

## **IRBA issues its first Public Inspections Report in the Seventh Inspections Cycle**

**Johannesburg/ 17 March 2020**

The Independent Regulatory Board for Auditors (IRBA) recently released its 2019 Public Inspections Report which covered the first year of the IRBA's Seventh (7th) Inspections Cycle, introducing numerous enhancements to the IRBA's inspections process. The IRBA has performed firm-wide and individual assurance engagement file inspections at various firms during the year to give effect to its mandate and strategy to promote audit quality and help restore confidence in the auditing profession.

The objective of the report is to promote audit quality at a broader level by highlighting significant themes arising from firm-wide and individual assurance engagement file inspections reported on in 2019. The report, which highlights the most prevalent deficiency themes reported to firms, is aimed at auditors and those responsible for quality management/control systems within firms, as well as other relevant stakeholders such as audit committees, investors, oversight bodies, company directors and financial accountants who are responsible for the integrity of financial information.

In 2019, the IRBA issued inspection reports on a total of 116 inspections performed at 44 firms. These reports include 14 firm-wide and 102 individual engagement file inspections.

The 2019 results of positive inspection outcomes declined compared to the previous year, and generally, the frequency of findings in South Africa remains higher compared to other jurisdictions as per the latest global inspection survey results released by the International Forum of Independent Audit Regulators (IFIAR).

There are instances where previously reported deficiencies have not been effectively remediated by firms, despite following a formal remedial action process, which has forced the IRBA to increase its focus on firms' remediation and improvement practices and to take stronger action against firm leadership.

There has, however been significant improvement observed at a few firms, where considerable investments were made into quality management, underpinned by leadership's sound tone, time and hands-on approach to create and sustain a culture and an enabling environment that consistently produce sustainable high-quality assurance work.

In 2019 the IRBA continued to focus on audits with a higher public interest exposure that included audits of listed entities, other public interest entities (PIE) and state-owned companies. The majority of the engagement file inspections were performed at firms that were accredited with the Johannesburg Stock Exchange (JSE) Ltd, and the report provides a further breakdown of inspection outcomes at these firms.

Despite our focus on firms and audits with greater public interest exposure, our current mandate goes beyond listed entities and PIEs. Therefore, small to medium-sized practices and firms that audit non-PIEs cannot be overlooked. The IRBA follows a risk-based inspections approach, supplemented by random selection, when selecting firms and engagements for inspection, which is in line with international best practice.

The IRBA will continue with its Remedial Action Process (RAP) with the firms and its partners which aims to promote prompt and effective improvement in audit quality across all audits of a firm where significant deficiencies were reported.

It is critically important for firm leadership to set the appropriate tone at the top, promoting an internal culture of high audit quality that is supported by prompt and effective remediation of identified root causes and deficiencies.

In response to the recent failures in the auditing profession, the IRBA, as a proactive regulator, embarked on a legislative process to strengthen its regulatory powers through amendments to the Auditing Profession Act 26 of 2005 (APA). The IRBA has undertaken several projects to help restore public confidence within the auditing profession. Restoring confidence in the auditing profession is a top priority that requires all stakeholders to work together to achieve this common goal.

The report also emphasises the importance of auditors' proper implementation of existing and new standards to ensure consistent sustainable high audit quality and compliance that meet user expectations.

The IRBA Inspections Report can be downloaded on the website at [www.irba.co.za](http://www.irba.co.za).

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*About the IRBA*

*Mandated by the Auditing Profession Act, 2005 (Act 26 of 2005), as amended, the objective of the IRBA is to endeavour to protect the financial interests of the South African public and local and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards, codes and laws and processes.*