



INDEPENDENT REGULATORY BOARD FOR AUDITORS

NEWS

ISSUE 35 | JULY-SEPTEMBER 2016

Still Ahead of the Pack

South Africa stays at the top for its auditing and reporting standards

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FROM THE CEO'S DESK

I wish to welcome Robert Zwane to the management team of the IRBA, in his new role of Director Education and Transformation. Robert has been with the IRBA for the past few years and has been instrumental in driving the Audit Development Programme, which is the IRBA's response to the dynamic environment in which auditors operate. He is also a key role player in driving the IRBA's transformation in the profession through his engagement with students, who represent our pipeline and the future of the profession. He is already a known figure in the International Federation of Accountants (IFAC) community in his position as technical advisor to the South African member on the International Accounting Education Standards Board (IAESB) of IFAC, and we look forward to his further contribution to maintain auditor competencies in support of high audit quality.

The key strategic activity from our Four Pillar Strategy that the IRBA has been working on this year has been the project to strengthen auditor independence.

The independence of auditors from their clients and the independence of the regulator are strategic priorities. With so many state entities and regulators under potential threat of state or regulatory capture, we have been alert to such threats and diligently continue to maintain our own independence, while considering measures to strengthen auditor independence which, in turn, must ensure reliable reporting.

You would be aware that the Board took a decision to implement Mandatory Audit Firm Rotation at its July 2016 meeting, and this was communicated to the Minister of Finance.

Commenting on the implementation, IRBA Chairman Rene Kenosi says: "Investors and the public are demanding more information and transparency and have become more aware of their rights, which need to be protected. The work of the International Integrated Reporting Council (IIRC) and others is advancing a 'new normal' among investors and the public that requires of companies and auditors increased transparency, honesty and reporting that is more accessible than ever before.

"Furthermore, the tolerance for corruption is decreasing, while the demands for accountability and responsibility are on the rise.

"These developments, *inter alia*, have increased demands on auditors to be more independent and have led to increasing sanctions worldwide against those who do not report irregular activities. They have also led international role players, including the European Union, to implement more robust measures with the aim of enhancing the independence of auditors; and for respective audit regulators to increase efforts to avoid regulatory capture."

It therefore became crucial for the IRBA to implement measures that would ensure the independence of auditors and it is in the context of ensuring that the IRBA addresses the impact of

global developments, and contributes meaningfully to these conversations, that this initiative commenced.

Without the required independence, investors cannot have the assurance that the opinion expressed by the auditor is appropriate in order for them to take economic decisions; and while the IRBA must respond to stakeholder inputs, it ultimately has a statutory obligation to protect the investing public.

On the international front, in a positive development for audit firms and their global clients with shares listed on the Johannesburg Stock Exchange, the IRBA has received confirmation that its application for recognition as an equivalent competent authority (ECA) under the European Union (EU) legislation – which came into effect on 17 June 2016 – has been approved.

This recognition of adequacy means that the IRBA meets the EU Commission's standards for public oversight of statutory auditors and audit firms and that its quality assurance reviews and investigations are sufficiently comprehensive to meet the standards of the Commission when it comes to the exchange of information.

Importantly, this means that during a process of review and inspection, where portions of the audit were conducted in this country, firms would not be subject to additional inspections of their working papers by member state statutory oversight bodies, where the IRBA has successfully concluded an agreement with that oversight authority. By reaching a reliance on each other's oversight systems, the transfers of audit working papers or other documents held by statutory auditors of audit firms and of inspection or investigation reports would not be necessary, but become the exception rather than the rule.

The adequacy assessment deals with matters such as cooperation in practice, obstacles to cooperation and exchange of information, which now also includes inspections findings, where applicable.

The other regulatory bodies recognised in the decision include those of Brazil, Dubai, Guernsey, Indonesia, Isle of Man, Jersey, Malaysia, South Korea, Taiwan and Thailand.

We also welcome the news that South Africa has been ranked yet again as the world's number one for auditing and reporting standards, making it the seventh consecutive year that the country holds this position. On this achievement, Ms Kenosi says: "South Africa relies very much on external capital and one of the important components of creating an environment where foreign direct investment (FDI) can occur is a well-regulated and reliable capital market. This results in a reputable audit profession, which provides potential investors and capital providers with reliable and credible financial information on which investment decisions can be made." Equally, public confidence in any profession depends on the quality and robustness of the oversight.

FROM THE CEO'S DESK c o n t .

This repeat recognition comes despite other challenges currently faced by the country and provides investors and the public with the assurance that if the financial pillars of a country remain solid, trust in financial markets remains possible.

Oversight and regulation can sometimes be met with resistance, which occasionally really only reflects resistance to change. Sometimes change is necessary if we are to remain relevant and wish to continue to be recognised in a global arena; and such recognition is essential to instil confidence in our profession and financial markets. In that way, we will be in a position to combat any challenges that the country might face.



Bernard Peter Agulhas
Chief Executive Officer

STANDARDS

COUNTDOWN TO THE NEW AND REVISED AUDITOR REPORTING STANDARDS – THREE MONTHS TO GO

Auditors are reminded that the new and revised Auditor Reporting Standards are effective for audits of financial statements for periods ending on or after 15 December 2016. A comprehensive list of resources to assist auditors with the implementation is available on the [IRBA website](#).

ISAE 3000 (REVISED), ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

Auditors are also reminded that ISAE 3000 (Revised) is effective for assurance reports dated on or after 15 December 2015. ISAE 3000 (Revised) is available on the [IRBA website](#).

THE FOLLOWING TOPICS ARE DISCUSSED IN THIS ISSUE :

- IAASB's discussion paper on assurance engagements on emerging forms of external reporting (EER).
- Key Audit Matters: Feedback and information.
- IRBA Staff Audit Practice Alert: The Audit Implications of the Expected Credit Loss Model for the Auditors of Banks (IFRS 9).
- Reminder regarding the proposed Solvency Guide.
- Prescribed auditor reports for medical schemes.
- Illustrative report as required by the SARB Exchange Control Circular 6/2010 relating to the Macro-Prudential Foreign Exposure Limit Return.
- Revised illustrative reports used by registered auditors when required to report in terms of the Financial Markets Act, No. 19 of 2012 and JSE Directive DG 1.7 (reports on stockbrokers).
- Illustrative SARB Banks Act regulatory auditor's reports.
- Sustainability Standing Committee project on the assurance concepts of subject matter and criteria.
- IAASB's work plan survey and projects update.
- Tools and resources for small and medium-sized practices.
- B-BBEE verification assurance communiques.
- Proposed amendments to the IRBA Code – Responding to Non-Compliance with Laws and Regulations (NOCLAR)
- IFAC publication on fee pressure.

IAASB Releases Working Group Paper on Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

The International Auditing and Assurance Standards Board's (IAASB) Integrated Reporting Working Group (IRWG) has released a Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements. The IRWG, which released the Discussion Paper on 18 August 2016, is dedicated to exploring emerging forms of external reporting (referred to as EER).

The Discussion Paper is of particular relevance in the South African environment due to the integrated reporting requirements for listed companies, as per the JSE Listings Requirements and the King Code of Governance Principles (King III).

The Discussion Paper explores the following:

- Factors that can enhance credibility and trust, internally and externally, in relation to emerging forms of external reports;
- Types of professional services covered by the IAASB's international standards most relevant to these reports, in particular assurance engagements;
- Key challenges in relation to assurance engagements;
- The type of guidance that might be helpful to support the quality of these assurance engagements; and
- Identifies 10 Key Challenges in relation to assurance engagements that the IRWG would like to explore further.

The IRWG is seeking input from investors, preparers, those in governance roles, standard setters, practitioners, internal auditors, regulators, academics and other stakeholders in the external reporting supply chain. The input will assist the IAASB in responding effectively to these developments in the public interest, including whether new or revised international standards or guidance may be necessary.

The IRWG has developed material to supplement the Discussion Paper, including an At-A-Glance document and FAQs. This material, more information and updates on the project are available on the [IAASB's project page](#).

The IAASB has requested that comments to the Discussion Paper be submitted by **15 December 2016** online.

Consultation Forums on Assurance on Integrated Reporting

The IRBA, in collaboration with the South African Institute of Chartered Accountants (SAICA), held an outreach forum to obtain feedback on the Discussion Paper from stakeholders.

The Discussion Paper asked nine questions and identified 10 key challenges in relation to assurance engagements that the IAASB would like to explore further. The IRBA and SAICA obtained the views of a broad group of stakeholders, including auditors, accountants, directors, preparers, academics and investors.

Key Audit Matters

Feedback on the IRBA Pro Forma Inspections of the New Auditor's Reports

The IRBA had the opportunity to collaborate with firms to conduct pro forma inspections of the new auditor's report. The pro forma inspections focused on the form and content of the new auditor's report prepared in terms of the new and revised Auditor Reporting Standards. These changes are significant. They will affect all audit clients and will involve firm-wide preparations.

The new and revised Auditor Reporting Standards are effective for audits of financial statements for periods ending on or after 15 December 2016, which is just more than a month away.

Summary of Changes

Which are the new and revised Auditor Reporting Standards?

- ISA 700 (Revised), [Forming an Opinion and Reporting on Financial Statements](#);
- ISA 701, [Communicating Key Audit Matters in the Independent Auditor's Report](#);
- ISA 705 (Revised), [Modifications to the Opinion in the Independent Auditor's Report](#);
- ISA 706 (Revised), [Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report](#);
- ISA 570 (Revised), [Going Concern](#);
- ISA 260 (Revised), [Communication with Those Charged with Governance](#); and
- [Related Conforming Amendments to other ISAs](#).

In addition, the following related standards have also been revised:

- ISA 720 (Revised), [The Auditor's Responsibilities Relating to Other Information](#);
- ISA 800 (Revised), [Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks](#);
- ISA 805 (Revised), [Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement](#); and
- ISA 810 (Revised), [Engagements to Report on Summary Financial Statements](#).

What are Key Audit Matters (KAM)?

- From all the changes to the auditor's report, KAM are expected to have the most significant impact, not only on the auditor's report but also on the users of audited financial statements.
- KAM are defined as those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated to those charged with governance.
- ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, deals with the auditor's responsibility to communicate KAM in the auditor's report. It addresses both the auditor's judgement as to what to communicate in the auditor's report and the form and content of such communication.
- The auditor is required to communicate KAM in the auditor's report for all audits of complete sets of general purpose financial statements of listed entities.
- KAM may also be applicable to entities other than listed entities when the auditor is required by law or regulation to communicate KAM in the auditor's report or when the auditor decides, for a particular audit, to voluntarily communicate KAM.

Summary of Findings from Pro Forma Inspections

- The descriptions of KAM communicated in the auditor's report were:
 - Misaligned to the disclosure in the financial statements.
 - Not comprehensive and clear enough for users with limited financial background to easily understand the KAM and make informed decisions.
 - Found to omit reference to the relevant disclosure in the financial statements.
 - Contained "boilerplate" language.
 - Misaligned to the information disclosed in the Audit Committee Report.
- There was insufficient evidence or there were poor linkages in working papers of the process followed in determining KAM.
- Working papers did not yet fully reflect all the changes arising from the full suite of new and revised Auditor Reporting Standards.
- Several elements of the format of the illustrative reports contained in the [South African Auditing Practice Statement \(SAAPS\) 3, Illustrative Reports](#), were found not to be followed, or were completely omitted.

As firms and engagement teams finalise their preparations to implement the new and revised standards, below we highlight the resources developed to support implementation.

Click [here](#) for the webpage dedicated to the new and revised Auditor Reporting Standards on the **IRBA** website.

Click [here](#) for the webpage dedicated to the new and revised Auditor Reporting Standards on the **IAASB** website.

Early Adopters

Several companies and audit firms have decided on an early adoption of the requirement of reporting on KAM. A list of these companies is available on the [SAICA website](#).

KAM-on-a-Page

The IAASB has prepared a non-authoritative one-page diagram, Determining and Communicating Key Audit Matters. It is intended to provide an overview of how to determine which matters are KAM as set out in ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, and what is communicated in respect of KAM. The "KAM-on-a-page" diagram is available on the [IAASB website](#).

Committee for Auditing Standards (CFAS)

IRBA Staff Audit Practice Alert: *The Audit Implications of the Expected Credit Loss Model for the Auditors of Banks*

The IRBA's Chief Executive Officer has approved for issue the IRBA Staff Audit Practice Alert: The Audit Implications of the Expected Credit Loss (ECL) Model for the Auditors of Banks (IRBA Staff Audit Practice Alert) for use by registered auditors of banks. This IRBA

Staff Audit Practice Alert has been prepared by the IFRS 9 ECL Task Group of the IRBA's CFAS.

By developing this Staff Audit Practice Alert, the IRBA has responded to the interest and concerns raised about the audit implications of the ECL model incorporated into the International Financial Reporting Standard (IFRS) 9, Financial Instruments, which becomes effective for annual periods beginning on or after 1 January 2018.

In brief, under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred (incurred credit losses) before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses (lifetime expected credit losses/12-month expected credit losses). This change in the impairment methodology has a fundamental impact on the accounting for such losses and also affects how an auditor audits such impairment losses.

This IRBA Staff Audit Practice Alert serves to provide registered auditors with:

- The background to the risks and audit implications of IFRS 9 and the ECL model in the banking environment;
- A checklist that can be used by the engagement team when considering certain audit implications of the ECL model; and
- Related notes.

The [IRBA website](#) contains a list of links to relevant guidance on IFRS 9 and the ECL model, and these have been developed internationally and locally. The list references information that was known to the IFRS 9 ECL Task Group at the time of issuing this IRBA Staff Audit Practice Alert and it is not meant to be exhaustive.

This IRBA Staff Audit Practice Alert **does not constitute an authoritative pronouncement** from the IRBA, nor does it amend or override the International Standards on Auditing, South African Standards on Auditing, South African Auditing Practice Statements or South African Guides (collectively called pronouncements). **Also, this IRBA Staff Audit Practice Alert is not meant to be exhaustive.** Reading this IRBA Staff Audit Practice Alert is not a substitute for reading the abovementioned pronouncements, as they are the authoritative texts.

Although this IRBA Staff Audit Practice Alert addresses the audit implications of IFRS 9 and the ECL model on the audit of banks, an auditor may find this publication, if adapted as necessary, useful when auditing other entities that have adopted IFRS 9 and the use of the ECL model.

The IRBA Staff Audit Practice Alert is available in PDF format and may be downloaded from the [IRBA website](#).

In addition, the IAASB is in the process of a holistic revision of ISA 540, *Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures* (project proposal approved by the IAASB in December 2015) and it issued a [project update](#) in March 2016, providing an overview of the ISA 540 task force's initial thinking on the special audit considerations relating to ECL provisions, including related estimation uncertainty.

Audit firms and auditors are encouraged to prepare for the implementation and to also assess the impact of IFRS 9 on their audit strategy.

The Proposed Guide for Registered Auditors: Considerations for an Auditor or a Reviewer of a Company which is Factually Insolvent

Comments on the Proposed Guide for Registered Auditors: Considerations for an Auditor or a Reviewer of a Company which is Factually Insolvent (this proposed Guide), which was issued in June 2016 for exposure for public comment, were due to the IRBA by 5 October 2016.

This proposed Guide may be downloaded from the [IRBA website](#).

The CFAS sought comments from registered auditors and other interested parties on all matters addressed in this proposed Guide and responses to five specific questions set out in the Explanatory Memorandum section.

Prescribed Auditor Reports for Medical Schemes

Registered auditors of medical schemes are advised that on 20 July 2016 the Council for Medical Schemes (the CMS) published the prescribed auditor report templates effective for the 2016 financial year in Circular 49 of 2016.

These statutory auditor reports were developed by the CMS in consultation with the CFAS and its Medical Schemes Task Group, which includes auditors of medical schemes. The report templates are:

- ISA 700 (Revised) auditor report template: Report on the Financial Statements.
- ISA 800 (Revised) and ISRE 2410 auditor report template: Report on Parts 4 to 10 of the Annual Statutory Return.
- ISAE 3000 (Revised) auditor report template: Assurance Report on Compliance with Sections 36(5) and 36(8) of the Act.
- ISA 810 (Revised) auditor report template: Report on the Summary Financial Statements.

These auditor report templates are effective for medical schemes with year-ends on and after 31 December 2016.

The individual auditor reports as well as the Guide for Registered Auditors: Assurance Engagements on the Annual Financial Statements and Annual Statutory Returns of a Medical Scheme may be downloaded from the [IRBA website](#).

Registered auditors are alerted to the fact that the Guide has not been updated for ISAE 3000 (Revised), the new Auditor Reporting Standards and ISA 720 (Revised), except for Appendix 5 – Report on the Financial Statements (ISA 700 (Revised) Report); Appendix 6 – Report on Parts 4 to 10 of the Annual Statutory Return (combined ISA 800 (Revised) and ISRE 2410 Reports); Appendix 7 – Assurance Report on Compliance with Sections 36(5) and 36(8) of the Act (ISAE 3000 (Revised) Report); and Appendix 8 – Report on the Summary Financial Statements (ISA 810 (Revised) Report); which have been updated.

Circular 49 of 2016 is available on the [CMS website](#).

Illustrative Report for External Auditors as Required by the South African Reserve Bank Exchange Control Circular 6/2010 Relating to the Macro-Prudential Foreign Exposure Limit Return

The CFAS has approved the issue of the Illustrative South African Reserve Bank (SARB) Assurance Reports on the Macro-Prudential Foreign Exposure Limit Return (illustrative reports) for use by registered auditors of authorised dealers with year-ends on or after 31 December 2016.

In terms of Section B.2(l)(xiii) of the Currency and Exchanges Manual for Authorised Dealers, the external auditor of an authorised dealer is required to report to the SARB on the last submitted Macro-Prudential Foreign Exposure Limit Return at year-end. The assurance reports must be submitted to the SARB Financial Surveillance Department within a maximum period of six months after the financial year-end.

Illustrative Assurance Reports A and B

Using the IAASB standards for the engagement, Illustrative Reports A and B have been developed to report on the Currency and Exchanges Manual for Authorised Dealers as follows:

- Part A: ISRE 2410; and
- Part B: ISAE 3000 (Revised).

The illustrative reports are available in both PDF and Word formats and may be downloaded from the [IRBA website](#).

Revised Illustrative Reports Used by Registered Auditors When Required to Report in Terms of the Financial Markets Act, No. 19 of 2012, and JSE Directive DG 1.7

Regarding Johannesburg Stock Exchange (JSE) stockbrokers, the CFAS approved the issue of the Revised Illustrative JSE Stockbrokers' Auditor Reports for use by registered auditors when reporting in terms of the Financial Markets Act, No. 19 of 2012, and the JSE Directive DG 1.7 for stockbrokers with year-ends on or after 31 December 2016 as follows:

- Illustrative regulatory reports 2A, 2B, 3; and
- Illustrative regulatory reports 4-5.

In terms of the Financial Markets Act, the JSE Rules and the JSE Directives, the external auditor of a stockbroker is required to report to the JSE on various regulatory matters.

In terms of JSE Directive 1.7.1 of the Financial Markets Act, the revised illustrative reports have been rendered in accordance with the wording and practices agreed from time to time between the JSE Market Regulation Department and the IRBA.

Illustrative Regulatory Reports 2A, 2B and 3

Using the IAASB standards for the engagements, illustrative reports 2A, 2B and 3 have been developed to report on the stockbrokers as follows:

- Part 2A: ISRE 2410;

- Part 2B: ISRS 4400; and
- Part 3: ISRS 4400.

Illustrative Regulatory Reports 4-5

Illustrative reports 4-5, which represent a non-assurance engagement, fall outside the IAASB standards. The CFAS has concluded that the provisions of paragraph 20 of the International Framework for Assurance Engagements (Framework) have been adhered to when developing illustrative reports 4-5 in that these reports do not imply compliance with the Framework or with assurance standards. They also do not inappropriately use the words "assurance", "audit" or "review".

The illustrative reports are available in both PDF and Word formats and may be downloaded from the [IRBA website](#).

Illustrative South African Reserve Bank (SARB) Banks Act Regulatory Auditor's Reports

The CFAS approved the issue of the illustrative SARB Banks Act regulatory auditor's reports on the Banks Act Returns (illustrative reports) for use by registered auditors for banks with year-ends on or after 31 December 2015 as follows:

- Illustrative regulatory reports A-H; and
- Illustrative regulatory reports I-J.

In terms of Regulations 39, 40 and 46 of the Banks Act (No. 94 of 1990), the external auditor of a bank is required to report to the SARB on various regulatory matters.

In terms of Regulation 46(6) of the Banks Act, the illustrative reports have been rendered in accordance with the wording and practices agreed from time to time between the Registrar of Banks, SAICA and the IRBA.

Illustrative Regulatory Reports A-H

Using the IAASB standards for the engagement, illustrative reports A-H have been developed to report on the Banks Act Returns as follows:

- Part A: ISA 800;
- Part B: ISRE 2410;
- Part C: ISAE 3000 (Revised);
- Part D: ISAE 3000 (Revised);
- Part E: ISAE 3000 (Revised);
- Part F: ISA 800; ISRE 2410 and ISAE 3000 (Revised);
- Part G: ISRS 4400; and
- Part H: ISRS 4400.

Illustrative Regulatory Reports I-J

Illustrative reports I-J, which represent a non-assurance engagement, fall outside the IAASB standards. The CFAS has concluded that the provisions of paragraph 20 of the International Framework for Assurance Engagements (Framework) have been adhered to when developing illustrative reports I-J in that these reports do not imply compliance with the Framework or with assurance standards.

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They also do not inappropriately use the words “assurance”, “audit” or “review”.

The illustrative reports are available in both PDF and Word formats and may be downloaded from the [IRBA website](#).

In addition, SAICA has set up a task group to update these reports for recent changes to the Regulations relating to banks as well as to update the ISA 800 reports as a result of the issue of ISA 800 (Revised) that is effective for audits of financial statements for periods ending on or after 15 December 2016.

Sustainability Standing Committee Project – Assurance Concepts: Evaluating the Suitability of Criteria and the Acceptability of Subject Matter in an Assurance Engagement Other Than Audits or Reviews of Historical Financial Information

The Sustainability Standing Committee has established a task group to develop guidance for registered auditors in evaluating the suitability of criteria and the acceptability of subject matter in an assurance engagement other than audits or reviews of historical financial information.

IAASB Projects

IAASB's Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

The IAASB recently released a survey consultation, The IAASB's Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives. Feedback to this consultation will assist the IAASB in evaluating its priorities for 2017-2018 and allocating its resources. The survey was open for responses by 30 September 2016. The survey is available on the [IAASB website](#).

IAASB's Data Analytics Project

The IAASB's Data Analytics Working Group has released a Request for Input, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. The request is available on the [IAASB website](#).

IAASB's Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits (ITC)

As referred to in the previous edition of the *IRBA News*, the comment period to respond to the IAASB ITC ended on 16 May 2016. The ITC dealt with the following three important topics:

- Professional scepticism;
- Quality control; and
- Group audits.

Eighty-seven responses to the ITC were received from a range of stakeholders, including 11 (largely investors and analysts) who responded to the Overview of the ITC.

The IAASB has established working groups that have analysed the responses to the ITC and are in the process of deciding on a way forward to address these three important topics.

IAASB's Projects in Progress

The IAASB's projects in progress are:

- Accounting estimates (ISA 540);
- Quality Control (ISQC 1 and ISA 220);
- Group Audits (ISA 600);
- Professional scepticism;
- Auditor risk assessments (ISA 315 (Revised));
- Responding to non-compliance with laws and regulations (NOCLAR);
- Assurance on integrated reporting;
- New auditor reporting implementation;
- Agreed-upon procedures (ISRS 4400); and
- Data analytics.

More information on these projects is available on the [IAASB website](#).

Small and Medium-Sized Practices

At the IRBA Roadshows, registered auditors from the small and medium practices (SMPs) sector expressed interest in resources and/or tools that are aimed at the small and medium-sized entity (SME) market. In response to these requests, the IRBA has prepared a list of SME resources developed by the International Federation of Accountants (IFAC).

The IFAC's SMP Committee represents the interests of professional accountants in the SMP sector. The committee develops guidance and tools, and works to ensure that the needs of the SMP and SME sectors are considered by standard setters and regulators.

SMPs may find the publications listed below useful in running their practices and in the audit of SMEs.

These publications have not been issued as guidance in South Africa as they have not gone through the IAASB's due process for development of International Standards. The guidance may, however, be of use to SMPs, bearing in mind that registered auditors are required to apply the International Standard on Quality Control (ISQC) 1 and the IAASB International Standards. Those standards also provide, in certain circumstances, for the perspectives of the audit of SMEs to be considered.

Description	Issued
Implementation Guidance	
Companion Manual: Guide to Quality Control for SMPs/Guide to Using ISAs in the Audits of SMEs/Guide to Review Engagements/Guide to Compilation Engagements	21 October 2015
Guide to Compilation Engagements	24 September 2015
Guide to Review Engagements	10 December 2013

Description	Issued
Companion Manual: Guide to Practice Management for SMPs	19 January 2012
Guide to Using International Standards on Auditing in the Audits of Small and Medium-Sized Entities, Third Edition	09 November 2011
Guide to Quality Control for Small and Medium-Sized Practices, Third Edition	31 July 2011
Tips for Cost-Effective ISQC 1 Application	30 June 2011
Practice Management Support	
Guide to Practice Management for Small and Medium-Sized Practices	13 December 2012
Companion Manual: Guide to Practice Management for SMPs	19 January 2012
How to Build Your Business Advisory Practice	30 November 2011
How to Make Your Small Practice a Big Success: Practice Management Tips for SMPs	31 July 2011
2015 MIA-IFAC Regional SMP Forum	10 December 2015
Pricing on Purpose: How to Implement Value Pricing in Your Firm, Parts I-III	09 June 2014
Social Media Marketing Maybe the Key to Practice Profitability	23 October 2013
Business Advisory Practice Development	
The Role of SMPs in Providing Business Support to SMEs: New Evidence	14 September 2016
Good Practice Checklist for Small Business	12 May 2013
The Role of SMPs in Greening Small Business	12 January 2012
How to Build Your Business Advisory Practice	30 November 2011
7 Tips for Accountants on Supporting the Globalisation of Small Business	01 August 2013
Sustainability: Challenges and Opportunities for SMPs and SMEs	09 April 2013
Tomorrow's Firm and the Role of Value Pricing	28 February 2013
SMP Committee Strategic Initiatives	28 September 2012

These documents are available in PDF format and may be downloaded from the IFAC website. Alternatively, links to these documents are available on the [IRBA SMP webpage](#).

Broad-Based Black Economic Empowerment (B-BBEE) Verification Assurance

Auditors are alerted to these recent IRBA communiques, related to the B-BBEE Verification Assurance industry:

- 4 March 2016: Update on the IRBA's Continued Involvement in the Broad-Based Black Economic Empowerment (B-BBEE) Verification Industry.
- 14 June 2016: (SASAE) 3502 (Revised), Assurance Engagements on Broad-Based Black Economic Empowerment Verification Certificates, including the Registered Auditor's Limited Assurance Reports.
- 2 August 2016: Update on the Independent Regulatory Board for Auditors' (IRBA) withdrawal from the Regulation of the Broad-Based Black Economic Empowerment (B-BBEE) Verification Industry.
- 26 August 2016: Procedure for Requesting a Non-Binding Advisory Opinion.

The communiques are available on the [IRBA website](#).

Committee for Auditor Ethics (CFAE)

CFAE Releases Proposed Amendments to the IRBA Code of Professional Conduct for Registered Auditors – Responding to Non-Compliance with Laws and Regulations (NOCLAR)

On 14 July 2016, the International Ethics Standards Board for Accountants (IESBA) released final amendments to the IESBA Code of Ethics on Responding to Non-Compliance with Laws and Regulations (NOCLAR).

These amendments set out a first-of-its-kind framework to guide professional accountants in what actions to take, in the public interest, when they become aware of a potential illegal act (NOCLAR), which could have been committed by a client or employer.

Among other matters, the new standard provides a clear path for auditors and other professional accountants to disclose potential noncompliance situations to appropriate public authorities, in certain situations, without being constrained by the ethical duty of confidentiality. It also places a renewed responsibility on senior-level accountants to promote a culture of compliance with laws and regulations as well as prevent noncompliance within their organisations.

The IRBA adopted Parts A and B of the IESBA Code of Ethics for Professional Accountants. This was prescribed in 2010 as the Code of Professional Conduct for Registered Auditors (the IRBA Code) in South Africa, with certain additional national requirements. As the IESBA's final amendments to NOCLAR result in amendments to Parts A and B, the CFAE will consider possible revisions to the IRBA Code.

The CFAE sought comments on the following questions:

- Do registered auditors require clarification on the relationship between the proposed Code amendments and the statutory requirement contained in Section 45 Reportable Irregularities (RIs) of the Auditing Profession Act, 2005 (Act 26 of 2005)?
- Are there other matters of clarification that you would like to bring to the attention of the CFAE?

It is proposed that the amendments be effective on or after 15 July 2017.

Registered auditors and others were invited to submit any comments regarding the proposed changes to the IRBA Code by 10 October 2016.

The proposed changes to the IRBA Code, being the final amendments to the IESBA Code of Ethics, are available in PDF format and may be downloaded from the [IRBA website](#).

A Board Notice will be published in the Government Gazette to advise on the publication of the amendments to the IRBA Code, pursuant to the provisions of Section 10(1)(a) of the Auditing Profession Act, 2005 (Act No.26 of 2005).

The IFAC has made available resources relating to NOCLAR on its dedicated [webpage](#).

IFAC Publication on Fee Pressure

In January 2016, IFAC released a staff publication, Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure, as a response to stakeholder concerns about downward pressure on fees being a factor potentially adversely impacting audit quality. This publication highlights important considerations in the Code of Ethics for Professional Accountants (the Code) for auditors in relation to the setting of audit fees. The publication is available on the [IESBA website](#).



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INVESTIGATIONS

Investigating Committee

The Investigating Committee met once during this period and referred 23 matters to the Disciplinary Advisory Committee with recommendations.

Disciplinary Advisory Committee

The Disciplinary Advisory Committee met twice during this period and concluded on 27 matters.

Decisions not to charge

Five matters in terms of Disciplinary Rule 3.5.1.1 – the respondent was not guilty of improper conduct.

Two matters in terms of Disciplinary Rule 3.5.1.5 – in all the circumstances it was not appropriate to charge the respondents with improper conduct.

Decisions to charge and matters finalised by consent order

Twenty matters were finalised by consent order.

Matter 1 – The respondent failed to carry out sufficient audit work in assessing the company's ability to continue as a going concern. As a result, the respondent failed to identify the existence of a material uncertainty regarding the company's ability to continue as a going concern. The respondent also failed to modify the audit report for the non-disclosure of this material uncertainty in the annual financial statements. In addition, the respondent failed to report a reportable irregularity to the IRBA in relation to the client's failure to prepare annual financial statements for the three subsequent financial years.

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, an order of R5,000 contribution towards costs and publication in general terms.

Matter 2 – The respondent committed multiple transgressions spanning five financial years, which included failure to adequately respond to a potential fraud risk that was brought to the respondent's attention; failure to report a reportable irregularity to the IRBA in respect of a dividend declaration of the company that placed the company into a net liability position; failure to carry out sufficient audit procedures in relation to the company's ability to continue as a going concern; failure to modify the audit report in relation to inadequate disclosure of a material uncertainty regarding the company's ability to continue as a going concern; and failure to modify the audit report in relation to materially misstated asset balances resulting from the company utilising plant and equipment with zero carrying values over multiple financial years.

The respondent was sentenced to a fine of R100,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, an order of R5,000 contribution towards costs and publication in general terms.

Matter 3 – The matter arose from a referral by the Inspections Department. The respondent failed to obtain sufficient appropriate audit evidence relating to the selected engagement as there were numerous instances of noncompliance with International Standards on Auditing. In addition, the respondent did not modify the audit report in respect of a number of deficiencies in the annual financial statements.

The respondent was sentenced to a fine of R60,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 4 – The respondent held a direct financial interest in an audit client, which amounted to a breach of the independence and objectivity requirements as set out in the Code of Conduct. In addition, the respondent failed to report a reportable irregularity to the IRBA in respect of the annual financial statements that the respondent recalled from SARS.

The respondent was sentenced to a fine of R100,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, an order of R5,000 contribution towards costs and publication in general terms.

Matter 5 – The matter arose from a referral by the Inspections Department. The respondent failed to obtain sufficient appropriate audit evidence relating to the selected engagement as there were numerous instances of noncompliance with International Standards on Auditing.

The respondent was sentenced to a fine of R50,000, an order of R5,000 contribution towards costs and publication in general terms.

Matter 6 – The respondent prepared and issued a Broad-Based Black Economic Empowerment (B-BBEE) score and status level on behalf of a client and a related B-BBEE certificate. The respondent committed multiple transgressions in relation to the certificate and issued a B-BBEE status and level that incorrectly treated the client entity as a start-up enterprise.

The respondent was sentenced to a fine of R20,000, of which R10,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 7 – The matter arose from a referral by the Inspections Department. The respondent failed to obtain sufficient appropriate audit evidence relating to the selected engagement as there were numerous instances of noncompliance with International Standards on Auditing.

The respondent was sentenced to a fine of R100,000, with payment of the full amount being suspended until such time that the respondent re-registers with the IRBA and publication in general terms.

Matter 8 – The matter arose from a referral by the Law Society of the Northern Provinces. The respondent carried out the audit of a purportedly dormant attorneys' trust account. However, the respondent failed to adequately identify and investigate the risk that the trust account had become dormant as a result of trust transactions being incorrectly effected using bank accounts other than the trust account.

The respondent was sentenced to a fine of R200,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 9 – The respondent failed to respond to correspondence from a client within a reasonable time.

The respondent was sentenced to a fine of R20,000, of which R10,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 10 – The respondent was appointed as a business rescue practitioner of a company, but the respondent failed to ensure compliance with relevant legal requirements before accepting the appointment. In addition, the respondent failed to act diligently on certain aspects in this engagement.

The respondent was sentenced to a fine of R60,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order, publication in general terms and, in addition, a R25,000 suspended portion of a previous fine has now been imposed.

Matter 11 – The respondent acted as the executor of an estate. The respondent failed to submit the required reports to the Master of the High Court within the time frame required by the Administration of Estates Act.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, with an order of R5,000 contribution to costs and publication in general terms.

Matter 12 – The respondent failed to ensure that the client was informed on a timely basis of a decision by SARS to reject an objection lodged with SARS. The delay in informing the client caused penalties and interest to be levied by SARS. In addition, the respondent failed to appropriately respond to the client on issues raised by the client.

The respondent was sentenced to a fine of R20,000, of which R10,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 13 – The respondent was responsible for conducting the audit of a company for the 2013 financial year. The consolidated annual financial statements of the company for the 2014 financial year contained a number of material restatements relating to prior year errors. The respondent had failed to detect these errors during the course of the audit relating to the 2013 financial year, and was found to have issued an unqualified audit opinion in circumstances where it was inappropriate to do so. Furthermore, the respondent failed to detect that disclosure of certain prior year errors in the consolidated annual financial statements of the company for the 2014 financial year was inadequate.

The respondent was sentenced to a fine of R200,000, of which R60,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 14 – The respondent's firm was repeatedly tardy in dealing with its own failure to ensure that a permanent employee was made a member of the firm's retirement fund, including failing to ensure that orders of the Pension Fund Adjudicator were carried out in the period prescribed.

The respondent was sentenced to a fine of R20,000, of which R10,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 15 – The respondent failed to file documentation with the CIPC timeously. The respondent failed to respond to communication from his client and also to requests for information made to him by his client's attorneys. In addition, the respondent failed to respond within a reasonable time to correspondence and requests from the IRBA.

The respondent was sentenced to a fine of R40,000, of which R30,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, an order of R5,000 contribution towards costs and publication in general terms.

Matter 16 – The matter arose from a referral by the Inspections Department. The respondent's firm published a technical directive that would allow audit teams to breach Section 90(2) of the Companies Act. As CEO of the firm, the respondent had ultimate responsibility for directives issued by the firm.

The respondent was sentenced to a fine of R100,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 17 – The matter arose from a referral by the Inspections Department. The respondent failed to obtain sufficient appropriate audit evidence relating to the selected engagement as there were numerous instances of noncompliance with International Standards on Auditing.

INVESTIGATIONS c o n t .

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 18 – The matter arose from a referral by the Inspections Department. The respondent issued an inappropriate assurance opinion to the Law Society as the respondent failed to obtain sufficient appropriate audit evidence to support the conclusion relating to interest earned on the investment trust accounts.

The respondent was sentenced to a fine of R80,000, of which R30,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 19 – The matter arose from a referral by the Inspections Department. The respondent failed to obtain sufficient appropriate audit evidence relating to the selected engagement as there were numerous instances of noncompliance with International Standards on Auditing.

The respondent was sentenced to a fine of R50,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.

Matter 20 – The matter arose from a referral by the Inspections Department. The respondent failed to obtain sufficient appropriate audit evidence relating to the selected engagement as there were

numerous instances of noncompliance with International Standards on Auditing.

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication in general terms.



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Disciplinary Committee

The Disciplinary Committee did not sit during this period.

In the last issue I indicated that I would report on the matter of Mr TM that was finalised in June. What follows is a fair summary of the charges on which Mr TM was found guilty, the findings and sanction imposed by the Disciplinary Committee.

The practitioner faced four charges of improper conduct.

The **first charge** (Rules 2.6, 2.13, 2.15 and 2.17 of the Rules Regarding Improper Conduct) arises from the practitioner's failure to comply with the following conditions of a suspended sentence previously imposed on him pursuant to a disciplinary hearing in October 2011:

1. Failure to pay the unsuspended portion of the fine on the due date and failure to pay the cost contribution upon demand; and
2. Failure to attend a course approved by the IRBA for the auditing of attorneys' trust accounts, and his subsequent conduct in proceeding to audit the trust accounts of several attorneys.

The essence of the **second charge** (Rules 2.6, 2.12 and 2.17 of the Rules Regarding Improper Conduct) is that the practitioner failed to respond to the IRBA's requests to comply with payment of the monetary claims arising from the fine imposed on him and the cost contribution he was directed to pay when he was obliged to respond to such requests.

The **third charge** (Rules 2.6, 2.12, 2.13 and 2.17 of the Rules Regarding Improper Conduct) arises from the practitioner's failure to complete and submit to the IRBA his annual inspection audit returns for the period 1 January 2012 to 31 December 2012 in respect of the assurance work he had performed during that period relating to the audit of certain attorneys' trust accounts which he had undertaken.

In respect of the **fourth charge** (Rules 2.6, 2.12, 2.13 and 2.17 of the Rules Regarding Improper Conduct), the practitioner had made an incomplete disclosure in the annual audit inspection returns for the period 1 January 2013 to 31 December 2013 by knowingly failing to reflect that during that period he had completed assurance reports in respect of certain attorneys' trust accounts whose details were not disclosed in the returns.

At the commencement of the proceedings on 7 June 2016, the Committee was notified of a summons which was issued in the South Gauteng High Court by the practitioner and served on the IRBA a day before the hearing. Relying on the court proceedings initiated, the practitioner sought the postponement of the hearing on the grounds that his conviction and sentence in the previous proceedings were unlawful and would be set aside by the court. The request for the postponement was opposed by the *pro forma* complainant. After submissions from the parties, the Committee resolved to refuse the request for the postponement and directed that the matter proceed. The practitioner then elected not to participate in the proceedings, which continued in his absence.

The practitioner was found guilty of all four charges of improper conduct. In respect of sanction, the Committee ordered the immediate cancellation of the practitioner's registration and removal of his name from the register. The Committee directed that a fair summary of the charges, the findings and sentence imposed, without the name of the practitioner or the name of his firm, be published in the *IRBA News*.

After having been informed of the Committee's decision, the practitioner launched two applications (in addition to the summons) in the South Gauteng High Court to have the findings in the October 2011 and current hearings set aside. The IRBA defended all three matters and on 6 September 2016 the court set aside all three matters as being irregular, and they were dismissed with costs.

Reportable Irregularities

Reportable irregularities (RIs) for the quarter April-June 2016

(Note that RIs are reported on quarterly in arrears)

201 second reports were received, of which:

- RIs were continuing	137
- RIs were not continuing	59
- RIs did not exist	5

Of the 137 continuing RIs received, the top six types of RIs most frequently reported, categorised by nature, were:

(Note that in many cases, a second report received would identify more than one RI)

Unlawful Act or Omission	Reporting Frequency	Regulator(s) Informed
• Financial statements not prepared/not approved within the allotted timeframe.	45%	South African Revenue Services (SARS); Financial Service Board (FSB); Companies and Intellectual Property Commission (CIPC); etc.
• Tax-related contraventions (e.g. non-submission of tax returns, failure to register for tax, non-payment of PAYE, etc.).	27%	SARS.
• VAT related contraventions.	7%	SARS.
• Contraventions of the Estate Agencies Affairs Act.	6%	The Estate Agencies Affairs Board (EAAB).

Unlawful Act or Omission	Reporting Frequency	Regulator(s) Informed
<ul style="list-style-type: none"> Contraventions of FICA, PRECCA, etc. 	3%	The Financial Intelligence Centre (FIC), Directorate for Priority Crime Investigation, etc.
<ul style="list-style-type: none"> Trading whilst technically insolvent. 	3%	CIPC.
<ul style="list-style-type: none"> Other (e.g. contraventions of the Pension Funds Act; contraventions of the Attorneys Act; failure to convene an AGM; no reporting processes for whistleblowers as required by the Companies Act; etc.) 	9%	FSB, Relevant Law Societies, CIPC, etc.

RIs Sent to the CIPC

As part of an ongoing process of continual stakeholder interaction, the IRBA has been engaged in regular contact sessions with a number of different regulators. During these sessions a number of themes considered to be of potential interest to our registered auditors were discussed at length.

During our discussions held with the CIPC, it was emphasised that the Commission attaches a high degree of importance to the RIs, which they receive via our offices from our registered auditors, regarding instances where the Companies Act has purportedly been contravened.

In the 2013/2014 financial year it was reported that 160 Compliance Notices were issued to companies where reasonable grounds existed that the companies in question had contravened sections 28, 30 and 61(7) of the Companies Act. All of these cases were the result of RIs that had been reported to the IRBA by our registered auditors.

Below are some highlights from this compliance drive that was undertaken:

- At the end of March 2015, Compliance Certificates were issued to 38 of the companies to which Compliance Notices were issued.
- In respect of 25 of these companies, authorisation was given to forward their noncompliances with Compliance Notices to the National Prosecuting Authority for possible prosecution.
- At that point in time, 15 cases had then also been opened with the SAPS for purposes of possible prosecution.
- A total of 69 companies were put on a “cold case” list as the companies in question either did not respond to the

Compliance Notices issued or claimed that they were dormant.

- This “cold case” list will, according to the CIPC, be periodically reviewed to ascertain if attempts have been made to either reinstate their CIPC registrations or to have their statuses changed from dormant to active.

In light of these events, the CIPC also wishes to communicate to directors and auditors of all CIPC-registered companies the fact that it has recently secured a criminal conviction in the Specialised Commercial Crime Court in Bellville against a listed company for its failure to adhere to a Compliance Notice. In this regard, the CIPC says a Compliance Notice issued will stay in effect until complied with – the only exception will be if it has been set aside by the Companies Tribunal or a court of law.

This secured conviction is of particular significance especially when viewed in light of a surveillance sweep that the CIPC has recently conducted on JSE listed companies relating to the accuracy of declarations of turnover that these companies have been submitting to the CIPC.

The surveillance sweep, according to the CIPC, has highlighted certain issues with the manner in which companies have been completing their CIPC returns. These include examples of companies having submitted annual returns since 2012, and for each of their financial years in question during which they actively traded, they reflected annual turnover figures of zero rand. Where discrepancies such as these were identified, the CIPC engaged with the companies concerned to determine the root causes thereof. In some cases, the discrepancies were found to be either due to administrative errors or third-party service providers that had been submitting inaccurate information to the CIPC on behalf of these companies.

The CIPC requested each of these listed affected companies to first rectify such inaccuracies and then provide the various stakeholders with adequate details via the publication of SENS announcements. This request, according to the CIPC, was made to provide the affected companies with the opportunity to demonstrate transparency in their dealings with the Commission. However, as per a recently published article in the *Financial Mail*, it was stated that the JSE prohibited these affected companies from using the SENS to inform the market of details pertaining to the outcomes of this CIPC surveillance sweep. The CIPC has since taken steps to publish the names of the contravening companies on its website.

Our registered auditors are advised to contact Ms Lana van Zyl (Senior Manager: Governance Surveillance Enforcement) from the CIPC directly at Lvanzyl@cipc.co.za should any further information regarding any of these matters discussed be required.

RIs Relating to the Special Voluntary Disclosure Programme

Regarding the Special Voluntary Disclosure Programme (SVDP), which was announced by the Minister of Finance during the 2016 Budget Speech, the IRBA would like to emphasise that the due date for all SVDP application submissions to SARS has recently been extended from the initial date of 31 March 2017 to a revised date of 30 June 2017. The IRBA issued a communique to all registered

auditors on 5 September 2016, providing guidance on the process to be followed for all SVDP-related RIs identified. We encourage all of our registered auditors to familiarise themselves with the contents of this communique, a copy of which can be found on our website (<http://www.irba.co.za/news-events/communiques>) under the heading "Legal".

Holding Outs

On 9 September 2016 Michaelangelo Andile Jordan pleaded guilty to, and was found guilty of, contravening Section 41 of the Auditing Profession Act No. 26 of 2006 in the Durban Specialised Commercial Crime Court. The accused was cautioned and discharged.

Practice Related Matters

Occasionally, practice related matters find their way to the Legal Department. We share the body of our response to an enquiry that has arisen in this way, for your information and guidance. The situation concerned a sole practitioner who had been hospitalised. The enquiry came from a practitioner who was offering to "care-take" the practice.

We urge all practitioners, particularly sole practitioners, to consider this scenario in their own practices, and ideally to commence succession planning sooner rather than later.

"I draw your attention to paragraph 150.5 of the Code of Conduct, which reads as follows:

'A registered auditor shall not delegate to any person who is not a partner, or fellow director, the power to sign audit, review or other assurance reports or certificates that are required, in terms of any law or regulation, to be signed by the registered auditor responsible for the engagement. In specific cases where emergencies of sufficient gravity arise, however, this prohibition may be relaxed, provided the full circumstances giving rise to the need for delegation are reported both to the client of the registered auditor concerned and to the Regulatory Board.'

It appears to me that the situation you outline would fall within the "emergencies of sufficient gravity" proviso of this paragraph. I assume that the family member with the Power of Attorney would be able to make the delegation, on behalf of the critically ill and incoherent RA.

You would then be able to accept this delegation provided the circumstances are reported to both the Regulatory Board (and I am prepared to accept your email of 21 July 2016 as this report) and to the clients concerned.

The Code applies to a specific situation. Should the circumstances change, and should your responsibilities change such that you become the engagement partner on any engagement, this provision in the Code will not apply, and you will have to assume full responsibilities in terms of the ISAs and the IRBA Code for the engagement.

It would probably be prudent to inform both your and the other RA's insurers.

I would accordingly await your confirmation that the clients have been informed of this situation.

I must also inform you that any such delegation will be communicated to the Inspections Department so that they are aware of the circumstances, and can act appropriately should the firm in question be selected for inspection. It follows that you would need to inform us of the name of the practitioner.

I trust that this answers your query and I await your further communication in due course."

In addition, SAICA has published an article, which remains relevant, in ASA of October 2014, which can be accessed on the SAICA website.

Subsequent to this matter being drawn to our attention, we received a call from a most distressed trainee accountant, from a different firm, informing us that the sole proprietor of the firm had passed away – unexpectedly – that morning, and asking what to do.

I hope that sole practitioners will take heed of these scenarios and ensure that they do not land in a similar situation. The situation is exacerbated when the practice is the major asset in the deceased estate, and there is a widow to support. Clients who are not in a position to wait for legal formalities to take place will leave to find new auditors, and the value of the practice, and the ability to sell it as a going concern, will diminish rapidly.



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REGISTRY

NEW REGISTRATIONS 1 July 2016 to 30 September 2016

Anley, Marc James	Joubert, Heinrich Jacobus	Motaung, Alinah Maqueen
Bacela, Lerato	Kalenga, Lukusa Hortense	Msindo, Louis Arthur
Bruhin, Jason Richard	Kestlmeier, Werner Ernest	Mudau, Sedzani Faith
Camroodeen, Nazeer Ahmed	Kruger, Leon John Preston	Oberholzer, Morné Francois
Cassells, Paul Andrew	Lang, Giles Richard	Pienaar, Corlia Fredrica
Chohan, Muhammad Ebrahim	Mabena, Stanley Siphon	Pieterse, Gerhard Coenraad
Davey, Dean Raymond	Mafoke, Reaaleboga Dorothea Eva	Ronander, Stephanie Louise
De Bruin, Werner	Makhetha, Nthato	Sadie, Ashley James
Du Plessis, Craig	Mangono, Sarudzai	Shaikh, Mohammed Yacoob
Du Plessis, Petrus Adriaan	Manyemba, Farai	Siemers, Martin Donald
Essack, Mohammed Suleman	Maponga, Akunator	Smit, Lorraine
Greisdorfer, Mary-Anne	Matanzima, Esther Nompakamo	Soomar, Irshaad
Gulwa, Ntlambikazi	Mervitz, Mervyn Michael	Suvenarain, Sudesh
Guyo, Christine Lynda Nobesuthu	Mohlaka, Walter Phillip	Theunissen, Deshnee
Hair, Dale Anthony	Mojapelo, Masiba Olrich	Van Wyk, Johann
Hassim, Shiraz	Mokete, Mapoteng Ferdinand	Venter, Marna
Hlatshwayo, Neo	Moodley, Rochelle	Woolridge, Bradley Paul
Hotz, Jonathan Alexander	Moola, Mahdiyya	Zuma, Nondumiso Amanda
Joubert, Francois Jan-Hendrik	Moshoeshoe, Gail Makha	

RE-REGISTRATIONS 1 July 2016 to 30 September 2016

Badat, Abdur Rehmaan	Sondlo, Nolubabalo
Madumo, Lebogang	Tshesane, Anastacia Matome
Myburgh, Johannes Jacobs Haupt	Zakuza, Temba Stanley

RESIGNATIONS 1 July 2016 to 30 September 2016

Barker, Chad	Resigned	Monkam, Tchamgoué Jeannette Aimée	Emigrated
Brink, Jan Harm	Resigned	Morris, Christopher Charles	Resigned
Brookes, Stephen George	Resigned	Seymore, Sally	Emigrated
Calitz, Johannes Matthews	Resigned	Strydom, Pieter Johannes	Resigned
Ceronio, Cornelius Hermanus Zacharias	Deceased	Van den Berg, Christoffel Johannes	Resigned
Edwards, Brian Victor	Deceased	Van der Merwe, Jacobus Johannes	Resigned
Howard, Bruce Eric	Resigned	Van Schalkwyk, Rian	Resigned
Joffe, Leilani	Resigned	Vice, John Meadway	Resigned
Klinkert, Mark Frank	Resigned	Visser, Albert Meyburgh	Resigned
Lengane, Bolokang Eagle	Resigned	Winterboer, Thomas	Resigned
Louw, Gideon Petrus	Resigned	Woite, Herman Daniel	Resigned
Mare, Marius Ignatius	Resigned	Zastrau, Heinz Otto	Resigned
McDuff, David	Resigned		

AQIs: Promoting Measurability and Transparency in the Financial Reporting Value Chain

Continuous improvement in audit quality is a priority for the Independent Regulatory Board for Auditors (IRBA), and it believes that audit quality indicators (AQIs) could be a valuable tool to increase transparency in the financial reporting value chain.

Audit quality is a complex concept and it has proven difficult to achieve a common accepted definition. This has been made more difficult over the years as auditing has been under greater scrutiny, which was triggered by major global corporate failures.

The International Forum of Independent Audit Regulators' (IFIAR) Report on the 2015 Survey of Inspection Findings, which was released in March 2016, stated that 43% of inspected audits of listed public interest entities contained at least one inspection finding. The survey is based on a defined list of large global audit firms.

In response to calls for improved audit quality, specific initiatives are being implemented worldwide to improve the transparency of the audit process, with AQIs being one such initiative. The International Organisation of Securities Commissions (IOSCO), in its report titled Transparency of Firms that Audit Public Companies, advised that AQIs be included in audit firm transparency reporting to audit committees, specifically as related to the audits of public listed entities.

Locally, the IRBA emphasises the important role AQIs could play in assisting audit committees and boards in their responsibility to oversee the quality of an audit. In its comment letter on the Draft King IV Report on Corporate Governance, the IRBA has also recommended that audit committees use various AQIs to evaluate the quality of an audit, together with further recommendations to strengthen auditor independence, which it believes also contributes to audit quality.

AQIs have the ability to enhance audit quality oversight by providing audit committees with an additional tool to assess the external audit. Therefore, the IRBA supports AQIs as a tool to enhance audit quality rather than an absolute measure. As part of the financial reporting value chain, AQIs allow firms to differentiate themselves based on the quality of the work provided and also enable audit committees to make more informed decisions.

Without this transparency, audit quality could be compromised in favour of audit fees. For example, in an audit tender process an audit committee could end up with scorecards from each of the tendering audit firms showing exactly the same information, with the only differentiating factor being the estimated audit fee. Each firm may have all the minimum qualifying criteria, such as being part of a global network, having engagement partners with the relevant experience and having spent some amount of resources on relevant training. In reality, each firm would approach its systems of quality control differently.

Some firms may invest heavily in technical resources and training, whereas others may be more skilled in retaining audit staff and can

ensure, to a greater extent, that the relevant industry experience is retained. By providing more detail to audit committees in the form of concise AQIs, the transparency of a firm's investment in audit quality is enhanced. Although they are not a complete solution for audit committees, AQIs have a positive impact as they focus a committee's attention on quality as opposed to competitive pricing, and also raise awareness of audit quality.

Globally, various jurisdictions are at different stages regarding the use of AQIs in the financial reporting value chain. The UK took a proactive approach through its Policy and Reputation Group (PRG). In 2014 the PRG, consisting of representatives from major UK auditing firms, identified the following five AQI categories through consultation with various stakeholders:

- External investigations;
- Results of internal and external audit quality monitoring;
- Investments made in the audit practice and in staff;
- Investor liaison; and
- Staff surveys.

Each of the UK's six largest auditing firms agreed, on a voluntary basis, to disclose 11 metrics within these five categories in their annual transparency reports. This type of reporting allows for public transparency as well as comparability.

In contrast, in the US the Public Company Accounting Oversight Board (PCAOB) is currently consulting with various stakeholders in order to refine its list of 28 possible AQIs so as to arrive at what would be the most meaningful indicators. Its approach is more flexible as the auditing firms will be able to choose which AQIs are the most relevant and only report on those.

In Singapore, the Accounting and Corporate Regulatory Authority (ACRA) published a disclosure framework for AQIs in October 2015. This framework lists the following eight comparable AQIs that were developed using observations from the regulator's inspections process over the last decade:

- Time spent by senior audit members on the engagement;
- Years of experience and industry specialisation;
- Average training hours and industry specific training;
- Results of external and internal inspections;
- Compliance with independence requirements;
- Headcount in the quality control function;
- Staff per partner/manager ratios; and
- Degree of personnel losses (staff turnover).

The four largest audit firms in Singapore have confirmed their support to disclose these AQIs to audit committees when the re-appointment of the auditor is being considered.

A common thread in all the AQI initiatives is that the proposed primary measures are quantitative and not qualitative. The Centre for Audit Quality (CAQ), in its 2016 report – *Audit Quality Indicators*,

INSPECTIONS c o n t .

The Journey and Path Ahead – stated that many stakeholders felt it was important to add context to the quantitatively based AQIs.

The Federation of European Accountants (FEE), in its study titled *Overview of Audit Quality Indicators Initiatives*, identified the number of training hours per audit personnel to be the most common AQI used among nine separate international bodies. One would assume that the more hours spent by a firm on training would result in a firm that is more committed to audit quality. However, this may not always be the case. For example, a firm with skilled partners and years of experience in a particular industry may not invest as heavily in training when compared with a firm that has less experienced partners in a particular industry.

Another common AQI example highlighted by the FEE was the outcome of external inspections. While inspection results provide a snapshot of audit quality at a particular point in time, they should not be regarded as the only indicator of audit quality. Locally, the IRBA cautions that inspections are based on a risk-based approach, with a limited scope in many instances. This means while inspections are performed with the objective to promote audit quality, the results should not be taken out of context. For example, an unsatisfactory result does not necessarily imply that the audit report was inappropriate.

The International Auditing and Assurance Standards Board's (IAASB) *A Framework for Audit Quality* emphasises the importance of the audit committees and their responsibility to oversee the audit process. This is further described in the draft King IV Report, as published by the Institute of Directors Southern Africa (IODSA), in which audit quality oversight is specifically described as a function for the audit committees. It is envisaged that AQIs could be used as a valuable tool by audit committees in better discharging their duties.

The IRBA believes that the method of implementation for AQIs requires careful consideration in order to ensure that the desired outcome of improved audit quality is achieved. As part of our mandate in driving audit quality, we have begun an internal research process. The conceptual avenues to be explored could include:

- Engaging with international and local professional bodies;
- Engaging with relevant local platforms and stakeholders;
- The consideration of minimum disclosures to the relevant stakeholders, for example, regulators, audit committees or the stock exchange;
- The consideration of which method of publication would best achieve the overall objective, for example, mandatory minimum disclosures versus tailored engagement specific disclosures, when engaging with a particular client or potential client;
- The consideration of confidentiality threats versus the need for audit transparency; and
- Incorporating AQIs into the inspections and remedial action processes.

The statutory mandate of the IRBA – which is also a member of an IFIAR Task Force that is developing a Thought Leadership Paper on Audit Committees – is the regulation of auditors. However, it recognises its broader responsibility to also strengthen other structures, particularly those charged with governance, so that they are in a position to contribute to overall audit quality.

So, it is through ensuring high audit quality that we can contribute to the credibility of financial statements and our financial markets, and better protect the investing public.



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COMMUNICATIONS

In the interest of improved communication with registered auditors and other stakeholders, a list of communiques sent by bulk e-mail during the reporting period for this issue is set out below. These

communiques may be downloaded from the IRBA website (www.irba.co.za) under the News section.

30 September	South Africa Retains Pole Position for Auditing and Reporting Standards for Seventh Year in a Row
30 September	Feedback on the IRBA Pro Forma Inspections of the New Auditor's Reports
29 September	IAASB Working Group Seeks Input on the Growing Use of Data Analytics in the Audit
28 September	Revised Illustrative Reports Used by Registered Auditors When Reporting in Terms of the Financial Markets Act, No. 19 of 2012, and JSE Directive DG 1.7
26 September	IRBA Staff Audit Practice Alert: The Audit Implications of the Expected Credit Loss Model for the Auditors of Banks
14 September	Small and Medium Practices Resources and Tools
13 September	Illustrative South African Reserve Bank Macro-Prudential Foreign Exposure Limit Return Assurance Reports
12 September	IAASB Releases Working Group Paper on Supporting Credibility and Trust in Emerging Forms of External Reporting
9 September	Proposed Amendments to the IRBA Code of Professional Conduct for Registered Auditors – Responding to Non-Compliance with Laws and Regulations (NOCLAR)
5 September	Registered Auditors and the Special Voluntary Disclosure Programme
5 September	BEE Commission Information Session – Rustenburg

5 September	The IRBA announces Mandatory Audit Firm Rotation
5 September	Issues Paper on Guidance Required to Implement the Financial Intelligence Centre Amendment Act, 2016
1 September	REMINDER: Proposed Guide for Registered Auditors: Considerations for an Auditor or a Reviewer of a Company which is Factually Insolvent
26 August	Procedure for Requesting a Non-Binding Advisory Opinion
26 August	IAASB's Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives
15 August	Prescribed Auditor Reports for Medical Schemes
4 August	Outsourcing of Debt Older than 4 Years
2 August	Update on the Independent Regulatory Board for Auditors' (IRBA) Withdrawal from the Regulation of the Broad-Based Black Economic Empowerment (B-BBEE) Verification Industry
7 July	Illustrative South African Reserve Bank (SARB) Banks Act Regulatory Auditor's Reports
7 July	Proposed Guide for Registered Auditors: Considerations for an Auditor or a Reviewer of a Company which is Factually Insolvent
6 July	Estate Agencies – FIC Registrations

GENERAL NEWS

Top Ranking for Auditing and Reporting Standards Maintained

South Africa has once again been ranked as the world's number one for auditing and reporting standards, making it the seventh consecutive year that the country holds this position. Welcoming the news, IRBA CEO Bernard Agulhas says: "We are naturally delighted to be recognised again for this achievement. At the IRBA we take very seriously our role in upholding the highest standards and persisting with our commitment to promote and maintain consistent and sustainable high levels of audit quality."

"South Africa relies very much on external capital and one of the important components of creating an environment where foreign direct investment can occur is a well-regulated and reliable capital market. This results in a reputable audit profession that provides potential investors and capital providers with reliable and credible financial information on which investment decisions can be made. Equally, public confidence in any profession depends on the quality and robustness of the oversight."

This repeat recognition was published in the World Economic Forum's Global Competitiveness Report issued at the end of September. It comes despite other challenges currently faced by the country and provides investors and the public with the assurance that for as long as the country's financial pillars remain solid, trust in financial markets is possible.

Measures to Strengthen Auditor Independence Announced

The IRBA has announced that it will begin a process to implement Mandatory Audit Firm Rotation (MAFR) to strengthen audit firms' independence from their clients. The Board's decision to pursue MAFR is aligned to its objective to enhance audit quality, which ultimately contributes to public and investor protection.

The decision, which was announced at the end of August, follows a year-long process of extensive research and industry consultations both locally and abroad on how best to enhance audit firm independence. The Board's decision, however, does not exclude the possible inclusion of additional measures such as mandatory audit tendering or joint audits, as a combination with firm rotation, in certain circumstances. The IRBA intends to further consult on the implementation of the new requirements.

"Our latest inspections findings include independence issues as one of the top five findings among the audits of financial statements," says IRBA CEO Bernard Agulhas. "This is consistent with global inspections results. In a South African context, the IRBA Board has also recognised the challenges with lack of economic transformation, and the domination by certain firms within the profession. Out of the 353 audit partners who sign off on the financial statements of all JSE listed companies, only nine are black Africans and over 90% (of the listed companies) are audited by a few firms. We will only see true empowerment when opportunities are provided equally among everyone."

He, however, acknowledges that enforcing the measures will not be easy. "We accept that any change to the status quo will be met with some resistance. However, the ultimate mandate of the IRBA is to enhance and ensure investor protection," he says.

"Investor protection is facilitated when financial statements are reliable, credible and trustworthy. A crucial component of creating the necessary confidence in financial statements, and consequently the financial markets, is the knowledge that the auditors are independent when they report to the shareholders."

EU Commission Recognises the IRBA as an Equivalent Competent Authority

The IRBA's application for recognition as an equivalent competent authority (ECA) under the European Union (EU) legislation has been approved. This is a positive development for audit firms and their global clients with shares issued on the Johannesburg Stock Exchange.

This recognition, which is valid for three years, means the IRBA meets the EU Commission's standards for public oversight of statutory auditors and audit firms. Also, it's an affirmation that the IRBA's quality assurance reviews and investigations are sufficiently comprehensive to meet the standards of the Commission when it comes to the exchange of information.

Importantly, this means that during a process of review and inspection, where portions of the audit were conducted in this country, firms will not be subjected to additional inspections of their working papers by member state statutory oversight bodies, where the IRBA has successfully concluded a cooperative agreement with that oversight authority. By reaching a mutual reliance on each other's oversight systems, the transfer of audit working papers or other documents held by statutory auditors of audit firms will not be necessary – it will become the exception rather than the rule.

IRBA Out of B-BBEE Assurance Services Regulation

The end of September marked the IRBA's official withdrawal from the regulation of the Broad-Based Black Economic Empowerment (B-BBEE) verification industry. The South African National Accreditation System (SANAS) now remains as the only national accreditation body offering this service until such time as the Department of Trade and Industry (DTI) defines a new regulatory structure for the B-BBEE verification industry.

The IRBA has been accrediting registered auditors offering B-BBEE assurance services since 2011. SANAS, on the other hand, has been accrediting verification agencies, other than registered auditors, since 2007. It will now provide the same service for registered auditors.

"In our engagements with the DTI to finalise our withdrawal from this role, the DTI indicated that in due course it will issue communication to clarify the new regulatory structure and compliance requirements for B-BBEE verification professionals. In the interim, the department has assured us that there is a clear process for auditors who wish to become accredited by SANAS," says IRBA CEO Bernard Agulhas.

Regarding assurance engagements entered into prior to 30 September 2016, a transitional period of three months – until 31 December 2016 – will be allowed for the sign-off of the verification certificates for these engagements. Since 1 April 2016 the IRBA has not registered any new B-BBEE approved registered auditors, and the annual fees have been discontinued since the beginning of the 2016/2017 financial year.



Bernard Agulhas and Thuto Masasa

Young Accountant of the Year is a South African

This year's Young Accountant of the Year award went to South African practitioner Thuto Masasa, a director at Nkonki Incorporated, which is part of the Kreston International global network of independent accounting firms. She received the accolade at the 2016 International Accounting Bulletin and The Accountant Awards held recently in London. At the conference, IRBA CEO Bernard Agulhas made a presentation on global trends in the regulation of the accounting and audit profession. He also participated in a panel discussion with BDO International and Grant Thornton.

Masasa is one of the leading practitioners advising local organisations on the development of integrated reporting and is also actively involved with the International Integrated Reporting Council (IIRC).

"It is an honour to have been recognised by the profession ... doing something that I truly believe in and believe will change the landscape of the capital markets and society globally, if companies, investors and other stakeholders at large embrace it," she said upon receiving the award.

"Integrated reporting is one of the three shifts we have heard the world talk about lately, shifting from silo reporting together with inclusive capitalism and long-term capital markets. Society is looking for sustainability in order to have stability."