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**INDEPENDENT REGULATORY BOARD FOR AUDITORS**  
**INSPECTIONS DEPARTMENT**

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**8<sup>th</sup> Inspections Cycle: Introducing Theme-Based Inspections**

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The Independent Regulatory Board for Auditors (IRBA) has identified concerning trends of recurring deficiency themes being reported to audit firms and practitioners during the 6<sup>th</sup> and 7<sup>th</sup> Inspections Cycles, respectively.

As a result, the regulator has now concluded that the actions/steps taken by audit firms did not achieve the desired level of remediation of these deficiencies, and also did not prevent recurrences of similar quality deficiencies identified by the IRBA during subsequent inspections.

These themes are those that the firms and auditors are expected to be aware of, based on the fact that they would have been reported to the firms and auditors, as well as published by the IRBA through its Public Inspections Reports.

As a result, the IRBA is now introducing additional initiatives that will include theme-based inspections and a guided proactive monitoring process with audit firms, as part of its 8<sup>th</sup> Inspections Cycle remediation initiatives. This document therefore explains the theme-based inspections process that will form part of the assurance engagement inspection process (audit assurance engagement inspections).

**Objective**

Theme-based inspections will be performed to assist the Inspections Department with its assessment of the extent to which audit firms/auditors implemented appropriate actions; or to evaluate whether the presented remediation plan to address engagement quality deficiencies (themes) reported was effective. In addition, this process will help evaluate whether these actions appropriately addressed the quality deficiencies on a firm-wide basis or across all engagements and not only for those assurance engagements where deficiencies were identified.

Further, the aim of the theme-based inspections will be to address the risks associated with a specific theme on a proactive basis. Through this process, the Inspections Department will also be able to:

- Inspect the deficiency themes across a wider selection of assurance engagements within the firm, to increase the coverage of a specific theme (assurance engagement risk);
- Inspect firm-specific deficiency themes, based on the deficiency themes previously reported; and
- Inspect other topical themes or risk themes publicly reported.

## **Process**

Ideally, the theme-based inspections will be performed when the Inspections team visits the firms. The themes will be inspected by selecting a number of assurance engagements, over and above those selected for inspection by the IRBA. The scope of the theme-based inspections will be limited to the audit work performed in relation to the theme(s) identified to be inspected.

However, the IRBA would require access to the complete assurance engagement file in order to perform a theme-based inspection. Consequently, the relevant engagement partners will be required to provide the necessary feedback/responses to the theme-based inspection queries and information requests. Access to these assurance engagements will follow the normal inspections process, and inspectors may request to make copies of any relevant documents and working papers during the performance of a theme-based inspection.

## **Themes**

Firms and auditors are expected to be aware of the themes, as these would have been reported to them and also published by the IRBA. In terms of the process, the Inspections team will select and decide on the themes for each firm, and that will be communicated to the firm.

The following are considered as examples when selecting themes for inspection:

- The themes identified during the prior assurance engagement inspections, specific to an audit firm;
- Themes identified and reported on in the latest Public Inspections Report and by the International Forum of Independent Audit Regulators; and/or
- Any themes deemed pertinent to a specific industry.

## **Reporting**

Deficiencies identified during the theme-based inspections will be reported to the firm's leadership and included in its Preliminary Inspections Report (PIR), providing the firm and the relevant registered auditor an opportunity to respond to the deficiencies. Therefore, it is the firm's responsibility to ensure that the responses to its PIR also include a signed response from the registered auditor who was responsible for the assurance engagement from which a theme deficiency was identified.

The formal report for the firm will include the deficiencies, if any, resulting from each of the theme-based inspections. That then means the firm is responsible for taking the appropriate remedial action for the specific engagement partners, where deficiencies were identified; and the IRBA will monitor this through the Remedial Action Process (RAP).

When concluding on the outcome for the firm, the Inspections Committee (INSCOM) will take into account the deficiencies reported on at the assurance engagement inspections level and the theme-based inspections level, as well as any firm level deficiencies. The results from the theme-based inspections will provide evidence to INSCOM of the extent to which remedial actions taken by the firm are achieving their objectives.

In certain circumstances, should any deficiencies identified from the theme-based inspections require the referral of a registered auditor for an investigation, INSCOM will take this decision at the same time that it decides on the overall outcome for the firm. Therefore, an INSCOM decision letter will be issued to the firm; and if relevant, a decision letter will also be issued to any registered auditor referred for an investigation on a specific matter identified.

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***About the IRBA***

*The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.*