

2022 PUBLIC INSPECTIONS REPORT ON AUDIT QUALITY

**With a Commitment to Promote an Improvement
and a Remediation of Audit Quality**

Regulatory Oversight

The Independent Regulatory Board for Auditors (IRBA) – established by the Auditing Profession Act 26 of 2005, as amended (APA) – is mandated to regulate all registered audit firms and individual registered auditors (registered auditors) in South Africa. The Act mandates the IRBA to perform inspections, meaning at any time it may inspect or review the practice of a registered auditor. Furthermore, for these purposes, it may inspect and make copies of any information, including but not limited to any working papers, statements, correspondence, books or other documents in the possession or under the control of a registered auditor. In addition, the APA requires the IRBA to inspect/review the practice of a registered auditor that audits a public company, as defined in Section 1 of the Companies Act 71 of 2008, at least once every three years. Our regulatory oversight of registered auditors includes the inspection of completed audits of financial statements and the inspection of quality management systems.

Inspections Landscape

Our inspections landscape includes all registered audit firms and registered auditors that issue audit reports. As at March 2022, a total of 1 672 audit firms and 3 649 individuals were registered with the IRBA (2 782 assurance RAs and 867 non-assurance RAs).

Inspections Scope: How Firms and Files are Selected for Inspection

The risk-based inspections approach is the cornerstone of the IRBA's inspections programme, in line with the International Forum of Independent Audit Regulators [Core Principles](#). Accordingly, we continue to focus mostly on audits with a higher public interest exposure and the audit firms auditing public interest entities. That means our inspections scope is not intended to select a representative sample of all firms, firms' quality control (management) elements or all assurance work throughout the year. As such, the results cannot be extrapolated across the entire population. We also only inspect portions of assurance files, in terms of our risk-based approach.

¹Section 47(1)(a) and (b), APA (as amended by the Auditing Profession Amendment Act No. 2 of 2015 and the Auditing Profession Amendment Act No. 5 of 2021).

CONTENTS



1. Chief Executive Officer's Inspections Overview.....	4
2. Inspections Approach	5
3. Inspection of Firm-Wide Systems of Quality Control.....	6
3.1 Inspections Results	6
3.2 Firm-wide Deficiency Themes and Trends	7
4. Inspection of Engagement Files	11
4.1 Inspections Results	11
4.2 Deficiency Themes and Trends	15
4.2.1 Audit of Financial Statement Areas and Other Field Work	17
4.2.2 Financial Statement Presentation and Disclosure	19
4.2.3 Audit Planning	20
4.2.4 Audit Completion	21
4.2.5 Auditor's Report and Opinion	22
5. Good Practices	23
6. Information Technology.....	25
7. Remedial Action on Internal Monitoring and Recurring Inspection Findings.....	27
8. Concluding Remarks	30
Appendix A: Inspections Outcomes and Reportable Deficiencies	31
Appendix B: The 5 WHYS Root Cause Analysis Tool.....	33

1. CHIEF EXECUTIVE OFFICER'S INSPECTIONS OVERVIEW

The success of the IRBA's refocused Strategic Plan 2021-2025¹ is directly linked to our continued regulatory monitoring reviews, the implementation of audit quality initiatives and ongoing stakeholder interactions. Fully realising these objectives will help ensure that all relevant stakeholders are able to work together towards not only restoring confidence in the profession, but also achieving consistent sustainable high audit quality.

Undoubtedly, audit quality is an important factor in determining the level of confidence that the public has in a country's financial and economic systems. Poor audit quality can lead to serious consequences that include loss of employment, decreased investment and reduced economic growth. In fact, inspections results are one of the key indicators of audit quality. When inspections reveal inadequate or insufficient evidence for the accuracy of financial statements or lack of sufficient and appropriate audit evidence on the audit file, that can create doubts about the reliability of the auditor's work and/or the financial statements. This reduces the trustworthiness of the audits conducted by auditors and can then lead to diminished levels of confidence from stakeholders such as investors and creditors.

The IRBA is pleased to report on its 2021/2022 inspections results, which are important to note for auditors, other stakeholders and the regulator. At the IRBA, we are committed to promoting audit quality in South Africa and we do this through various functions that include setting standards for registered auditors and monitoring compliance with these standards. One key part of that process is conducting inspections – a rigorous review of an auditor's practice environment and audit engagement files – that are theme-based, which helps us identify any non-compliances or weaknesses that may exist. In turn, this enables the firms to take prompt corrective action, where necessary, to ensure audit quality in their firms and ultimately the profession.

The results of the inspections performed throughout the year are published in the Public Inspections Report annually. These reports provide important information about the inspections conducted by the IRBA, including specific findings, corrective action plans (remediation) taken by the firms inspected and any progress/successes. They also

include summary tables and graphs that summarise all the available information about individual audits/inspections performed over a particular year, such as the number of firms inspected, outcomes for files, deficiencies reported, trends, themes and common findings.

Therefore, this report is very important not only for auditors, who may use its data to help improve their practices, but also for other role-players. It is crucial for those stakeholders that can use it as and when exercising their responsibilities in their areas of accountability, which may include assessing an auditor's level of competence before engaging them to render assurance services. As such, it is essential that the IRBA continues to publish regular Public Inspections Reports, to provide our stakeholders with up-to-date data regarding audit quality trends in the local auditing profession.

Although we endeavour to promote audit quality in South Africa, it is important to understand that audit quality at the firms remains the responsibility of their respective leadership. As such, the Quality Management standards require firm leadership to establish policies and procedures that are designed to promote an internal culture and sound governance principles that recognise the importance of audit quality. That means the audit firm's business strategy should be subject to the overriding requirement to achieve quality in all audits that it performs, including ensuring that commercial factors do not override the quality of the work performed.

Audit firms are commended for their continued efforts and commitment in improving and maintaining high audit quality. We wish to express our appreciation for their co-operation throughout the year.

We would also like to thank the Inspections Committee (INSCOM) and the Inspections Department team for their commitment and tireless efforts in performing inspections while upholding public trust in the financial reporting processes. It is only through the transparency of the profession, including what we do at the IRBA, that we will be able to truly fulfil our mandate of protecting the public interest.

¹[IRBA Strategic Plan 2021-2025](#).

2. INSPECTIONS APPROACH

The lifting of COVID-19 restrictions early in 2022 allowed for some face-to-face inspections to resume. This was significant as such interactions are considered critical to the enhancement of discussions on the journey towards improved audit quality. Inspections are now performed on a hybrid basis, to balance the need for face-to-face interactions with our recently adopted remote working environment.

In addition to the completion of routine inspections, several additional initiatives were performed during the year to further the advancement of audit quality. Also worth noting with regard to audit quality is that we kept abreast of the developments concerning the new suite of Quality Management (QM) standards, effective as of 15 December 2022, that are geared towards driving confidence and trust in the profession. Furthermore, the Inspections Department, in line with the 8th Inspections Cycle strategy of proactiveness, embarked on initiatives that included discussing the design and implementation of the System of Quality Management (SOQM) with all firms that were inspected from the beginning of 2021, to understand their implementation processes. These firms shared their implementation plans and monitoring processes that are embedded into their SOQM implementation strategies. In addition to these discussions, all firms were requested to complete a survey on their readiness for the implementation of the QM standards. The results of the survey were published in the quarterly IRBA News².

To address the extent of recurring deficiencies in 2022, the department introduced theme-based inspections and guided proactive monitoring. These inspections were performed to assess the extent to which audit firms/auditors implemented appropriate remedial actions. This process helped to evaluate whether these actions appropriately addressed the quality deficiencies on a firm-wide basis or across all engagements, rather than only for those assurance engagements where deficiencies were identified. The guided proactive monitoring process provided auditors with an opportunity to commence with the remediation of the IRBA-identified deficiencies at an earlier stage in the inspections process. Once the proactive monitoring process for a specific auditor was completed, the department inspected the evidence compiled to confirm the sufficiency of the remediation. The expectation is that this process will enable the IRBA to provide further insights to relevant stakeholders on the remediation steps taken by the audit firms, and whether those are appropriate, considering the findings initially identified, thereby addressing the risk of repeat findings. The detailed processes can be found on our website³.

To address those matters that were considered as of significant public interest concern, the INSCOM referred certain firms' Remedial Action Plans to the Board for monitoring, to ensure adequate regulatory focus was provided. Regular feedback was received on the progress made by these firms.

²IRBA News (Issue 59).

³Theme-based Inspections.

3. INSPECTION OF FIRM-WIDE SYSTEMS OF QUALITY CONTROL

3.1 Inspections Results

In assessing the risk at each audit firm, the firm size as well as the level and extent of public interest entities (PIEs) – as defined in the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) (IRBA Code) – in its assurance portfolio are taken into consideration. With that in mind, in the past year the IRBA continued to issue the following two types of firm reports:

- A firm-wide inspections report, where a full International Standard on Quality Control (ISQC) 1 inspection was performed, which happens once in a three-year cycle for all firms that perform audits of public companies.
- A second type of firm inspection report is issued after a firm visit where the scope of the inspection was limited to the inspection of engagement files. In this case, the nature and extent of reportable deficiencies identified at an individual engagement file level may be escalated to a firm level, if they affect an element of ISQC 1, resulting in an outcome at that level.

Worth noting is that during this period, 93% (366) of listed entities⁴ were audited by 10 of the larger audit firms in South Africa. Eight of these firms are visited for inspections (either full firm or engagement file inspections) annually and two are visited once every two years. The remaining 7% (27) of the listed entities are audited by 14 firms that are visited once every three years. The IRBA will continue to monitor the changes in auditors that will result from the Mandatory Audit Firm Rotation

rule, which becomes effective on 1 April 2023, and the impact this will have on the inspections planned for 2023 onwards.

Theme-based Inspections

The IRBA introduced theme-based inspections as part of its initiatives in the 8th Inspections Cycle, to assess the effectiveness of the audit firms' corrective measures or remedial actions to address previously reported deficiencies or weaknesses, and evaluate whether they are achieving their quality objectives. In 2021/2022, we also completed three theme-based inspections at three audit firms. The deficiencies identified and reported from these inspections are relayed back to the audit firms and may influence the outcome of the inspections at firm level. The firm is therefore responsible for taking the appropriate remedial action for the specific engagement partners, where deficiencies were identified; and the IRBA will monitor this through its Remedial Action Process.

During the year under review, the IRBA visited 15 audit firms, where firm-wide inspections were performed at seven of the firms. Figure 1 below represents the outcomes of the seven⁵ firm-wide inspections reported on.

⁴Information as at August 2022.

⁵Eleven firm-wide inspections were reported to the INSCOM during the financial year ended 31 March 2022 (as reported in the latest IRBA Annual Report). Four of these inspections were included in the 2021 Public Inspections Report and are not included in the results reported on for 2022.

3. INSPECTION OF FIRM-WIDE SYSTEMS OF QUALITY CONTROL continued

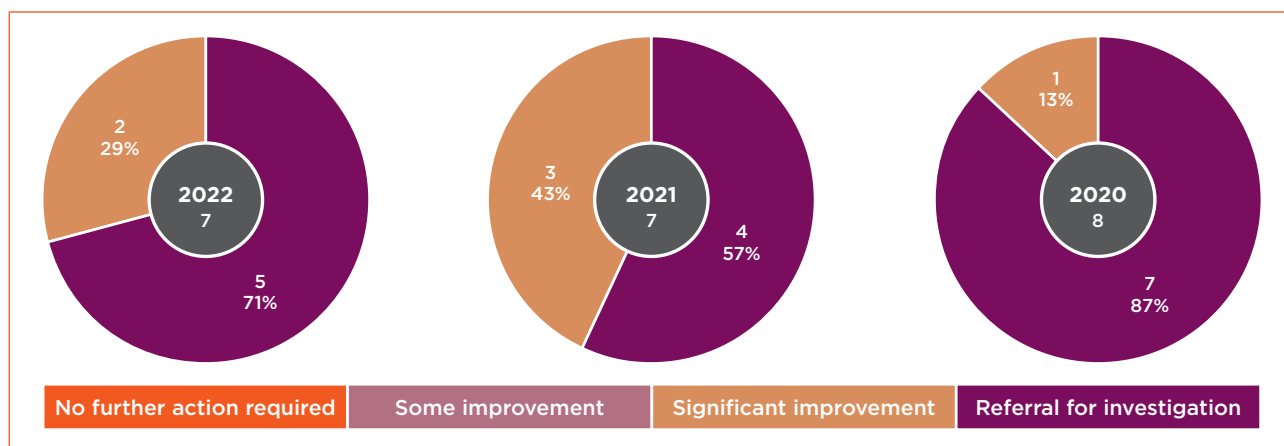


FIGURE 1: Firm-wide quality control inspections results.

The IRBA issued an additional seven firm reports and outcomes on inspections where firm-wide inspections were not performed, but deficiencies at the engagement level were elevated to the firm level. Figure 2 below represents the outcomes of the 14⁶ firm reports issued to the firms during the year.

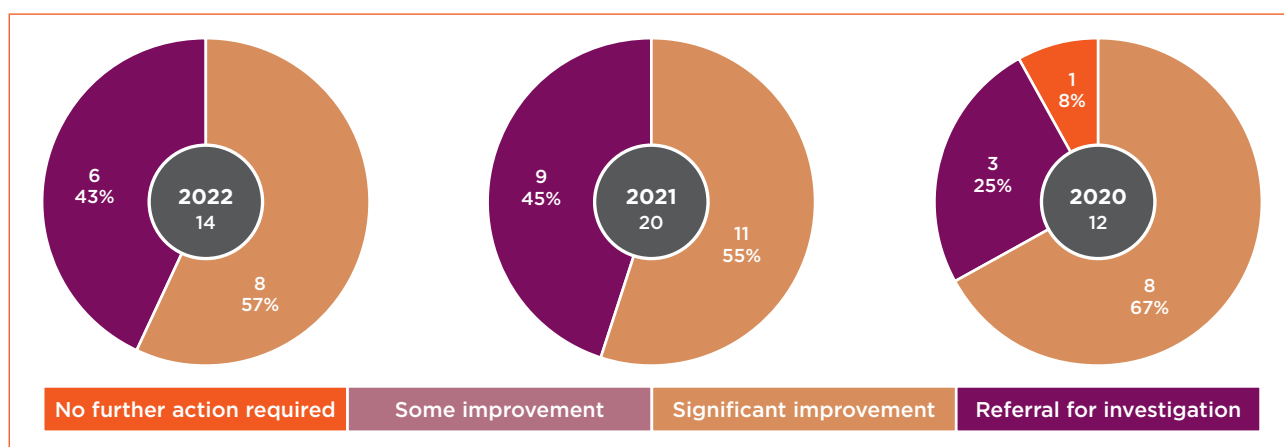


FIGURE 2: Firm-wide inspections results, including the engagement deficiencies escalated to the firm level.

3.2 Firm-wide Themes and Trends

The above results show an increase in the number of firm-wide inspections that resulted in a referral for investigation outcome. However, when these results are combined, a slight reduction in the outcome of referral for investigation is noted. The referrals at firm level emanate mostly from independence matters and lack/regression of audit quality in the engagement files inspected.

There has been a concerning increase in the number of findings over the past four years relating to the *Relevant Ethical Requirements*⁷ element of ISQC 1, specifically with regard to matters affecting the independence of the audit firm and its auditors. The deficiencies reported on for this element increased from 5% in 2019 to 46% in 2022 of the total ISQC 1 deficiencies identified. With that said, the extent of the deficiencies identified under the *Engagement Performance* element of ISQC 1 were still of high concern for the IRBA, as most of the deficiency themes reported on in previous years were recurring.

⁶Not all firms visited were awarded an outcome at firm-level.

⁷ISQC 1, paragraphs 20-25.

3. INSPECTION OF FIRM-WIDE SYSTEMS OF QUALITY CONTROL continued

The deficiencies at firm level may be systemic and indicative of a failure in the firm's system of quality control. Figure 3 below provides a four-year overview of the changes in the frequency of the deficiencies identified for each element of ISQC 1, highlighting the top two themes and the sharp increase in relevant ethical requirements, specifically relating to independence in 2021/2022.

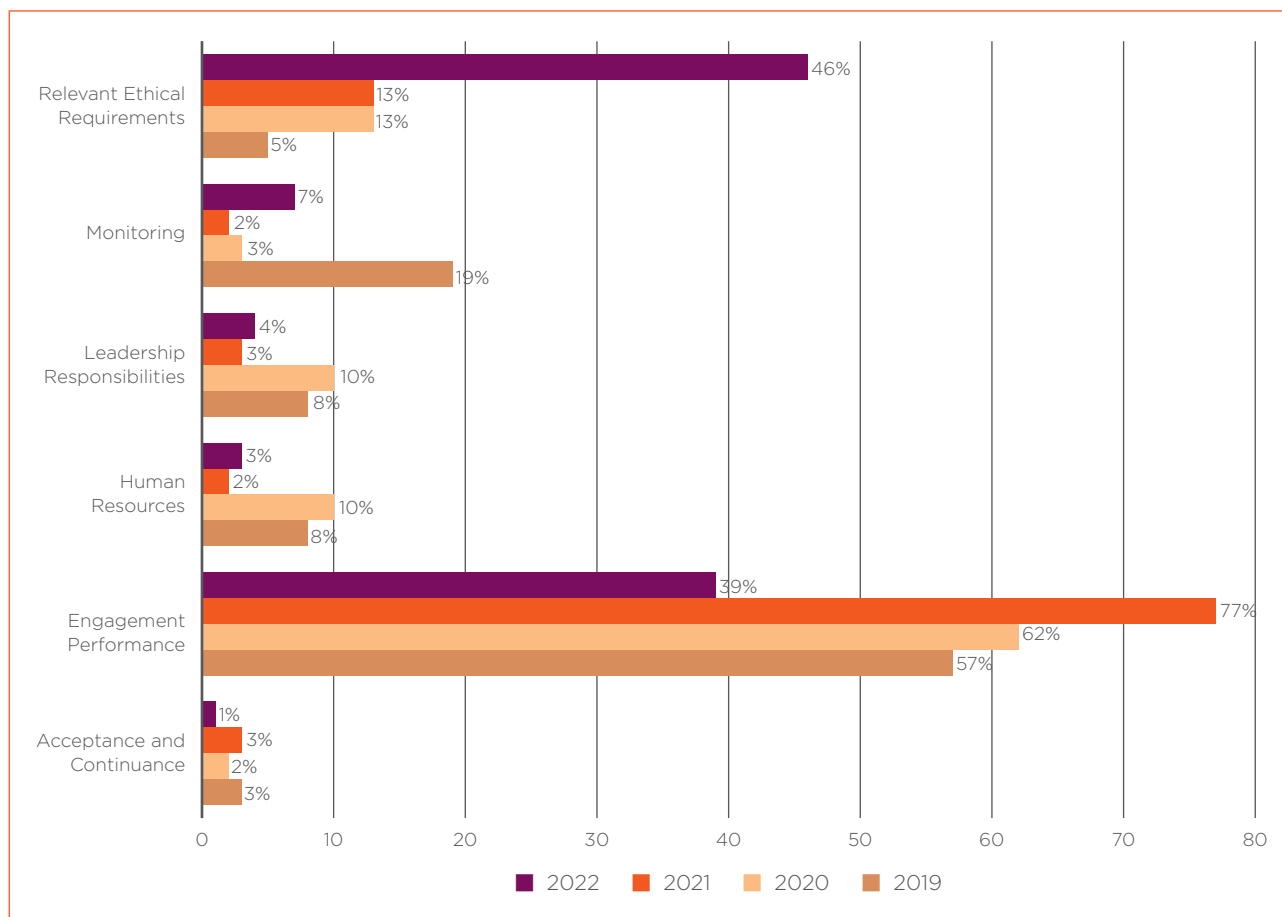


FIGURE 3: Four-year comparison of the ISQC 1 elements' deficiency spread (frequency %).

In general, there have been findings across all the elements of an effective system of quality control, as described in ISQC1. These findings speak mostly to the inadequate implementation of policies and procedures designed to promote an internal culture that recognises quality as essential when performing assurance engagements at the firms.

Below is a summary of some of the common themes and/or deficiencies reported for the top two elements of ISQC 1 identified during the year.

3. INSPECTION OF FIRM-WIDE SYSTEMS OF QUALITY CONTROL continued

Independence

- The firm did not implement policies and procedures to ensure that threats to independence, arising from professional services provided to prohibit and/or restrict entities, are identified and evaluated. As a result, threats to the firms and auditors' independence were not identified or appropriately evaluated, and/or inappropriate safeguards were applied.
- Provision of non-assurance services to audit clients: Most of the deficiencies reported on independence resulted from audit firms providing non-assurance services, such as specific prohibited services in terms of the IRBA Code, to audit clients. This affected the firms' independence in fact and appearance as well as that of their auditors. Prohibited services provided to audit clients included:
 - Non-assurance partners provided assurance services to clients.
 - Internal audit services provided to audit clients in the year directly prior to their appointment as the external auditor to a public interest entity.
 - Valuation, actuarial and other services provided to a listed client in the year preceding an appointment as external auditors.
- Lack of documented evidence that the firm identified and appropriately evaluated the impact of certain threats to independence with regard to:
 - A partner holding a direct financial interest in an audit client.
 - Client fee concentration/dependency.
 - Incomplete restricted entity listing.
- Subcontracting agreements – A firm subcontracted external audit staff to another audit firm as part of the audit of a listed entity. The firm also entered into internal audit services to the listed entity. Neither of the firms adequately documented the threats to independence to demonstrate compliance with the IRBA Code.
- Partner rotation: There were insufficient procedures in place to ensure that the audit firm and its partners complied with the rotation and cooling-off requirements in the IRBA Code and the Companies Act.

- Annual independence declaration process: Independence declarations were not appropriately assessed to confirm that there were no independence matters that need to be addressed; and processes were insufficient, as they were not able to identify an inappropriate appointment or inappropriate relationships.

Engagement Performance

System of quality control – Audit engagement quality and consistency in the quality of engagement performance

- Some audit firms demonstrated an ongoing failure to produce audits of a consistent high quality, considering the significance, nature and extent of the deficiencies and outcomes on engagement files inspected during the year. This included a significant lack of or insufficient documented audit evidence to support the auditors' judgements and audit opinion issued.
- A significant lack of evidence of the review of financial statement presentation and disclosures, including material misstatements not identified and disclosures required by the relevant accounting framework not being presented.
- Significant lack of documented audit evidence regarding the engagement team's assessment of the unadjusted audit misstatements and an inappropriate evaluation of the aggregated unadjusted audit misstatements.
- There continues to be a concerning pattern observed at some firms, where the majority of high-risk engagement files inspected revealed significant deficiencies in audit quality.
- There was a lack of and/or insufficiently documented evidence that all the required sections in the engagement files were reviewed by the engagement partner. In some instances, the review by the engagement partner was only performed after the date that the audit report was signed.
- Some instances were identified where the firm's audit methodology was not appropriately updated for revisions to the International Standards on Auditing (ISAs) that were already effective, in addition to an inadequate methodology on audit sampling.

3. INSPECTION OF FIRM-WIDE SYSTEMS OF QUALITY CONTROL *continued*

Engagement Quality Control Review (EQCR)

- The firm's policy required an EQC reviewer on a particular engagement, but none was performed and/or there was no evidence of a documented review on the engagement file.
- The EQC reviewer did not identify significant deficiencies in audit quality, including material misstatements in the financial statements and insufficient appropriate audit evidence obtained, that the IRBA subsequently identified during inspections. These areas were in the scope of both the IRBA inspection and that of the EQC reviewer.
- Insufficient mechanisms were implemented to ensure the independence and objectivity of the EQC reviewer.
- In some cases, the reliance placed on external consulting firms led the IRBA to question the experience and competence of the audit firms to service the clients that they issued audit opinions on and ensure the effective quality monitoring thereof⁸.

Audit documentation

- Some audit firms failed to establish and implement policies and procedures designed to maintain the confidentiality, integrity, accessibility and retrievability of engagement documentation. Therefore, there were no controls in place, or the existing ones were inadequate, to ensure that the engagement teams complete the final assembly of engagement files on a timely basis.
- A number of instances were identified where there was inadequate control over the safe custody and modifications of archived engagement files.
- In a number of instances, the firms' controls over the file archiving processes did not operate effectively to ensure that audit files were archived within the required period. This included cases where audit files had been modified as a result of internal monitoring by the firms, but the required documentation of the modifications had not been recorded on the file as stipulated. Also, some engagement files were modified after being selected for inspection by the IRBA.

Other firm-wide themes we came across at some firms which should be highlighted include:

⁸ISA 220, par 14.

Monitoring

- Monitoring reviews were not effective in several instances, as the monitoring reviewers did not identify the deficiencies in audit quality that were in the same scope of the engagement file inspections performed by the IRBA. In some cases, the conclusions reached by the monitoring reviewers were inconsistent with the deficiencies identified.
- There was insufficient and/or a lack of documented evidence that firms designed and implemented appropriate policies and procedures relating to the monitoring process. In some cases, no evidence could be provided that all required monitoring reviews were planned for and performed within a three-year cycle.
- There was insufficient and/or lack of documented evidence to assess the objectivity of the monitoring reviewers, to ensure that those performing the monitoring inspections were not involved in performing the engagement or the EQCRs, or that the reviewers had sufficient and appropriate experience and authority.

Acceptance and continuance

- The final risk-approved acceptance and continuance assessments were not included in the audit file. In some instances, the approved acceptance and continuance assessments could not be provided/evidenced by the audit firm.
- The firms' policies and procedures did not address the requirements of ISQC 1 to ensure that, for the acceptance and continuance of client relationships and specific engagements, the firm will only undertake or continue relationships and engagements where the firm is competent and has the capabilities, will comply with ethical requirements, and consider the integrity of the client.

Human resources

- Some firms were unable to provide documented evidence to corroborate the professional training provided to staff.
- The recruitment policies of the firm were not complied with. Evidence that the firm followed its policies and procedures, as included in its quality control manual, could not be provided.

4. INSPECTION OF ENGAGEMENT FILES

4.1 Inspections Results

Figure 4 below provides a snapshot of the results of the engagement files inspected during 2021/2022⁹. The most concerning areas regarding the inspection outcomes are those identified for referral for investigation (further explained in Figure 6 below) and significant improvement required, which remain high.

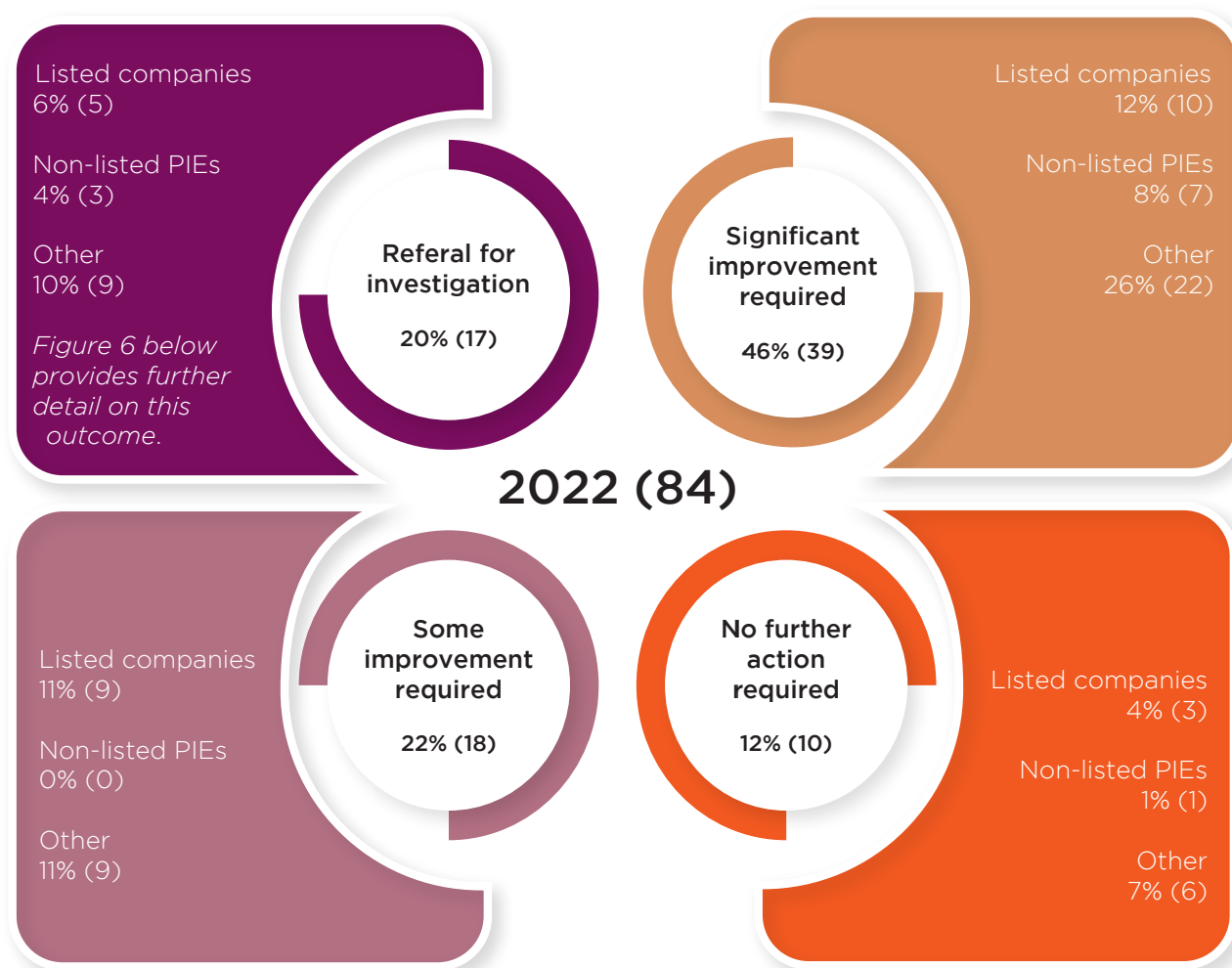


FIGURE 4: Engagement inspections snapshot outcomes for 2021/2022.

⁹A total of 131 engagement inspections were reported to the INSCOM during the financial year ended 31 March 2022 (as reported in the IRBA Annual Report). The results of 47 of these engagement inspections that were inspected, based on the 7th Inspections Cycle strategy, were included in the 2021 Public Inspections Report, but not in the reported 2022 results.

4. INSPECTION OF ENGAGEMENT FILES continued

The graph below depicts the inspection outcomes of the engagement files inspected for the past three years. It can be seen that there was no real change in the frequency of the different outcomes, as concluded by the INSCOM.

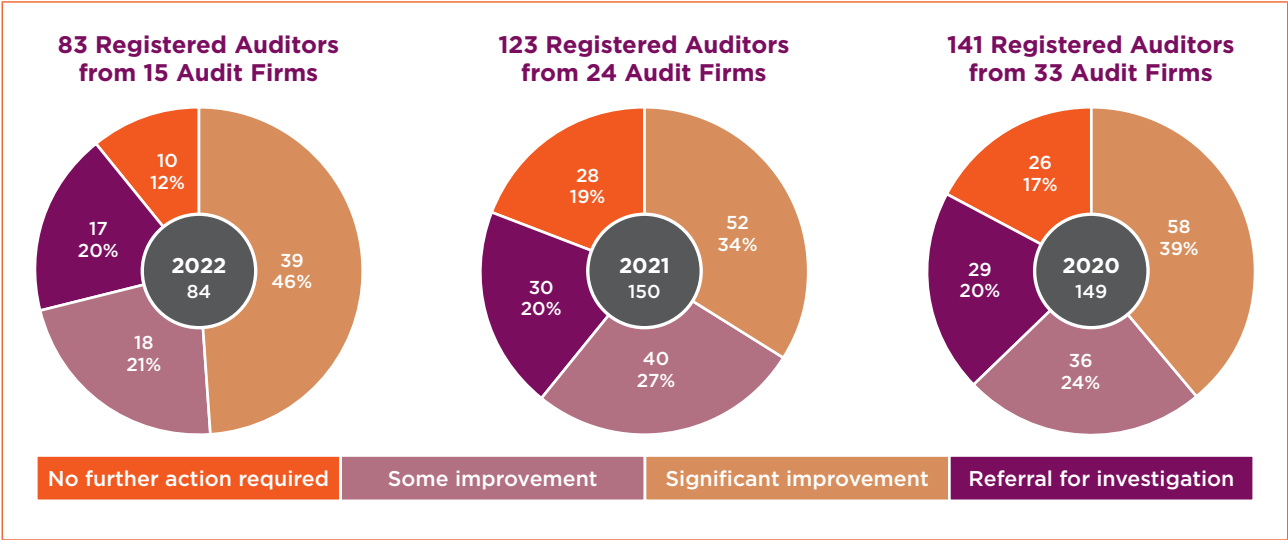


FIGURE 5: Engagement file inspections results.

4. INSPECTION OF ENGAGEMENT FILES continued

Figure 6 below provides further details regarding the outcome for referral for investigation. The result of this outcome is that the engagement partner for a specific engagement is referred to the IRBA's Investigations Department. The referral for investigation would be recommended by the INSCOM on an overall basis or on a specific matter.



FIGURE 6: Inspections outcome – referral for investigation.

4. INSPECTION OF ENGAGEMENT FILES continued

Table 1 below provides further insights into the number of deficiencies identified during the engagement file inspections, per the INSCOM outcome.

Outcome	Number of Engagements	%	Number of Findings	%
Referral for investigation	17	20%	434	58%
Certain matter(s)	8		82	
Overall	9		352	
Significant improvement required	39	46%	256	35%
Some improvement required	18	21%	46	6%
No further action required	10	12%	4	1%
	84		740	

TABLE 1: Analysis of the number of findings per inspection outcome.

This table indicates that should the deficiencies resulting in the eight referral for investigation outcomes on specific matters be remediated appropriately by the firms/registered auditors, the overall outcomes for engagement files can be significantly better.

The concern, however, are the 352 (47%) findings that were identified from only nine engagement files, with a referral for investigation outcome on an overall basis. These nine engagements inspected are from seven different audit firms; and, as can be seen from Figure 6 above, four of them were for listed companies and two for non-listed PIEs. The number of deficiencies identified for the outcomes of referral for investigation and significant improvement represents 93% of the total deficiencies identified from 67% (56) of the 84 engagement file inspections performed. These results call for immediate action and remediation by the audit firms. The urgency and importance of immediate action and required remediation were communicated to the relevant firms after the INSCOM decision.

4. INSPECTION OF ENGAGEMENT FILES continued

4.2 Inspection Deficiency Themes and Trends

The scope for the inspection of an engagement file typically includes audit planning and completion; financial statement reviews and follow-ups on review queries; a number of financial statement line items that are material and/or assessed as significant; and, where applicable, other areas of risk identified. The scope for the inspection of group audit files is extended to incorporate the requirements of ISA 600, which include but are not limited to group planning and reporting, consolidation and a review of the component auditor's work. The coverage for some of the 84 inspections performed also included engagement files for the main trading subsidiary and material divisions/components, which increased the number of files accessed through the inspections process – though not all were counted as separate inspections. This mostly occurs when the same auditor signs the group, company and subsidiary financial statements.

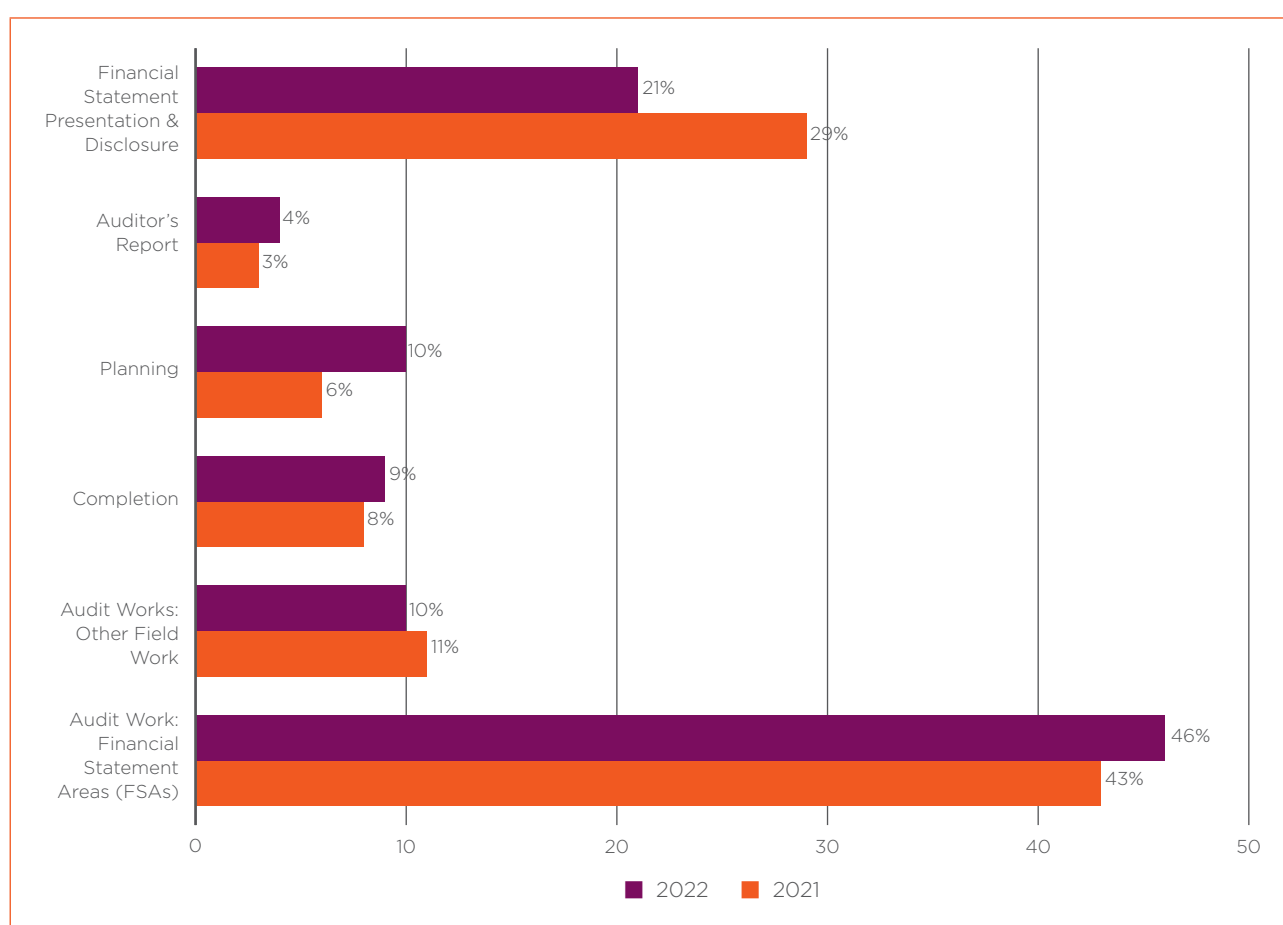


FIGURE 7: Two-year comparison of audit areas.

4. INSPECTION OF ENGAGEMENT FILES continued

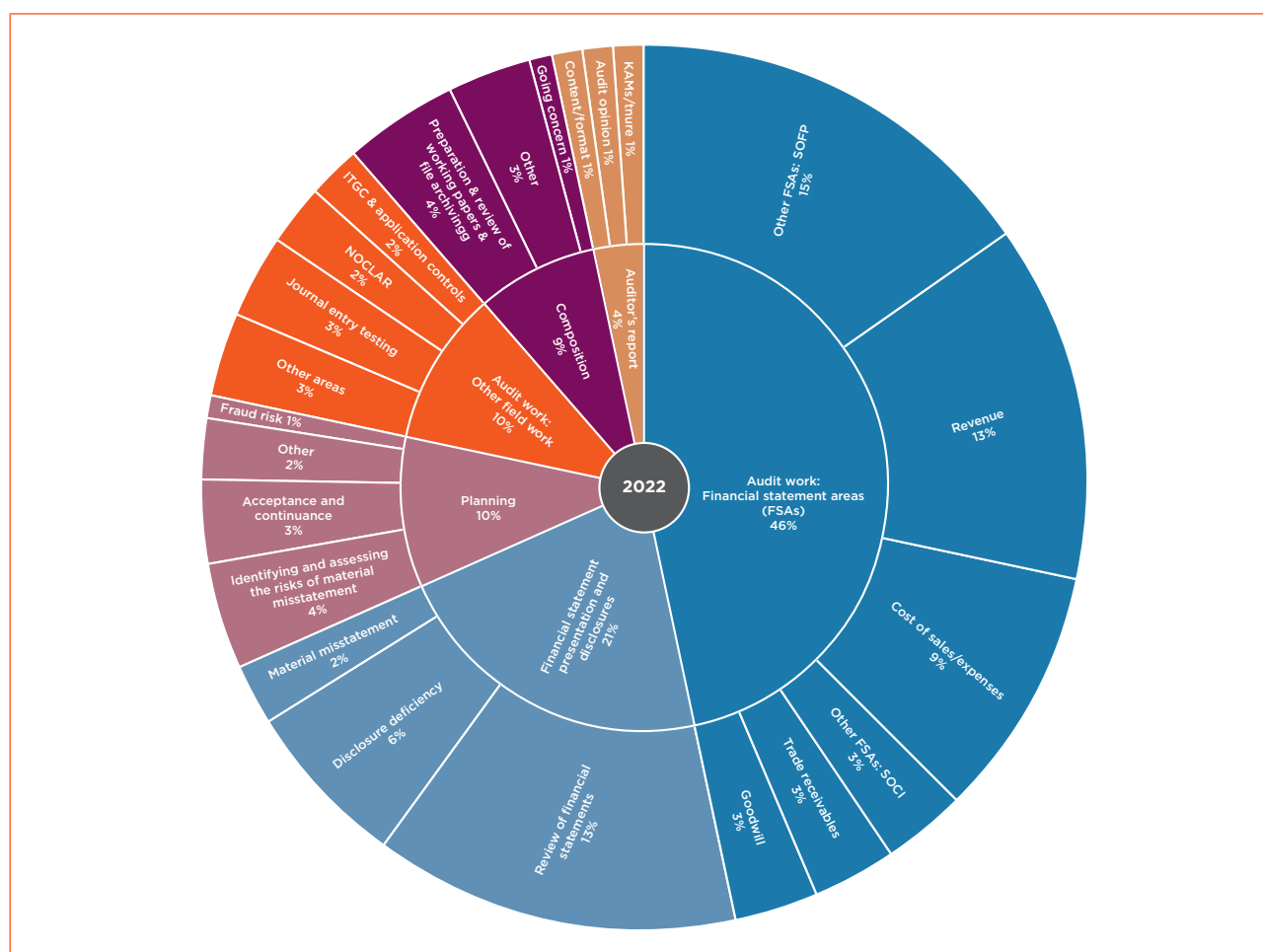


FIGURE 8: Deficiency matrix from engagement file inspections, with top findings under each area (frequency %).

Our inspections focused on the areas of the audit that require the auditor to apply their own judgement throughout the audit process and on the documentation of such judgements. The areas of judgement often relate to significant estimates and judgements¹⁰ that are subjective by nature, requiring more details to be documented on the audit file to enable another experienced auditor to understand the nature, timing and extent of the audit procedures performed, the results of such procedures and the conclusions reached thereon.¹¹ Further areas of judgement include, inter alia, assessing the risk of material misstatement, selecting the appropriate level of materiality, sampling and the evaluation of misstatements. Figure 9 provides a summary of the areas where a lack of significant auditor judgement was identified. The analysis is split between areas of auditor judgement relating to significant accounting estimates and judgements and audit specific areas.

In most of these instances, where there are areas of significant auditor judgement, the auditor must apply **professional scepticism** by appropriately questioning and interrogating the audit evidence provided. Lack of significant auditor judgement and/or professional scepticism in the performance of an audit, as highlighted in Figure 9, further increase the possible negative impact of the nature and extent of the deficiencies identified.

¹⁰ISA 540.

¹¹ISA 230, par. 8.

4. INSPECTION OF ENGAGEMENT FILES continued

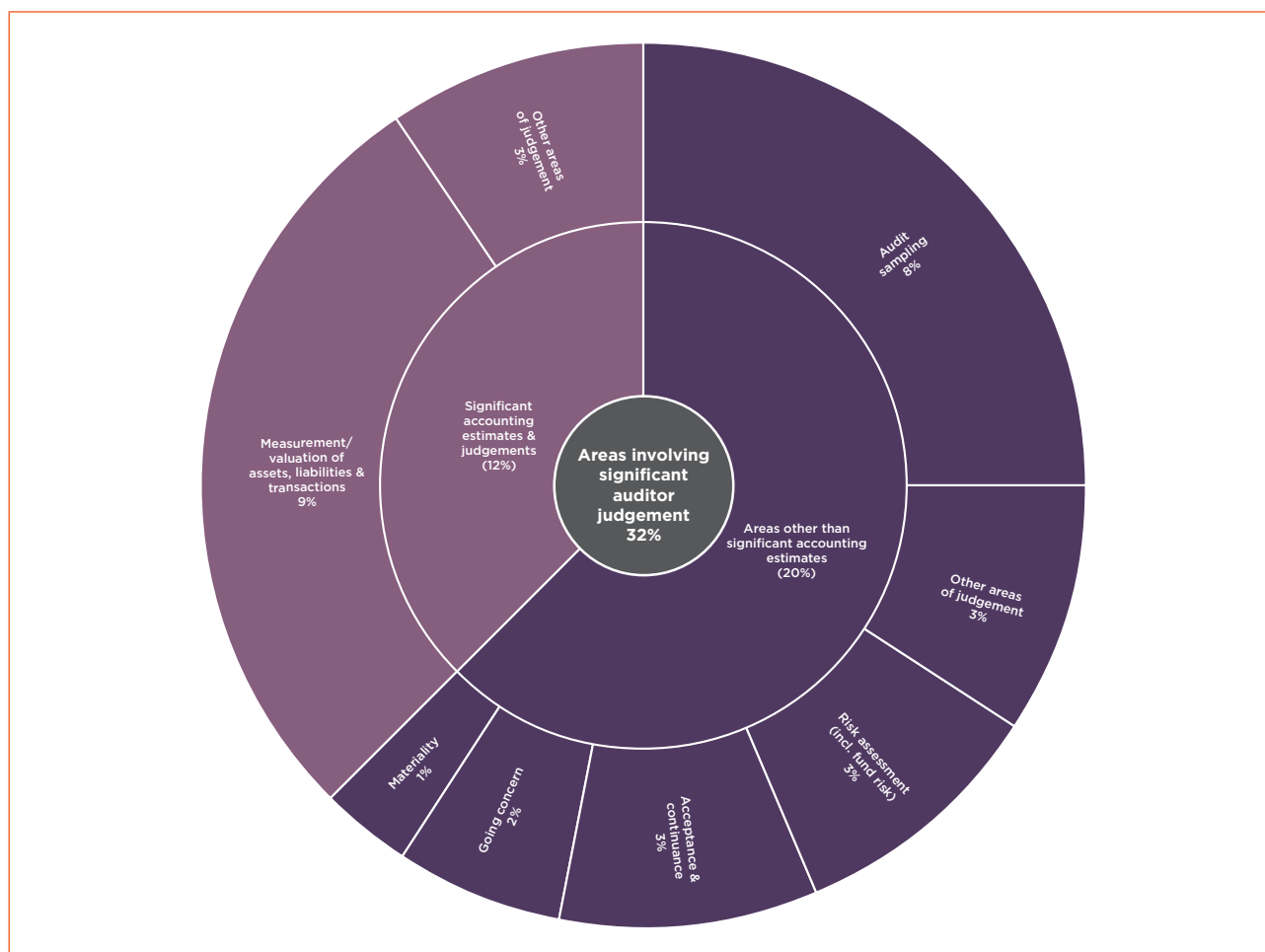


FIGURE 9: Top areas requiring significant auditor judgement (frequency %).

4.2.1 Audit of Financial Statement Areas (FSAs) and Other Field Work

The IRBA continued to focus on areas in the audit and other field work of significant risks¹², the materiality of items and where significant auditor judgement is required. It also identified deficiencies across most FSAs; however, as the scope for each inspection might focus on a different FSA, the deficiencies discussed are those with the highest frequency of occurrence. Revenue is one of the FSAs scoped in for all inspections, due to the fact that revenue is the key driver for most businesses. As in previous periods, most of the deficiencies identified in the FSAs the IRBA identified are recurring in nature. Similarly, the underlying deficiency themes – where significant auditor judgement is required, such as for audit sampling – are recurring across different FSAs inspected, creating doubt around the sufficiency and appropriateness of the audit evidence obtained.

Deficiencies in this area were 56% of the total reported deficiencies during the year. Revenue still remained the financial statement area where the highest number of inspection findings were identified, as in previous years.

¹²ISA 240, par. 26.

4. INSPECTION OF ENGAGEMENT FILES continued

Revenue

Where the auditor was testing the completeness assertion of revenue (the understatement of revenue), the appropriate population to select a sample from is a source independent of the recorded revenue transactions and the revenue amount being tested. This population should include all the items that are expected to be recorded, and the auditor should then determine whether those are included in the revenue recorded¹³.

Completeness of Revenue

Numerous findings relating to this were raised in relation to:

- No or insufficient documented audit evidence that completeness of revenue had been tested for all material revenue streams.
- Auditors often perform analytical review procedures to test the completeness of revenue; however, this procedure is not predictive in nature; therefore, it does not achieve the objective. The analysis was often simply a year-on-year comparative that does not achieve the objective of the test, and these tests do not meet the definition of a substantive analytical procedure¹⁴, as per the standards, resulting in insufficient audit evidence being obtained.

Occurrence of Revenue

This was another area where significant findings were raised and these related to no testing being performed on occurrence; an incorrect source document being used; an inappropriate direction of testing, indicating a lack of understanding of the revenue process; and tests not achieving the occurrence objective, resulting in insufficient inappropriate audit evidence.

Cost of Sales/Expenses

Most of the findings raised related to insufficient appropriate audit evidence documented on the audit files. Findings included:

- Insufficient documented audit evidence in respect of the allocation of overheads allocated to cost of sales.

- A lack of sufficient documented evidence to evaluate whether the information produced by the entity is sufficiently reliable and that the population from which samples were selected or used for substantive analytical procedures is complete.
- Variances above the determined threshold were not investigated when substantive analytical procedures were performed.
- Insufficient substantive audit evidence was obtained on the occurrence, accuracy and completeness of cost of sales.
- Material differences between the financial statement disclosure of cost of sales and the audit work were not resolved on the audit file, with no documented audit evidence of the procedures performed in this regard.
- The audit team concluded that reliance can be placed on the controls over cost of sales, but there was insufficient audit evidence of the control testing performed.

Goodwill

Most of the findings reported in this area related to the measurement and impairment testing of goodwill. Of most concern was the lack of sufficient documented audit evidence regarding the assessment of the significant accounting estimates and judgements used by audit clients. This includes the consideration of all the significant inputs used, such as the appropriate discount rates, cash flow forecasts, reliance on management experts and reliance on information produced by the audit client.

Trade and Other Receivables

The majority of the findings raised related to insufficient appropriate audit evidence with regard to the measurement of trade and other receivables, specifically audit work on the assessment of expected credit losses. There was no or insufficient documented audit evidence on the audit file that the engagement team evaluated the assumptions, inputs and judgements used by management in the measurement of expected credit losses.

¹³ISA 330, par. A45; ISA 315 (R), par. A129; ISA 500, par. 10; and ISA 530, par. A5.

¹⁴ISA 520, par. 5.

4. INSPECTION OF ENGAGEMENT FILES continued

4.2.2 Financial Statement Presentation and Disclosure

This area highlights the reportable deficiencies identified that relate to financial statement presentation and disclosures, which include the audit work required in the review of all the information presented and disclosed in the financial statements, in terms of the requirements of the relevant accounting framework and/or other applicable laws and regulations. The deficiencies identified have increased substantially over the past few years, to the extent that in the current year these comprised 29% of all inspection deficiencies reported on. The increasing trend in these deficiencies is of concern and requires urgent attention.

Material Misstatements

Material misstatements were identified during the engagement file inspections, resulting in the audit opinion not being appropriate. As a result, these deficiencies were one of the common reasons for a “referral for investigation” outcome on engagements inspected. This included:

- Statement of Cash Flows (SOCF)
 - Material non-cash transactions were presented as cash flows¹⁵.
- Statement of Financial Position (SOPF)
 - A third balance sheet was not presented, as required by the International Financial Reporting Standards (IFRS), where the prior period has been restated¹⁶.
 - Financial statement line items were materially misstated, including non-current assets being classified as held-for-sale, goodwill and other assets.

Disclosure Deficiencies

Findings on disclosure deficiencies were reported in most instances where the IRBA performed a review of the financial statements. This has been a continuing trend throughout the 7th Inspections Cycle. There was also a lack of documented audit evidence of the engagement partner’s evaluation

of whether the omission would be material to the financial statements, or why the disclosure deficiency was accepted. Disclosure deficiencies were identified on a number of different areas, with the top deficiencies relating to:

- Insufficient disclosures relating to the impairment assessments of goodwill¹⁷.
- Directors’ remuneration disclosure:
 - Disclosure of directors’ remuneration that was not in compliance with the requirements of the Companies Act¹⁸, where these disclosures were provided in aggregate and not per director.
 - Insufficient audit evidence on file to support the directors’ remuneration disclosed, particularly with regard to the completeness assertion.
 - Directors’ remuneration that had been paid by the group and not disclosed in the company financial statements, in terms of Section 30 of the Companies Act.
- Incorrect and/or insufficient IFRS 7 disclosures to achieve the objectives of this standard. The recurring deficiencies reported relate to a number of the IFRS 7 disclosure requirements, including liquidity risk and maturity analyses, credit risk, sensitivity analysis and expected credit losses.

Review of the Financial Statements

This section relates to inspection findings regarding the lack of audit work and/or insufficient audit work by engagement teams, to support their review of the financial statement presentation and disclosures. In these cases, our inspections process did not necessarily identify a factual misstatement or disclosure deficiency, meaning the presentation and disclosures could be appropriate. However, in most cases, there was no or insufficient documented audit evidence to support the view of the auditor regarding the presentation and disclosure in the financial statements. The areas where we identified most of the findings relating to a lack of or insufficient appropriate audit evidence are as follows:

- Statement of Cash flows:
 - No documented evidence that the SOCF was tested to confirm that material non-cash transactions were not presented as cash flows.

¹⁵International Accounting Standard (IAS) 36, par. 134.

¹⁶IAS 1, par. 40A.

¹⁷IAS 36, par. 134.

¹⁸Companies Act, 2008, Section 30 (4)-(6).

4. INSPECTION OF ENGAGEMENT FILES continued

■ Classification:

- Assets and liabilities – Current/non-current: Particularly, the classification of loans to/from related parties as current or non-current assets and/or liabilities and debt or equity. This can be further complicated where there were subordination agreements entered into between companies in a group, with the auditor not assessing whether the entities granting the subordination were in a financial position to do so.

■ Disclosure notes:

- Director's remuneration – Accuracy and completeness of the director's remuneration disclosed.
- Significant accounting estimates and assumptions disclosed for the valuation and/or impairment of assets. This was linked mostly to the disclosures relating to property, plant and equipment; goodwill; intangible assets; and investment property.
- Restatements did not clearly identify the reasons for the restatement as either a change in accounting policy or a correction of an error. Instances of non-compliance with the disclosure requirements of IAS 8 and IAS 1 were identified in this regard, being the requirement to present a third balance sheet and the required disclosures.

4.2.3 Audit Planning

The reportable deficiencies relating to the planning of audits comprised 6% of all inspection deficiencies reported on. Auditors are required to make a number of significant audit judgements during the planning of an audit. The main area where most of the reportable deficiencies were identified involves significant judgement in considering compliance with the requirements of the audit standards.

Risk Assessment (including fraud risk)

- No or insufficient documentation on the engagement file relating to the auditor's assessment of the risk of material misstatement due to fraud or error; and the auditor's assessment of the risk of material misstatement at the assertion level, for all material balances and classes of transactions¹⁹, and at the financial statement level. The assessment of the risk of fraud at the assertion level was often combined with the risk of material misstatement at the assertion level, in the same working paper. However, the auditor did not clearly identify which balances or classes of transactions had been identified as fraud risks.
- Fraud risks would be identified at the risk assessment stage of the audit, but no or inadequate audit procedures would be performed during the fieldwork to respond to the fraud risks identified²⁰.
- Presumed significant risks relating to fraud in revenue recognition: The rebuttal of the presumed fraud risk in revenue recognition still continues to be a default practice at some firms. While rebuttals are indeed allowed, the IRBA noted that in some instances the auditor's documented justification for rebutting the significant risk was inappropriate. For example, there was insufficient documentation to understand how the engagement team concluded that the presumed fraud risk in revenue would not give rise to a fraud risk related to the occurrence of revenue. Revenue rebuttal should be justified and documented at the revenue stream and assertion levels, to enable an experienced auditor to understand the nature, timing and extent of audit procedures performed, the results of such procedures and the conclusions reached thereon²¹.
- Numerous instances were identified where the auditor had not sufficiently documented their reasoning for concluding a risk rating of significant or normal²², to enable an experienced auditor to understand the nature, timing and extent of audit procedures performed, the results of such procedures and the conclusions reached thereon.

¹⁹ISA 330, par. 28.

²⁰ISA 330, par. 21.

²¹ISA 200, par. 5, 7, 17; ISA 230, par. 8; ISA 240, par. 26, 47, A30; ISA 315(R), par. 27; and ISA 500, par. 6.

²²ISA 230, par.8; and ISA 315(R), par. 26, 27, 32.

4. INSPECTION OF ENGAGEMENT FILES continued

- A disconnect between the risk assessment performed on the engagement file versus the nature, timing and extent of audit evidence gathered: There were numerous instances where the risk assessment at the assertion level would reflect a particular financial statement line item as a significant risk. Yet, the documented sample size or approach taken in the fieldwork section of the audit file would be insufficient in terms of the firm's methodology in addressing a significant risk²³.

Of concern is that these types of findings were recurring, despite being addressed in the South African Institute of Chartered Accountants' [Frequently Asked Questions joint publication](#) and reported on in detail in previous Public Inspections Reports.

Acceptance and Continuance

Most of the findings identified in this area related to the assessment of the independence requirements in the ISAs and the IRBA Code. The findings identified non-compliance with the ISAs and breaches to the Code, resulting in "referral to investigation" outcomes for a number of the engagement files inspected. As already reported above, most of the deficiencies related to the independence of the firm and/or engagement partner.

The following findings were reported:

- The engagement partner did not take appropriate action to eliminate threats to independence that were identified by the engagement team.
- No or insufficient documented audit evidence that the engagement team considered the actual or perceived threats to independence where:
 - The firm provided non-assurance services to PIEs and other audit clients.
 - The percentage of non-audit fees received from the audit client was significant in relation to the audit fee.
- No or insufficient documented audit evidence regarding the identification of independence threats and the application of appropriate safeguards to address those threats.

4.2.4 Audit Completion

The reportable deficiencies relating to the completion of audits comprised 8% of all inspection deficiencies reported on. During the completion of an audit, the auditor is required to make further significant judgements before the audit opinion can be issued and procedures that need to be performed after the audit opinion has been issued, relating to the completion of the assembly of final engagement files. The areas where most of the reportable deficiencies were identified are outlined below.

Completion of the assembly of final engagement files (file archiving)

We again observed a number of findings relating to the assembly and archiving of audit files, and this included the following:

- A number of engagement files were identified that were not archived within the required period of 60 days after the report signing dates. This included engagement files of component auditors to support the group audit opinion that were not archived within the required period after the date of the opinion on the group financial statements.
- A lack of sufficient documented audit evidence to confirm that the engagement file was archived within the required 60 days after the report signing dates.
- No documented evidence for the reasons where working papers were created/modified after the audit report date.

Other areas, which include recurring findings

The areas where recurring findings were identified (though at a lower frequency than in previous reporting periods) include the following:

Evaluation of uncorrected misstatements:

- Significant lack of documented audit evidence regarding the engagement team's assessment (quantitative and qualitative) of the unadjusted audit misstatements and an inappropriate evaluation of the aggregate unadjusted audit misstatements.

²³ISA 330, par. 28.

4. INSPECTION OF ENGAGEMENT FILES continued

- No documented evidence that uncorrected misstatements were accumulated and assessed for the group.
- We observed several instances across audit firms where the practitioner, during his/her evaluation of uncorrected misstatements, accepted uncorrected misstatements that were individually material and/or cumulatively material to be carried on their summary of unadjusted audit differences, without sufficient documentation on the audit files as to the judgements and factors considered before arriving at the conclusion²⁴ to accept these unadjusted differences as not being material to the financial statements. (This observation was not confined to estimates and judgements only.)
- The unadjusted differences in the audit file were different from the ones included in the management representation letter. These inconsistencies had not been identified and resolved by the engagement team.
- Non-disclosure or incorrect disclosure of the audit tenure (number of years), as required by the IRBA communique issued on 4 December 2015. The incorrect calculation or disclosure of the audit tenure can create doubt on the accuracy of the firm's audit partner rotation planning. The objectives of the Mandatory Audit Firm Rotation rule – which aims to, among others, strengthen auditor independence, minimise fraud and corruption, enhance audit quality as well as address transformation and market concentration in the auditing profession – may not be achieved once it becomes effective on 1 April 2023.
- Deficiencies relating to the Key Audit Matters (KAMs) disclosed in the auditor's report:
 - No or insufficient documented audit evidence that the appropriate audit procedures were performed to address the KAMs.
 - Inaccurate information disclosed in the audit report; for example, incorrect amounts and incorrect references to the notes in the financial statements.

4.2.5 Auditor's Report and Opinion

The presentation was not in accordance with the requirements of the South African Auditing Practice Statement 3 issued by the IRBA. The deficiencies identified include:

- Omissions of key paragraphs around the auditor's responsibility for the audit of financial statements and in relation to independence, where compliance with the IRBA Code was omitted from the auditor's report.
- Omission of the reference to either the consolidated or separate financial statements in the audit opinion, where both the consolidated and separate financial statements were presented and covered by the audit opinion.

²⁴ISA 450, par 11.

5. GOOD PRACTICES

Based on the observations from our 2021/2022 inspections, we want to highlight good practices that audit firms introduced to address deficiencies in audit quality that were reported to them. Also, there are good practices introduced to address challenges such as staffing and information technology (IT) advancements. We want to encourage other auditors to consider whether these practices may apply to their audit engagements and to then implement the applicable ones proactively, to help ensure compliance with auditing standards and audit quality requirements.

Independence

Consultations

- The firm increased the frequency of consultations on matters of independence and the depth of documentation relating to its own judgements, including learnings from previous audit quality deficiencies reported on by the IRBA.
- Engagement teams consulted on judgemental ethical matters. The firm's independence department followed a formal and structured approach. References were consistently made to the IRBA Code. In applying safeguards, the firm used the guidance in the Code; and it was easier to follow the firm's judgements and actions (compared to other firms where this process is less structured). The firm timeously finalised consultations.
- The audit firm implemented an improved process that guides professionals through their financial holdings, including their close family members, to ensure that all factors are evaluated.

Establishing disciplinary actions

Audit firms implemented policies and procedures providing sanctions for personal independence violations. The process includes audit firms assessing the severity, frequency and nature of personal independence violations and determining disciplinary actions commensurate with the violations and these can include monetary sanctions.

Reportable Irregularities (RIs)

Consultation

The process of reporting RIs was improved to include further consultation with the firm's audit technical division. The documentation requirements were enhanced to ensure the documentation of the specific judgements applied by the auditor was detailed, with due consideration of the APA requirements and the specific circumstances of non-compliance.

Systems of Quality Control

Use of technology-based tools

Information, including all consultations (audit technical, independence, IFRS, client acceptance, etc.), was captured on a system that is set up to prompt different levels of approvals, an attachment of evidence of actions taken and conclusions on how matters were resolved. The system setup ensures that all matters reported can be understood and the resolutions followed verified. Where meetings are held to resolve matters, the teams document the minutes and file them on the system as evidence of outcomes/actions.

Engagement team support functions

Staff from the firm's technical and risk functions assist audit teams with areas of audit significance during the audit. This is over and above the quality control responses (e.g. involvement of experts, second review partner, EQCR and monitoring) that are designed to actively assist the teams to appropriately respond to audit risks at the engagement level.

Developed/updated working paper templates

Specific topical guidance was added to the audit firm's templates, to address deficiencies in audit quality that it and the IRBA had identified. Also, there were updated process flows to enhance the involvement of senior staff and partners for areas of significant risk and audit judgement.

5. GOOD PRACTICES continued

Capacity of the EQC and monitoring reviewers

Certain audit firms invested significantly towards increasing their internal capacity of EQC and monitoring reviewers. Also, more time was allocated for monitoring the remediation and audit processes; the responsibility to take action to improve EQC and monitor reviews was allocated to dedicated persons within the firm; and deficiencies were addressed live or sooner than later.

Training

Though the focus remained on the reported deficiencies, a more practical stance on training with “live” examples and case studies, for the audit teams to understand and execute better, was taken. Software enhancements to address shortcomings and keep up to date with the latest standards, linked to the practical training, were implemented.

Specialists

There were big investments to, among others, train specialists and introduce engagement team support functions deployed from the firm’s technical (internal and external) and risk functions, to actively assist the engagement teams to appropriately respond to audit risks.

6. INFORMATION TECHNOLOGY

6.1 Requirements and Importance

There is an increasing adoption of automation technologies and tools – for entities and firms’ processes – to automate business and audit processes. In this evolving environment, the IRBA recognises the increasing importance and impact of the use of technologically driven tools and techniques to assess risk, formulate responses and gather sufficient and appropriate audit evidence in an effective and efficient manner. These automation technologies have been applied in, for example, stock counts, asset verifications and financial reporting processes. As a result, some firms have also introduced guidance on these sooner. This has been largely driven by the standard setters’ recognition and subsequent incorporation of technology considerations in, for instance, ISA 315 (Revised 2019); International Standard on Quality Management (ISQM) 1; ISA 220 (Revised); the International Ethics Standards Board for Accountants’ (IESBA) exposure draft on Proposed Technology-related Revisions to the Code, as part of its “Genesis of the Technology Project”; and the non-authoritative guidance related to the use of technologies issued by the International Auditing and Assurance Standards Board (IAASB) on planning, risk assessment, risk response and documentation.

The adoption of technology usually follows an S-curve/learning-curve wherein:

- a) Technologies/technological innovations are under development for a substantially long period before their introduction to markets; and
- b) During the stages of entry, they go through an extended period with early adopters before there is a sudden exponential adoption and growth.

An example of exponential adoption and growth was seen during the COVID-19 lockdowns, as the use of technologies increased. This observation of the S-curve is critical because a number of technologies/technological innovations are currently in their adoption phases and are yet to see exponential adoption. Examples of these are technologies/innovations such as Cloud, Big Data, Blockchain and Automation (drones, robots and artificial intelligence) that have been around for the past decade, but are still in the development stage in their many iterations.

The International Forum of Independent Audit Regulators (IFIAR) presented the following digitalisation and technologies observations and findings during the 2022 Annual Virtual Inspection Workshop:

- a) Insufficient data extraction and preparation.
Lack of ensuring the accuracy and completeness of the dataset used by failing in the following:
 - Test of the general IT controls;
 - Test of controls over the entry and modification of master and transaction data;
 - Reconciliation of transactions with the source system; and
 - Performing substantive audit procedures on transactions.
- b) Inappropriate documentation of audit procedures.
Lack of understanding of the functionality of the tools/techniques and results of the analysis:
 - No adequate analysis;
 - Insufficient reconciliation procedures;
 - Lack of testing controls;
 - Insufficient performance of substantive audit procedures;
 - Inadequate assessment of exceptions; and
 - Insufficient testing of outliers.

While in the reporting period the IRBA has identified similar deficiencies to those reported by the IFIAR, the Inspections Department’s observations are reported below.

Our Observations

Success factors

- Audit teams that have obtained and documented a thorough understanding of the entity, its environment and information systems are more likely to appropriately identify and document the risks of material misstatement related to the financial reporting process.
- Firms that have clearly defined policies and procedures related to information technology aspects of the audit and that consistently monitor compliance with these policies and procedures achieve the desired level of audit quality.

6. INFORMATION TECHNOLOGY continued

Deficiencies noted

In the current year, deficiencies relating to the audit of the information technology systems have attracted a great deal of attention. Most of the deficiencies identified related to:

- Insufficient documentation by registered auditors regarding the understanding of information systems and the assessment of how the entity addresses IT risks. This includes several instances where the engagement team had not documented the following requirements per ISA 315 (Revised), paragraphs 17, 18 and 21, read with application paragraphs 64 and 108:
 - Information systems with a direct impact on the financial reporting process of the entity; and
 - The audit approach adopted for systems reliance.
- Insufficient documentation by registered auditors regarding the procedures performed to obtain sufficient and appropriate audit evidence to obtain reliance on the operating effectiveness of IT general and application controls (ISA 330, paragraphs 8(b), 10(b), 13 and 17). This includes several instances where IRBA identified the following deficiencies:
 - Insufficient documentation on procedures performed to test the reliability of the information from a third-party IT system;
 - Insufficient sample sizes;
 - Insufficient coverage of IT general control areas, e.g. user access management;
 - Insufficient coverage of IT applications control areas, e.g. automated journal entries and insurance premium revenue;
 - Insufficient evaluation of control deficiencies; and
 - Procedures limited to inquiry alone.
- Insufficient documentation of audit procedures performed to obtain sufficient and appropriate audit evidence of accuracy and completeness of systems reports (ISA 500, paragraph 9).

6.2 Future Outlook

There has been a number of increased risks in the South African environment. These include a significant number of data breaches, leading to the exposure of personal information; and an increasing adoption of Blockchain, resulting in the public experiencing losses of a financial nature. With the implementation of the Protection of Personal Information Act and the enactment of cybersecurity laws and regulations, it is becoming more prevalent for auditors to adequately understand the IT environment, as well as appropriately assess and respond to IT risks as part of their audit responses where they audit. The IRBA continues to observe the increasing use of technology (either developed in-house or purchased applications) as part of the auditor's response to audit risks, and this adoption of technology in the audit process is encouraging.

As the audit environment continues to be more automated, with an expected exponential increase in the adoption of audit-related technology, we believe that it is now paramount to have an embedded and standardised approach to IT audit inspections as part of the inspections process. To this end, the department has successfully integrated the risk assessment processes into the existing process. In addition, it is in the final stages of fully integrating the performance and reporting of these inspections, along with working tirelessly to capacitate the existing inspectors and bolster IT audit expertise.

The IRBA is also undergoing changes on the technology front by seeking further collaborations with relevant stakeholders (firms and regulators), to improve our effectiveness as a regulator. With the implementation of the new Quality Management standards, the IAASB and the IESBA – through their technology workstreams – are continuously publishing literature related to audit guidance on the use of technology tools in the audit process and their impact on ethics. Further, the IFIAR, also through its technology workstreams, is using its collaborative efforts to ensure that inspections remain effective; and the Inspections IT team has been actively participating in those initiatives since their inception.

7. REMEDIAL ACTION ON INTERNAL MONITORING AND RECURRING INSPECTION FINDINGS

The IRBA continued with its Remedial Action Process, engaging with the firms and partners through interactive discussions on the Root Cause Analyses (RCAs) and Remedial Action Plans (RAPs). Firms and partners seem to have welcomed the enhancement to the process that includes introducing Proactive Monitoring. In fact, all the firms visited for inspection during the year opted to participate in the Proactive Monitoring process. Though participation does not yet include all the registered auditors inspected and that had an inspections outcome of referral for investigation or significant improvement, we expect it to increase in 2023, as capacity dedicated to the implementation of the new audit quality standards improves.

During this period, most of the firms visited were concerned about their available capacity to address the IRBA's concerns around resources to ensure that the firms' systems of quality are effective, and regarding the effectiveness of their remediation of audit quality deficiencies. The pressure on the audit firms' capacity is not only as a result of the implementation of the new SOQM that became effective on 15 December 2022, but also due to the drain on resources in the audit space.

Through recent public discussions and publications, the IRBA has noted its concerns regarding the number of registered auditors (RAs) that are in its register. The total number of active RAs²⁵ as of October 2022 was 3 680 (2021: 3 624), consisting of 2 834 (2021: 2 779) assurance RAs and 846 (2021: 882) non-assurance RAs. The number of assurance RAs remained constant over the period, and that should contribute to confidence in the profession and stability regarding those who sign off on audits.

Most firms remained positive and regard the Remedial Action Process as essential in the achievement of shared objectives to improve audit quality and serve the public interest. The challenge remains the rectification of the reported deficiencies through the firms' internal remediation processes, inclusive of the identification of the true root causes. Figures 10 and 11 below depict the RAP and RCA reviews performed during the year and their outcomes.

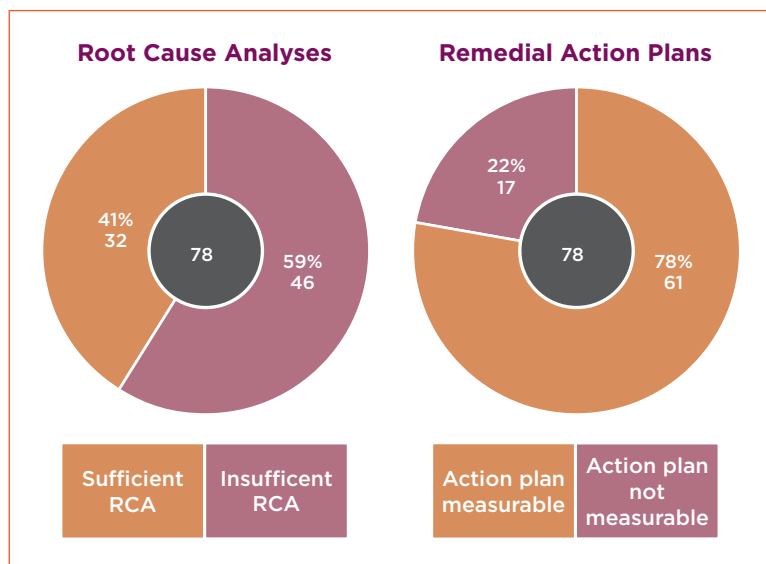


FIGURE 10: 2022 IRBA Remedial Action Process
- Reviews performed (Inspection outcomes: Referral for investigation and Significant improvement).

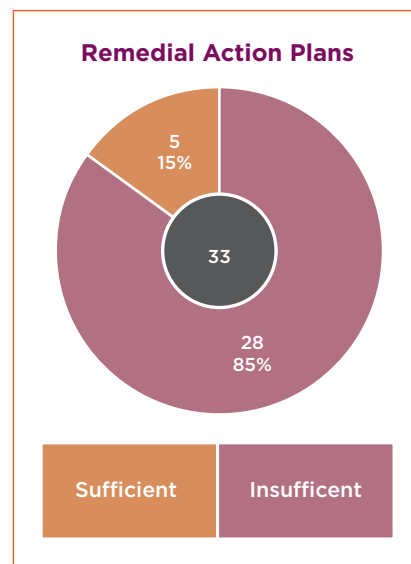


FIGURE 11: 2022 IRBA Remedial Action Process
- Verifications performed (Inspection outcome: Some improvement).

²⁵Refer to the 2022 IRBA Annual Report for a four-year analysis of the RA population (<https://www.irba.co.za/library/annual-reports>).

7. REMEDIAL ACTION ON INTERNAL MONITORING AND RECURRING INSPECTION FINDINGS continued

The Remedial Action Process includes the assessment of whether the remediation plan implemented at both the firm-wide and individual levels achieved its objective of real remediation. From the analysis of inspection findings, the observation is that the recurrence of noted deficiencies highlighted during inspections persisted at the same firms and/or for the same RAs. This is despite the remediation plans/actions reflected in the *Remedial Action Plans* submitted to the IRBA.

The most common root causes identified by the firms/RAs, as included in the Root Cause Analyses submitted, were:

- “Oversight” by the reviewer;
- Insufficient documentation of audit work;
- Insufficient reviews performed by senior team members;
- Lack of knowledge/training, inexperience of staff, over-reliance on managers and junior staff;
- Lack of proper supervision;
- Audit methodology and working paper templates incorrect/insufficient; and
- Audit firms’ policies and procedures (followed by the teams) not correct/insufficient.

To address the root causes identified in the Root Cause Analyses, the most common responses included in the *Remedial Action Plans* submitted by the firms/RAs were:

- Training (audit technical/methodology, IFRS technical, soft skills);
- Coaching/on-the-job training to be provided by senior/experienced staff;
- Documentation of the audit work will be enhanced;
- Working paper templates to be updated to address the shortcomings;
- Enhanced reviews of audit files;
- Updates to the firm’s audit methodology and/or audit procedures; and
- Updates of the firm’s policies and procedures (firm level, e.g. independence assessments).

The above responses are a reflection of the high percentage of the insufficiency and measurability of the submissions, as reflected in Figure 10 above. Also, these responses clearly demonstrate that true root cause analyses have not been performed and actionable remediation plans have not been developed. (Refer to Appendix B for guidance.)

The IRBA’s concern is that the RAPs include remediation “actions” that are already in place at the audit firms as part of their systems of quality. These comprise regular training on auditing and accounting standards; established audit methodologies (including appropriate guidance) as well as firm policies and procedures governing the actions of auditors; and trainee programmes, including programmes for the coaching, mentoring and development of staff. The question then is whether the true root causes are being identified, and/or these continued actions, though extremely important to continue with, will address deficiencies in audit quality at both the individual and firm-wide levels. From the analysis of the firm-wide and individual inspection deficiencies, it seems that where significant findings were identified, it came down to the individual auditor not ensuring that the appropriate level of audit quality had been achieved on the engagement.

Audit quality cannot be achieved through repeated actions on paper. It requires commitment at the individual auditor and engagement team levels to ensure that auditing standards are complied with, through the assistance of the firm’s technical support and consultations, together with the application of the firm’s methodology.

Through the introduction of the Proactive Monitoring initiative, the IRBA hopes to create real remediation at an individual auditor level, with the expectation that such intervention will then influence audit quality at a firm-wide level. The firm’s commitment to improving audit quality through its internal monitoring process is also essential for this objective to be achieved. This might require a shift in the firm’s approach from monitoring from a risk exposure point of view (e.g. there are deficiencies, but in the firm’s judgement there is no external risk exposure that the audit opinion is incorrect) to a focus on improving audit quality. This is evident from the 2022 Survey Report: Audit Quality Indicators²⁶ (AQI Report), which covers information for engagements that were completed during the 2021 calendar year. In the report, results show that for the same firms internal monitoring outcomes are significantly different from the IRBA’s inspection outcomes.

²⁶Available by clicking on the following link: [2022 AQI Report: Audit Quality Indicators – A journey to Advance Audit Quality](#).

7. REMEDIAL ACTION ON INTERNAL MONITORING AND RECURRING INSPECTION FINDINGS continued

Figure 12 depicts the differences (average) between the IRBA engagement inspection outcomes and the internal monitoring results reported by the firms as part of AQIs survey.

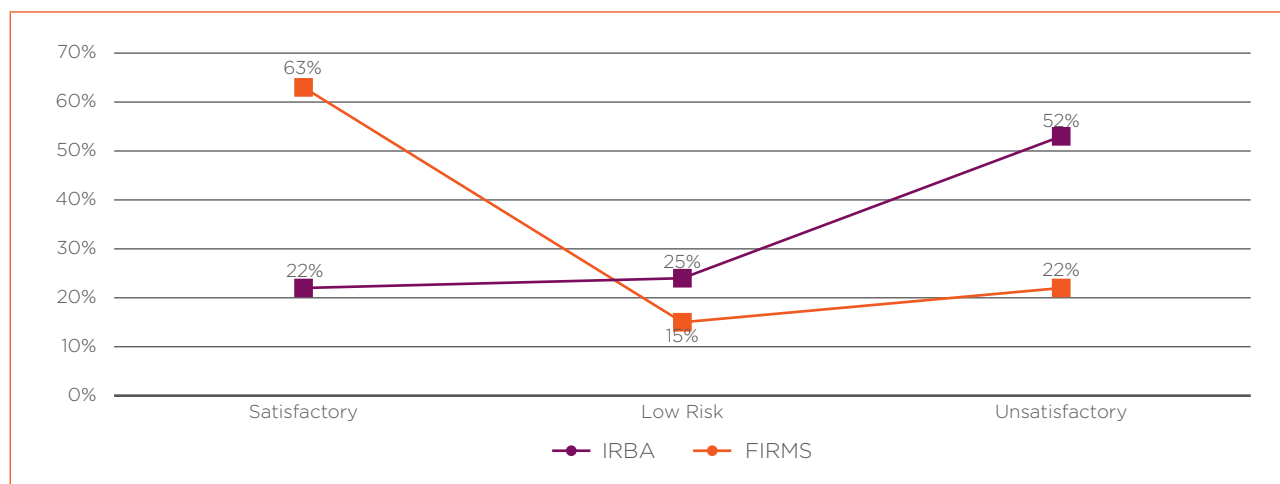


FIGURE 12: The IRBA engagement inspection outcomes versus the firm monitoring results.

The table below provides a detailed breakdown of the monitoring results reported by the audit firms as part of the AQI Report and the IRBA engagement inspection outcomes for the eight audit firms that participated in the AQI survey.

	IRBA Engagement Inspections			Firm Monitoring Reviews		
	Satisfactory ¹	Low Risk ²	Unsatisfactory ³	Satisfactory	Low Risk	Unsatisfactory
Firm 1	0%	0%	100%	39%	36%	25%
Firm 2	33%	44%	22%	77%	23%	0%
Firm 3	14%	43%	43%	82%	6%	12%
Firm 4	0%	36%	64%	40%	20%	40%
Firm 5	30%	10%	60%	33%	33%	33%
Firm 6	43%	43%	14%	93%	0%	7%
Firm 7	0%	0%	100%	56%	0%	44%
Firm 8	52%	26%	22%	85%	4%	12%

¹No further action required

²Some improvement required

³Referral for investigation & Significant improvement

8. CONCLUDING REMARKS

Firms, and firm leadership in particular, are required to ensure – as part of their processes of continuous improvement and remediation – that all deficiencies identified and reported during a firm or an engagement file inspection are promptly addressed throughout the entire firm. It is therefore expected that where improvements are required, these should be promptly addressed by all engagement teams across the firm, on all of its audits. The need to protect the public interest and repair the reputation of the auditing profession has never been higher. As such, firms are strongly encouraged to pay close attention to the analysis of the themes presented by the IRBA, to ensure that they are able to implement processes and controls that address these deficiency themes in a sustainable manner. That will enable the performance of high-quality audits that are responsive to the changes in risks and the increased complexities introduced during the pandemic.

The frequency²⁷ of findings remains significantly higher compared to the latest global inspections survey results released by the IFIAR. There has also been a noticeable and concerning deterioration in the results of firm-wide inspections, specifically relating to ethics and independence.

While inspections and the resulting deficiencies reported are an important measure of audit quality, as discussed in this report, we envisage these to be part of an initiative that will contribute to a deeper discussion among firms, registered auditors and their clients, and other users of the information presented. All parties have a common interest in the continued improvement of the quality and consistency of audits performed.

The IRBA uses the results of the inspection findings to monitor the efforts of the firms and registered auditors to improve the rate of inspection findings over time. These also assist us to renew our strategy and processes, as well as develop new initiatives to assist firms and registered auditors to improve audit quality. Therefore, the IRBA urges the firms and registered auditors to continue with their efforts to achieve improved audit performance, while following the applicable standards and guidance issued by the regulator.

Tell us what you think

Was this report helpful to you? In our role and mission to serve the public and protect the public interest, the IRBA wants to know how we can improve our communication and provide information that is timely, relevant and accessible. We welcome comments on this publication or other related matters.

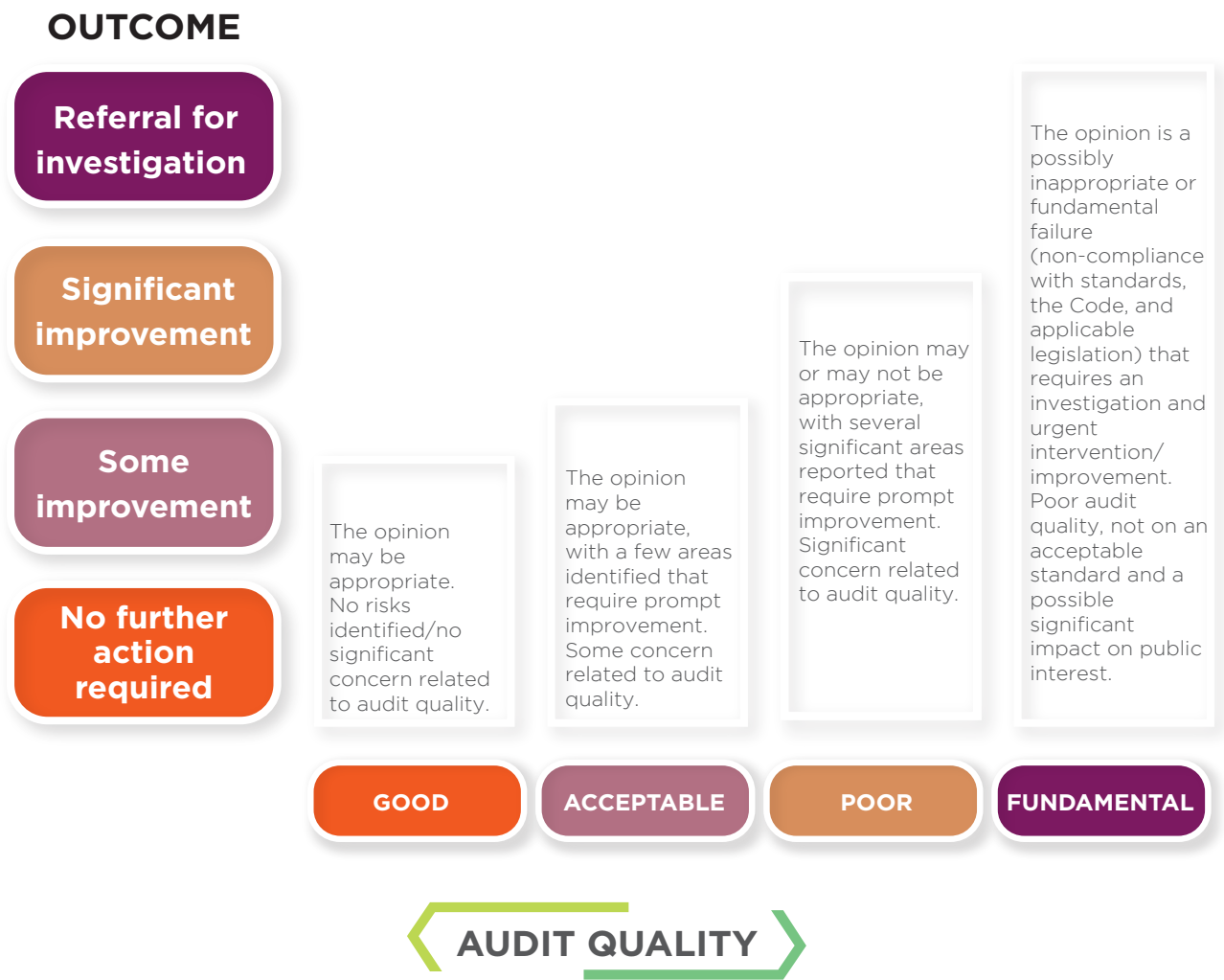
You can email us at PIR2022@irba.co.za.

²⁷[IFIAR Survey of Inspections Findings: 2021 Survey of Inspection Findings.](#)

APPENDIX A: INSPECTIONS OUTCOMES AND REPORTABLE DEFICIENCIES

Inspections Outcomes

The outcome of an inspection as an indicator of audit quality is as presented in the graphic below.
The poorer the outcome, the higher the risk of an audit failure due to undetected or unreported misstatements.



APPENDIX A: INSPECTIONS OUTCOMES AND REPORTABLE DEFICIENCIES continued

What is a Reportable Finding?

Firm level

A reportable finding at a firm level includes any significant or systemic deficiency related to the firm's conduct or system of quality control that may have an impact on audit quality by creating a risk of inappropriate auditor's reports being issued by the firm, including failure to implement remedial/corrective action on all assurance engagements performed by the firm, resulting in recurring inspection findings.

Firms are referred to the IRBA's Investigations Department when a reportable finding is of such significance that audits performed by the firm can have an impact on the public interest. This includes continued non-compliance with the standards, failure to promptly remedy reported deficiencies, failure of the firm's system of quality control, and/or when instances of fundamental breaches/non-compliance occurred. This includes when a fundamental breach of the APA, auditing standards, codes, rules or other legislation, such as the Companies Act, was identified.

Firms can also be referred to the IRBA Board for any action deemed necessary to protect the public interest and reputation of the profession. In such cases, the Board then closely monitors the activities and implementation of remedial action plans by these firms.

Engagement level

At an engagement level, a reportable finding includes any significant deficiency whereby the firm has failed to obtain sufficient and appropriate audit evidence to support its auditor's report. This includes a failure to identify or address a material or potential material financial reporting/accounting related deficiency; or any non-compliance with applicable standards, codes of conduct and legislation, including a departure from the firm's adopted policies, procedures or methodology.

Engagements are referred to the Investigations Department when a reportable finding is of such significance that the audit opinion issued is not appropriate, and/or when instances of fundamental breaches/non-compliance occurred. This includes findings that the auditor failed to identify or address a quantifiable, material uncorrected misstatement in the financial statements and/or when a fundamental breach of the APA, auditing standards, codes, rules or other legislation was identified.

APPENDIX B: THE 5 WHYS ROOT CAUSE ANALYSIS TOOL



GENERAL INFORMATION

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Website: www.irba.co.za

About the IRBA

Mandated by the Auditing Profession 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 auditors, in accordance with internationally recognised standards, codes and applicable legislation.

Disclaimer

The content of this report is for information purposes only; and the IRBA does not accept any responsibility or liability for any claim of any nature whatsoever arising out of or relating to this report.

It should, however, be noted that this report is not designed to provide assurance regarding audit firms' quality control systems or assurance work, or the quality of the auditing profession in its entirety. Readers should then bear in mind that its focus is to provide a thematic overview of more prevalent deficiencies reported, to help drive a broader and proactive improvement strategy in areas where it is most needed. As such, its focus is remedial in nature.

The report should be read with an understanding of the IRBA's inspections process. In that regard, we refer users to the following information on our website that provides background to our processes and other information relevant to this report:

- 8th Inspections Cycle Strategy/Process ([IRBA Manual of Information April 2021](#))
- [Proactive Monitoring](#)
- [Theme-based Inspections](#)

We encourage readers to focus on the basic principles behind the reported deficiencies, to assist them in identifying the potential underlying root causes and common audit areas where audit quality requires improvement. The report also covers other information that is deemed important to relevant stakeholders in pursuit of improved audit quality, and this includes references to the *International Forum of Independent Audit Regulators Inspections Survey Report*²⁸, and the IRBA's publication on Audit Quality indicators²⁹. Readers are encouraged to follow discussions and developments on the anticipated changes in auditing and accounting standards and other relevant topics discussed in the quarterly [IRBA News](#).

²⁸[IFIAR Annual Inspection Findings Survey](#).

²⁹[2022 Survey Report: Audit Quality Indicators – A journey to Advance Audit Quality](#).



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