.

The report can be downloaded from the IRBA website.



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REGISTRY

Individuals admitted to the register of the Board from 1 Oct 2015 - 27 Nov 2015

Aarons Tilena	Jemane Heinrich Morne	Muradmia Mahomed Riaz
Arnott Gary William	Karolia Muhammad Husain	Neethling Jeanetta Petronella
Barker Chad	Kiluba Timothy	Norkie Fatima
Chawaremera Edson Simbarashe	Mabalati Felemuni	Omar Abdul-Aziz
Deetlefs Renska Connie	Makobe Palesa Beatrice	Ramdhani Dikash
Feingold Lindy	Mantshiu Sibongile Lesetja	Struwig Lodewyk Johannes
Gorman Jason Andrew	Moolla Muhammad	Taylor Aletta Annelize
Hoff Kevin Shawn	Moraka Tebogo Ronald	Tlhapane Itumeleng
Hurwitz Nadine Simone	Moyo Kudakwashe Gladys	

Individuals re- admitted to the register of the Board from 1 Oct 2015 - 27 Nov 2015

Lambrechts Johannes Sauer	Manie Fardiel	Mothuloe Branican Jeffrey
Makhetha Olivia Maria	Mhlari Tinyiko	

Individuals removed from the register of the Board from 1 Oct 2015 - 27 Nov 2015

Amiradakis Annalisa	Emigrated	Keel Lynton Colin	Emigrated
Barnett Graham Gordon	Deceased	Nhleko Ntombenhle	Resigned
Botha Deon	Emigrated	Oberholzer Machiel Adriaan	Resigned
Burgess Lynette Marleen	Resigned	Roden Gregory Paul	Resigned
De Bruin Marlene	Resigned	Rubin Larry Morris	Resigned
Hodgskiss David Allan	Resigned		

COMMUNICATIONS

In the interest of improved communication with registered auditors and other stakeholders, a list of communiqués sent by bulk e-mail up to 18 November 2015 is set out below.

These communiqués may be downloaded from the IRBA website at www.irba.co.za under the News section.

18 November 2015	The International Auditing and Assurance Standards Board's (IAASB) Revised International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements and Related Conforming Amendments
12 November 2015	Inspections Findings Newsflash
8 October 2015	IRBA News issue #31
5 October 2015	IAASB's Proposed Revised International Standard on Auditing 810, Engagements to Report on Summary Financial Statements
1 October 2015	Proposed Guide for Registered Auditors: Reporting Responsibilities of the Reporting Accountant Related to Property Entities in Terms of the JSE Listings Requirements
1 October 2015	South Africa maintains first position for the strength of auditing and reporting standards for six years in a row

GENERAL NEWS

LESSONS FROM THE ROADSHOWS

The perception of auditors from small firms is that they do not get enough support from the IRBA and SAICA. This is the view that was expressed by small and medium practitioners (SMPs) in their evaluation of this year's roadshows, which they assessed as being geared more towards big firms.

Of the almost 900 practitioners who attended the 16 roadshows held around the country, 90% were from small and medium-sized practices. A concerning fact, though, was the lack of representation of black RAs at the information sessions.

The IRBA has committed to looking at those concerns that are within its jurisdiction. For example, the regulator has plans to have more interventions and contact sessions for SMPs through regional councils and SAICA structures. Below is a table that shows some of the main concerns that were highlighted during the roadshows and the IRBA's commitment, where this applies, to what it will do to address these.

Comments from auditors	Can the IRBA respond to comment?	Comments
The presentations placed more focus on big or large firms and less focus on SMPs.	Yes	More contact sessions with SMPs will be arranged through regional councils and SAICA structures.
Could the root cause in inspection findings be a need to further educate auditors? If so, how will the IRBA address this?	Yes	Consideration to be given to current CPD requirements and SAICA accreditation requirements.
Can the IRBA influence the DTI to increase the public interest score?	Yes	SAICA is in the process of addressing this, in collaboration with the IRBA.
There is a need for more sessions/workshops throughout the year to support auditors.	Yes	The IRBA to increase its collaboration with SAICA so as to leverage off the institute's regional structures.
The IRBA and SAICA should prepare a communication that explains the value of an audit and this can be provided to clients.	Yes	The IRBA has made a commitment to assist RAs in this regard.
Will it be possible to conduct roadshows through webinars?	Yes	Discussions with various training organisations to look at utilising their technological expertise and resources are under way.
The RA brand is not properly promoted and the IRBA should revisit its strategy regarding marketing the RA qualification.	Yes	The IRBA to revisit its strategy on raising awareness about the RA brand and profession.
The IRBA should strive to publicise auditing success stories.	Yes	The issue is being addressed through the IRBA's media strategy.
Auditors in small practices do not obtain sufficient support from the IRBA and SAICA.	Yes	The IRBA and SAICA are collaborating for increased support to SMPs.