



# Annual Enforcement Report 2022

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## **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**

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# PREFACE



**Director Legal**  
Rebecca Motsepe

It is an honour to present the first Independent Regulatory Board for Auditors' (IRBA) Enforcement Report. This report covers the nature of enforcement cases dealt with by the relevant internal enforcement structures and the outcomes of enforcement processes undertaken against registered auditors that were found to have contravened various facets of the profession's governing frameworks, including the prescripts of law, the IRBA Code of Professional Conduct for Registered Auditors, as well as auditing and other professional standards.

It is well reported that recently the auditing profession has been characterised by numerous audit failures and/or scandals, which – although representing a small percentage of all audits performed by registered auditors – have put the profession and the IRBA, as the regulator, under public scrutiny. Moreover, these audit failures, particularly failures on Public Interest Entity (PIE) audits, have increased the number and complexity of enforcement matters that the IRBA had to deal with, leading to protracted enforcement processes and increased costs for enforcement matters.

In view of the above, the IRBA Board (Board) in 2020 adopted a disciplinary process strategy. The objective was to focus on moving matters quickly from referral to conclusion (agility), with minimum wasted effort and/or expenses (efficiency), while ensuring the achievement of optimal results. The strategy further aimed to minimise risks, restore confidence and preserve the integrity of the IRBA and its processes (effectiveness).

While one of the disciplinary processes' strategic objectives is agility, the IRBA has faced challenges in delivering on this objective. This has been due to the impending amendments to the transitional provisions in the Auditing Profession Act No. 26 of 2005, as amended (APA). When the APA amendments came into effect on 26 April 2021, they incorporated a transitional provision that required charges preferred against auditors prior to the amendments to be determined in line with the provisions of the old Act. This then meant that, in terms of the amended APA, the newly constituted Disciplinary Committee could not hear these matters. In a bid to avoid running two committees with different memberships, the Board pursued further amendments to the APA, which would allow the newly constituted Disciplinary Committee to consider matters where auditors had been charged prior to the amendments. Unfortunately, these further amendments are yet to materialise.

Notwithstanding the above, the Legal Department has employed varying measures to finalise matters expeditiously. These measures include engaging

auditors charged prior to the amendments through consent orders and settlement processes, to proactively bring the relevant matters to finality. This approach has yielded significant success with most of the matters finalised, following a referral to the Disciplinary Committee, and reported herein.

This entailed a consensus process in which auditors, through engagement, understood their wrongdoings and resolved to take accountability, bringing the matters to finality without the need for a disciplinary hearing. On the other hand, the Legal Department's team has prioritised newly referred matters where auditors had been charged after the amendments. This has ensured that matters are brought before the Disciplinary Committee without delay. It has also led to improved turnaround times in the finalisation of newly referred matters, when considering the date of referral to the Disciplinary Committee against the date on which the matter was finalised, thus improving efficiencies in the disciplinary processes.

Undoubtably, the IRBA team has, despite challenges and some pushbacks from some auditors, remained committed to achieving the objectives of the IRBA disciplinary process strategy; and bringing agility, effectiveness and efficiency into these processes in the interest of the public.

In fact, this report is one of the outcomes of this strategy and it is aimed specifically at achieving the objective of effective disciplinary processes through communication, information sharing and education.

Therefore, it is against this background that we share with stakeholders the outcomes of our enforcement processes and the robust measures we have taken to ensure that the auditing profession is governed by integrity and professionalism in our quest to protect the public. Through our diligent and rigorous enforcement processes, we have continued to identify instances where implicated auditors have breached their professional responsibilities and failed to adhere to the requisite professional and ethical standards. In those instances, we have taken appropriate action against such conduct, including the imposition of various sanctions.

While the primary aim of sanctions is to hold auditors who are found guilty of improper conduct accountable, sanctions are also intended to serve as a deterrent.

As the IRBA, we believe that deterrence is not achieved only through discipline, but also through communication and the attainment of an understanding of the breach or wrongdoing, together with the appreciation of the purpose of the breached standards or rules.

We take the view that if auditors appreciate where things went wrong, it will help them avoid similar transgressions or oversights in future; hence, the presentation of this report. In summary, this report provides an account of various auditor transgressions against the relevant prescripts; the disciplinary measures taken against such auditors; and the learnings for auditors on how to ensure compliance, avoid transgressions and approach various scenarios that might lead to non-compliance.

Undoubtably, enforcement processes play a crucial role in maintaining the integrity of the auditing profession. It is our intention that by sharing the information contained in this report, we will enlighten auditors on the nature and gravity of the contraventions perpetuated by some, and the potential consequences that may follow. Thus, educating auditors and deterring improper conduct. On the other hand, we trust that it will give the public assurance that the IRBA takes its enforcement function seriously and has the necessary framework and structures in place to give effect to that role.

It is, therefore, against the backdrop of transparency that we present this report; and we hope it will provide critical insights into the work that we do as a regulator as well as the measures that we take to protect the public and uphold the integrity of the profession. Similarly, we trust that it will be a valuable resource for auditors in their endeavours to maintain integrity, adhere to relevant standards and ensure audit quality.

**Rebecca Motsepe**  
Director Legal

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# ACRONYMS AND DEFINITIONS

The following abbreviations and words that are used in this report will, unless otherwise stated or clearly inconsistent with the context in which they appear, bear the meaning set out below.

<b>Administration of Estates Act</b>	Administration of Estates Act No. 66 of 1965.
<b>AFS</b>	Annual Financial Statements.
<b>AOG</b>	Admission of guilt process in terms of Section 51 of the APA and the Rules.
<b>APA</b>	Auditing Profession Act No. 26 of 2005, as amended.
<b>Auditor or Registered Auditor</b>	An individual or firm registered as an auditor with the IRBA.
<b>Board</b>	IRBA Board, constituted by non-executive members, appointed by the Minister of Finance in terms of Section 11 of the APA.
<b>Committees</b>	Collectively, the Investigating Committee, the Enforcement Committee and/or the Disciplinary Hearing Panel.
<b>Companies Act</b>	Companies Act No. 71 of 2008.
<b>DISCOM</b>	Disciplinary Committee, a statutory committee established in terms of Section 20(f) of the APA.
<b>ENCOM</b>	Enforcement Committee, a statutory subcommittee of the Board established in terms of Section 24B of the APA.
<b>IFRS for SMEs</b>	International Financial Reporting Standards for Small and Medium-sized Entities, as set by the International Accounting Standards Board.
<b>Income Tax Act</b>	Income Tax Act No. 58 of 1962.
<b>INVESCO</b>	Investigating Committee, a statutory committee established in terms of Section 20(c) of the APA.
<b>IRBA</b>	The Independent Regulatory Board for Auditors established in terms of Section 3 of the APA.
<b>IRBA Code</b>	IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018).
<b>ISAs</b>	International Standards on Auditing, as set by the International Auditing and Assurance Standards Board.
<b>ISREs</b>	International Standards for Review Engagements, as set by the International Auditing and Assurance Standards Board.
<b>Minister</b>	Minister of Finance.
<b>Panel</b>	Disciplinary Hearing Panel constituted in terms of Section 24B (6) of the APA, for the purpose of determining charges of improper conduct preferred against auditors and referred to the DISCOM.
<b>PIE</b>	Public Interest Entity, as defined in the IRBA Code.
<b>Reporting period</b>	1 April 2022 to 28 February 2023.
<b>Rules/Disciplinary Rules</b>	IRBA Disciplinary Rules.
<b>Trust Property Control Act</b>	Trust Property Control Act No. 57 of 1988.

**Note:** For the purpose of reading this report, please be advised that reference to any of the genders is made using “he” or “him”; and all references to natural persons include juristic persons, and vice versa.



# LEGISLATIVE AND GOVERNANCE FRAMEWORK

# LEGISLATIVE AND GOVERNANCE FRAMEWORK

The Independent Regulatory Board for Auditors (IRBA) was established in terms of Section 3 of the Auditing Profession Act, No. 26 of 2005, as amended (APA). Its primary mandate is to protect the financial interests of the public by, among others, ensuring that only suitably qualified individuals are admitted to the auditing profession, deliver services of the highest quality and adhere to the highest ethical and professional standards.

The IRBA's general functions, as set out in Section 4 of the APA, incorporate its responsibility to take steps to promote the integrity of the auditing profession. This includes investigating alleged improper conduct against auditors, conducting disciplinary hearings and imposing sanctions for improper conduct.

To enable the realisation of the above functions, Sections 20 and 24B of the APA, read together with Section 19, empower the IRBA Board (Board) to establish committees to assist it in the performance of such functions. As such, the Board has, in exercising its powers, set up the following committees:

a) Investigating Committee (INVESCO)<sup>1</sup>, which is delegated the power to investigate allegations of improper conduct against auditors<sup>2</sup> and to make recommendations to the Enforcement Committee on whether or not an auditor should be charged with improper conduct;

b) Enforcement Committee (ENCOM)<sup>3</sup>, which is entrusted with the power to consider INVESCO recommendations and make a determination on whether to charge an auditor with improper conduct; and if so, whether an admission of guilt process should be followed, or the auditor should be referred to the Disciplinary Committee for a hearing; and

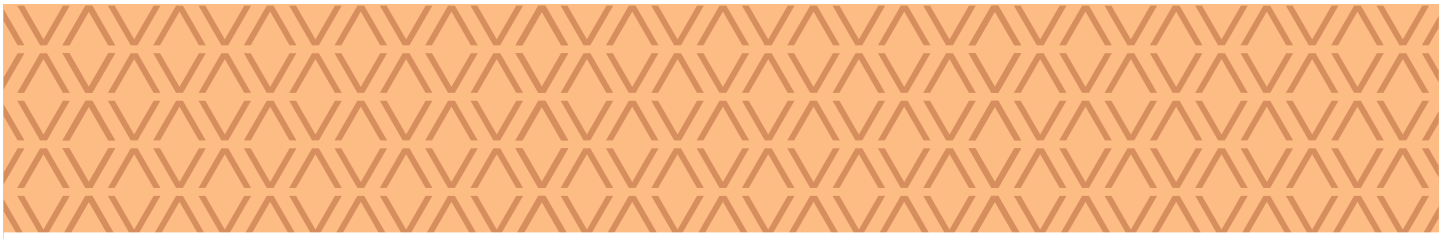
c) Disciplinary Committee (DISCOM)<sup>4</sup>, which is delegated the power to convene a disciplinary hearing for the purpose of determining charges of improper conduct preferred against auditors; and if found guilty, imposing the appropriate sanctions.

Collectively, these three committees are the vehicle through which the IRBA discharges its enforcement obligations, as set out in the APA. They are constituted by duly qualified persons, including former registered auditors, legal practitioners and other suitably qualified individuals, such as accountants, forensic investigators, academics, etc. The committees, being independent of the IRBA, are supported by both the IRBA's Investigations and Legal departments that perform secretariat functions.

The above enforcement structure is crucial in ensuring compliance with the IRBA's legislative mandate of protecting the public, by ensuring that auditors comply with the relevant prescripts in discharging their duties and maintaining public confidence in the audit product and the profession.

1. This is an independent statutory committee constituted by a maximum of 10 duly qualified non-executive individuals appointed by the Board, as prescribed in Section 24 of the APA.
2. An investigation can be instituted against current and former registered auditors, provided that the alleged improper conduct occurred while the individual or firm was registered with the IRBA.
3. While the committee is constituted by duly qualified non-executive individuals, it is a subcommittee of the Board, with its members being Board members, as per Section 11, read together with Section 24B of the APA.
4. This is an independent statutory committee constituted by a maximum of 15 duly qualified non-executive individuals appointed by the Board, as per Section 24A. Three members can constitute a panel for the purpose of a disciplinary hearing, provided that the panel includes a legal practitioner that will chair the proceedings and a former registered auditor.





# PURPOSE AND LIMITATIONS OF THE REPORT

# PURPOSE OF THE REPORT

Throughout the 2022/2023 financial year, the IRBA dealt with several cases of improper conduct committed by auditors. These cases highlighted common themes in deviations from the required prescripts, the need to educate auditors and the importance of effective enforcement in the realisation of our ultimate purpose as the profession, which is the protection of public interest.

This report provides an analysis of the extent and the outcomes of the IRBA's enforcement processes during the period under review, with a specific focus on investigation outcomes and disciplinary actions taken in response to improper conduct committed by auditors.

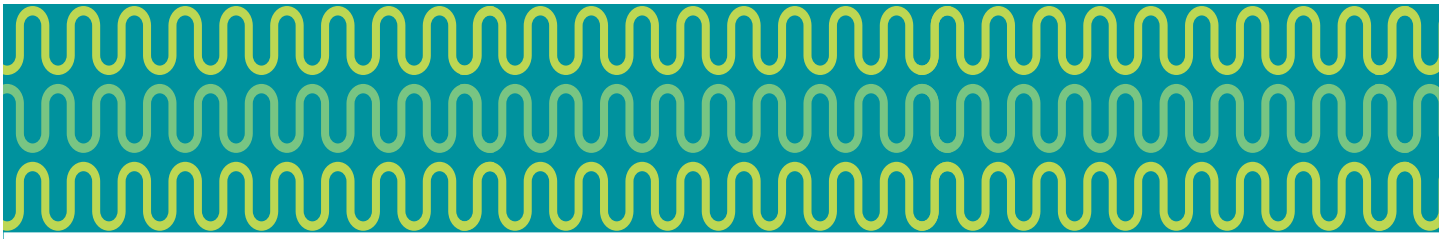
Through it, we gain insights into the challenges faced by the auditing profession, the nature of the transgressions and how the IRBA enforcement structures have approached these issues.

Therefore, the main purpose of this report is to utilise enforcement cases and outcomes to aid auditors in drawing lessons from the past and understanding where audits often go wrong, what is required of the auditor and how to achieve compliance under different scenarios. In this way, the IRBA hopes to proactively prevent improper conduct through knowledge sharing.

# REPORT LIMITATIONS

Enforcement, in the strictest sense, includes inspections. However, as the IRBA Inspections Department regularly publishes the outcomes of its processes in the annual Public Inspections Report,

the scope of this publication is limited to the IRBA investigation and disciplinary processes. Furthermore, it should be noted that the statistics in this report cover the period 1 April 2022 to 28 February 2023.



# OVERVIEW OF THE ENFORCEMENT PROCESSES

# OVERVIEW OF THE ENFORCEMENT PROCESSES

The IRBA enforcement processes covered in this report are driven primarily by the Investigations and Legal departments. We provide a brief outline of enforcement process below, which contextualises the various procedures that must be followed to ensure the integrity and effectiveness of the enforcement processes.

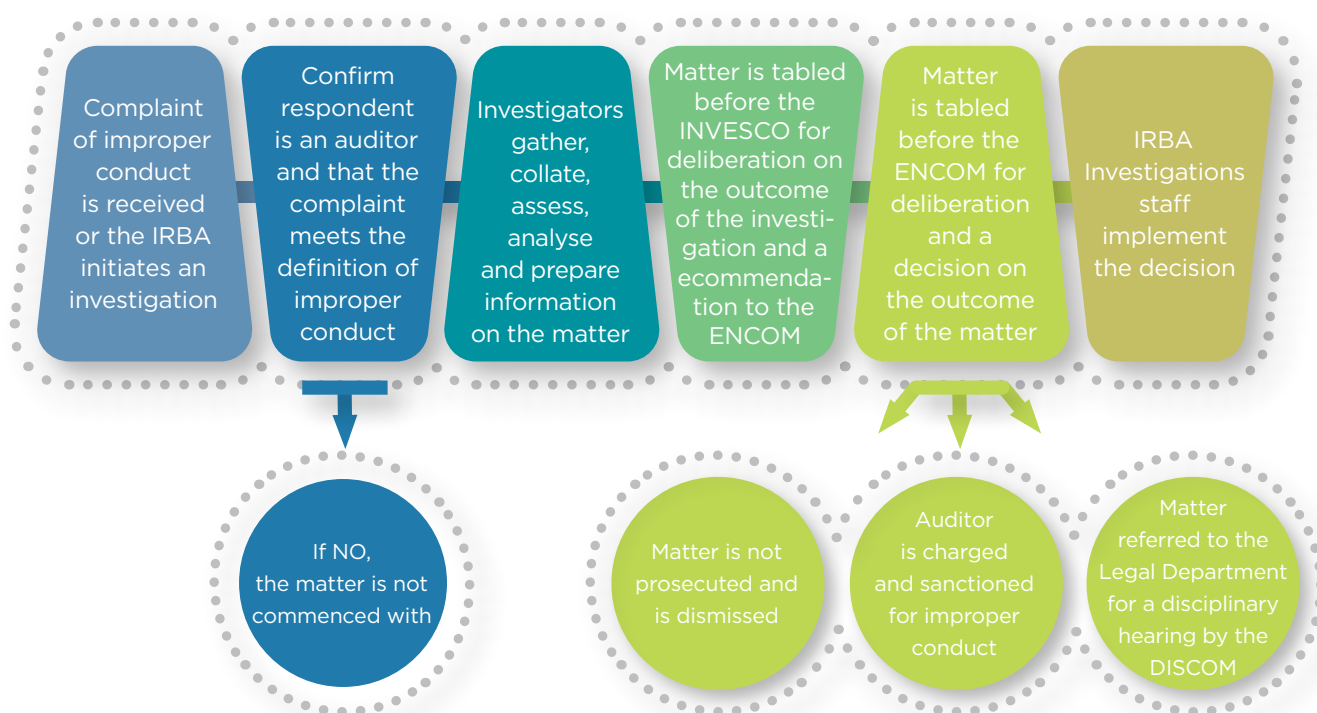
## Investigation Process

The strategic objective of the Investigations Department is to investigate allegations of improper conduct and then refer them to the INVESCO and the ENCOM. These committees consider the outcome of each investigation and determine, where applicable, the charges to be preferred, the appropriate sanction for imposition or whether a referral to the DISCOM is warranted.

The investigation process is set out in Sections 48, 49 and 51 of the APA, read together with Rules 2-5 of the Disciplinary Rules.

These provisions empower the Investigations Department to receive and review complaints of improper conduct; determine if the IRBA has jurisdiction in respect of the complaint; initiate an investigation, gather, collate, assess, analyse and prepare relevant information and documentation on a matter; and refer the matter to the INVESCO for consideration and a recommendation to the ENCOM, which decides ultimately whether or not an auditor should be charged with improper conduct.

*The investigation process is as outlined in the accompanying graphic.*



In terms of Rule 4 of the Disciplinary Rules, the INVESCO can make any of the following recommendations to the ENCOM:

- (a) **That the auditor is not charged with improper conduct**, either because the auditor is not guilty of improper conduct; there is a reasonable explanation for the auditor’s conduct; the conduct of which the auditor may be guilty of is not material; or there are no reasonable prospects of succeeding with a charge of improper conduct against the auditor; or
- (b) **That the auditor be charged with improper conduct**, in which case, it will make a recommendation on the charges to be preferred and if the matter should be dealt with via an

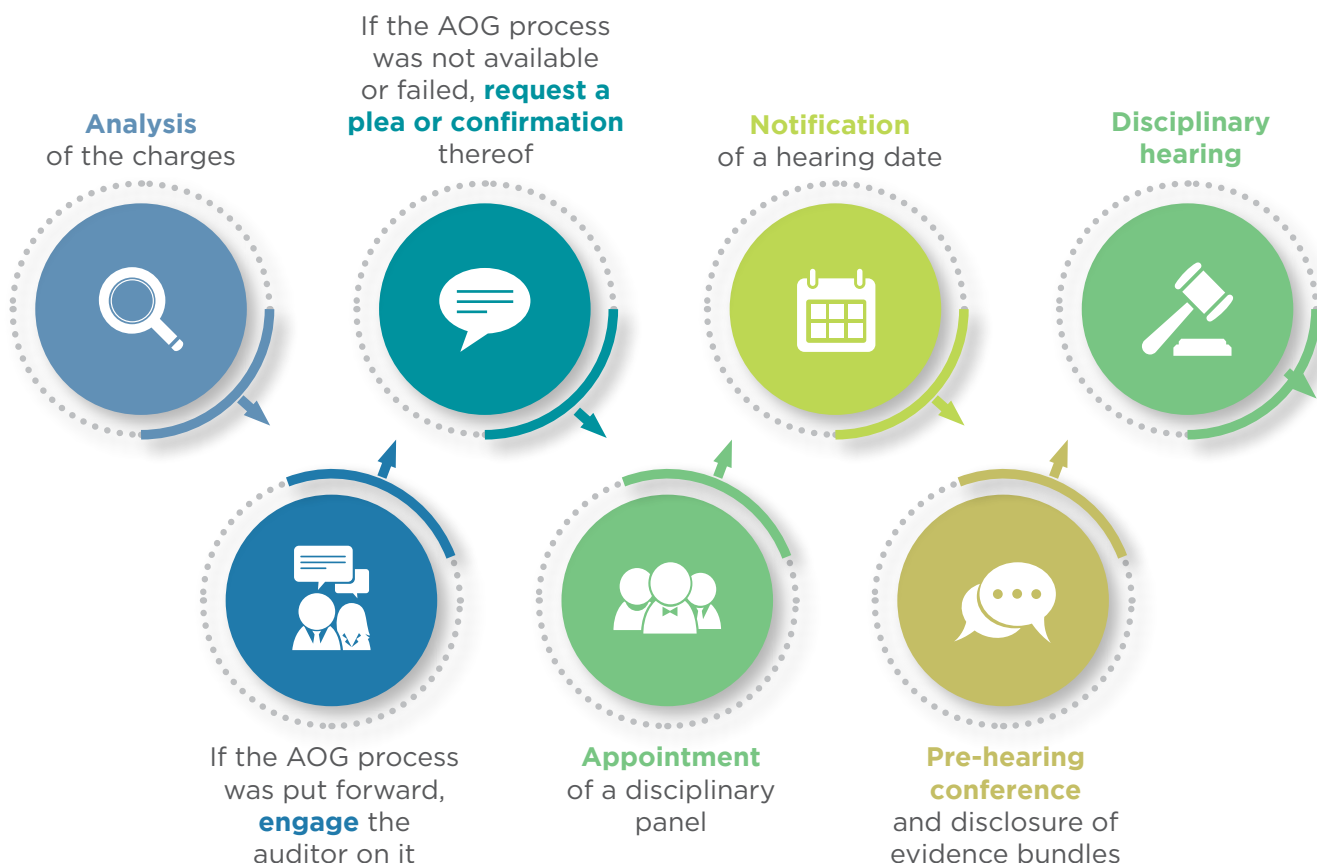
admission of guilt process (AOG), wherein a sanction is imposed by the ENCOM, if the auditor pleads guilty to the charges; or if the matter should be referred for a disciplinary hearing, irrespective of the auditor’s plea.

Where the ENCOM decides to charge the auditor and follow an admission of guilt process, but the auditor refuses to admit guilt, the committee will refer the matter to the DISCOM. Similarly, where the ENCOM decides to charge the auditor, but considers the charges to be of significant materiality that warrants a sanction that can only be imposed by the DISCOM, the matter will be referred to the latter for determination and sanctioning.

## Disciplinary Processes

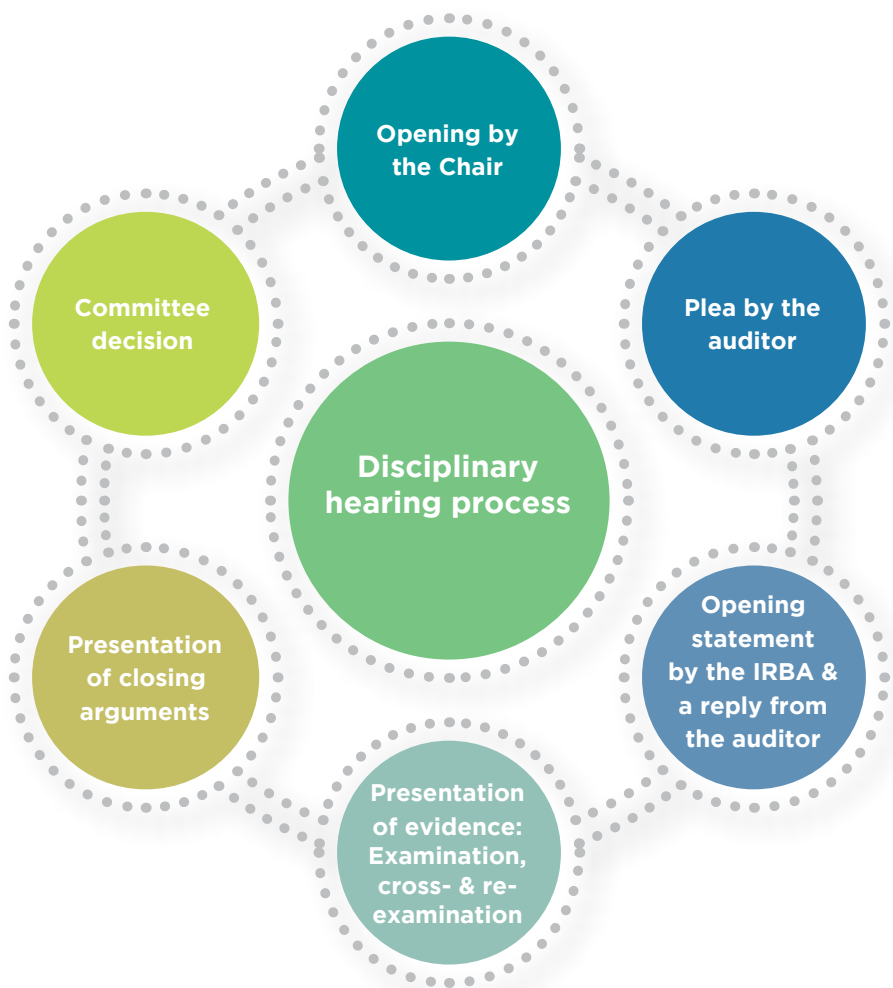
The Legal Department is responsible for instituting disciplinary proceedings on matters referred by the ENCOM for further referral to the DISCOM, for determination of the charges of improper conduct preferred against auditors.

The disciplinary processes are premised on Sections 50 and 51B of the APA, read together with Rules 6-20 of the Disciplinary Rules. The process flow of the pre-hearing procedures that the disciplinary team follows upon receipt of a referral is outlined in the accompanying graphic.



**Note:** In addition to the above and following the promulgation of the revised Disciplinary Rules in 2022, settlement engagements are pursued in respect of every matter, in line with Rule 15. This process is initiated prior to the matter being scheduled for a hearing and remains open as long as the Disciplinary Hearing Panel has not issued a ruling on the matter. The process aims to improve the efficiency in disciplinary processes, with the hope of finalising matters quickly and without the need to expend excessive resources.

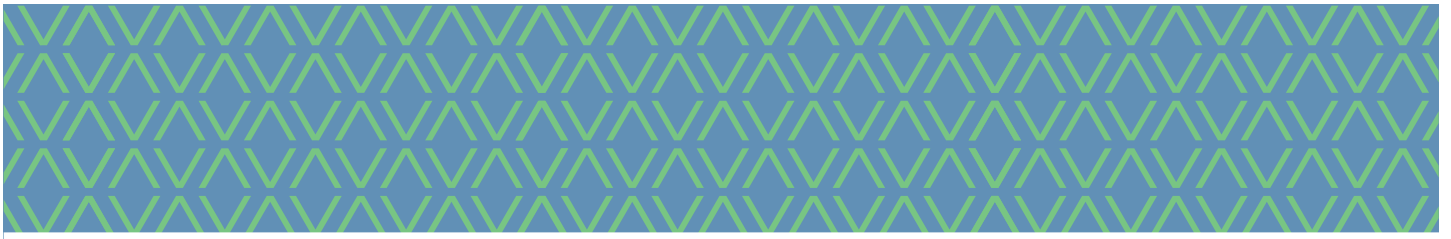
The disciplinary hearing process that is followed before the Disciplinary Hearing Panel (Panel) is indicated in the accompanying graphic.



As reflected, disciplinary processes are robust and formal in nature, similar to court proceedings. All parties retain the right to be represented by legal practitioners of their choice who set out the facts of the case in their opening; call and cross-examine witnesses; advance relevant legal arguments; and put forward closing submissions. It is common practice for the panel not to make its decisions on the final day of the hearing, but to set out

findings and reasoning in an outcome ruling, which is circulated to the parties within 30 days from the conclusion of the hearing.

If the respondent is found guilty, a sanction hearing will be convened within 30 days of the ruling. The hearing process is similar to the one set out in the above graphic with the sanction ruling issued within five days of the hearing.



**OVERVIEW**  
OF THE 2022/2023  
ENFORCEMENT MATTERS

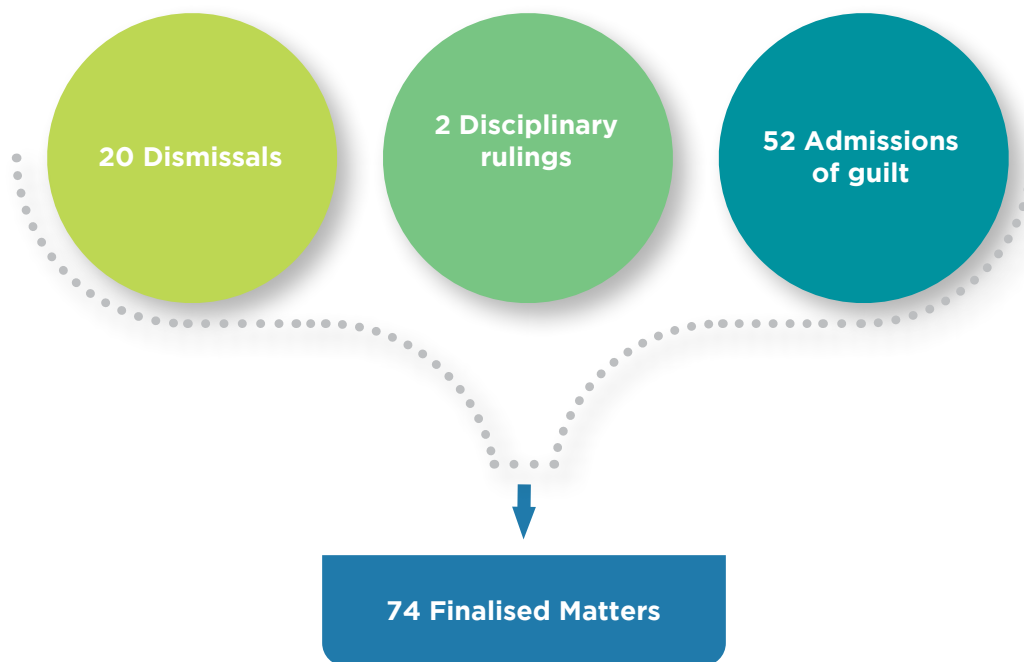
# OVERVIEW OF THE 2022/2023 ENFORCEMENT MATTERS

A total of 74 enforcement matters were finalised during the reporting period. Of those, 52 were finalised through an admission of guilt and/or consent order process, wherein the ENCOM took the view that the charges warrant a sanction other than a suspension from practice or a cancellation of registration. However, five of these matters were only finalised after a referral to the DISCOM, but prior to the commencement of a hearing.

Two matters were finalised at the DISCOM level and following disciplinary hearings.

The remaining 20 matters were dismissed by the ENCOM, following investigations. The reasons were either because there was no improper conduct; the auditor furnished a reasonable explanation; or there were no prospects of success in pursuing the allegations.

**A detailed analysis of the 54 matters where auditors were found guilty of improper conduct and sanctioned accordingly follows below.**

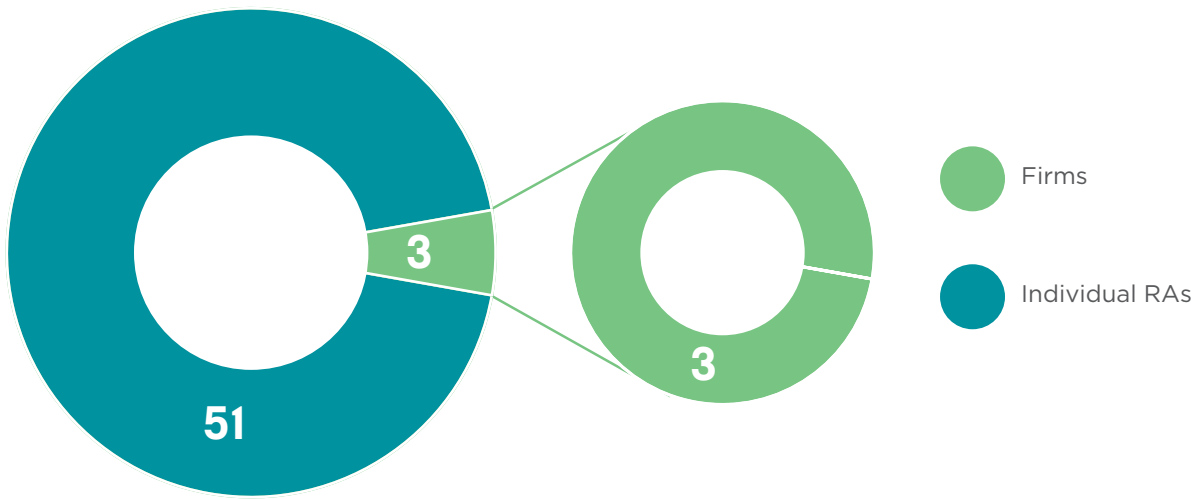


Of the 54 matters, 51 involved improper conduct perpetrated by individual auditors, with only three involving audit firms.

The split between individual auditors and audit firms charged with improper conduct during the reporting period is indicated in the following graphic.



## Respondents

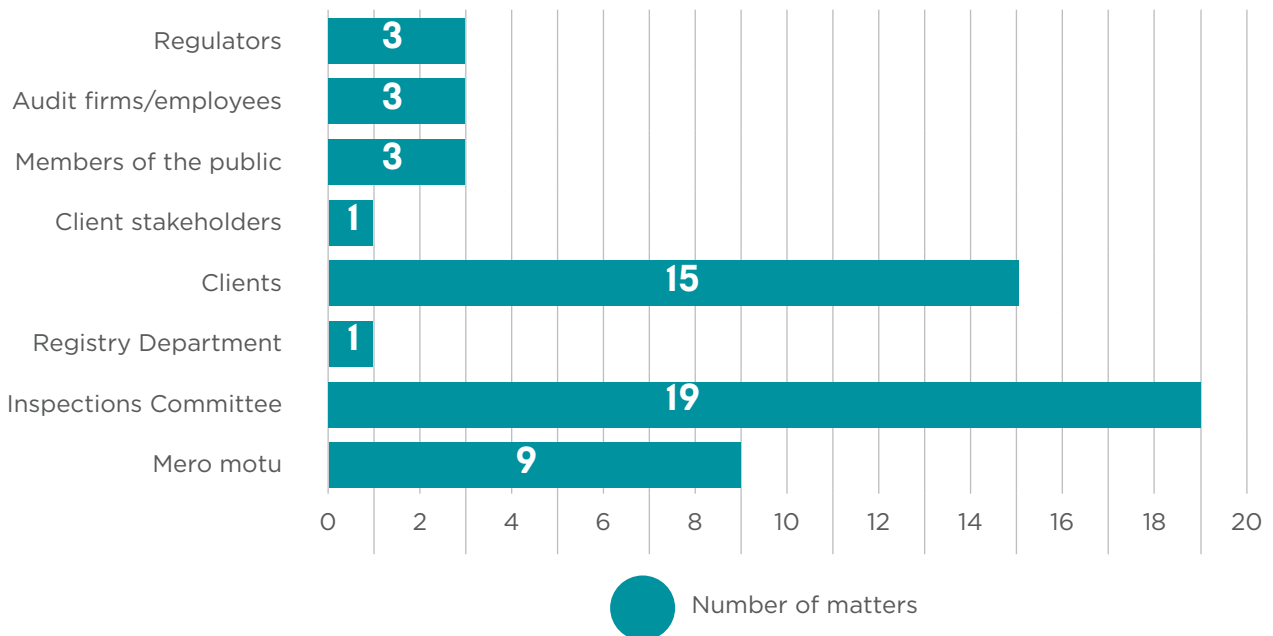


**Note:** Improper conduct charges against audit firms mainly related to lack of independence and quality control issues or deficiencies.

Investigations on finalised matters were either self-initiated by the Investigations Department, referred for investigation by the IRBA committees or other

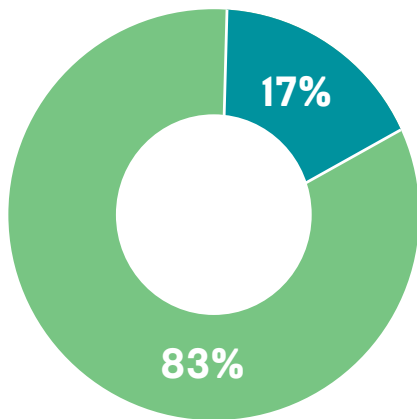
departments, or prompted by complaints from a variety of stakeholders. A demarcation of this split is outlined in the graph below.

## Complainants



**Note:** The majority (35%) of the investigations were initiated as a result of referrals by the Inspections Committee; 17% were self-initiated by the Investigations Department, as a result of information that came to the IRBA’s attention; and 1% were referrals from the Registry unit. The remainder were initiated due to complaints received from audit clients (28%); audit client stakeholders (1%); other regulators (6%); members of the public (6%); and audit firms or their employees (6%).

As depicted in the accompanying graph, 83% of the finalised matters related to non-public interest entities, while 17% were linked to public interest entities (PIEs).



- Public interest matters
- Non-public interest matters

**Note:** The public interest matters involved audit clients that were listed on the Johannesburg Stock Exchange (6); major public entities (2); and an entity holding assets in a fiduciary capacity (1).

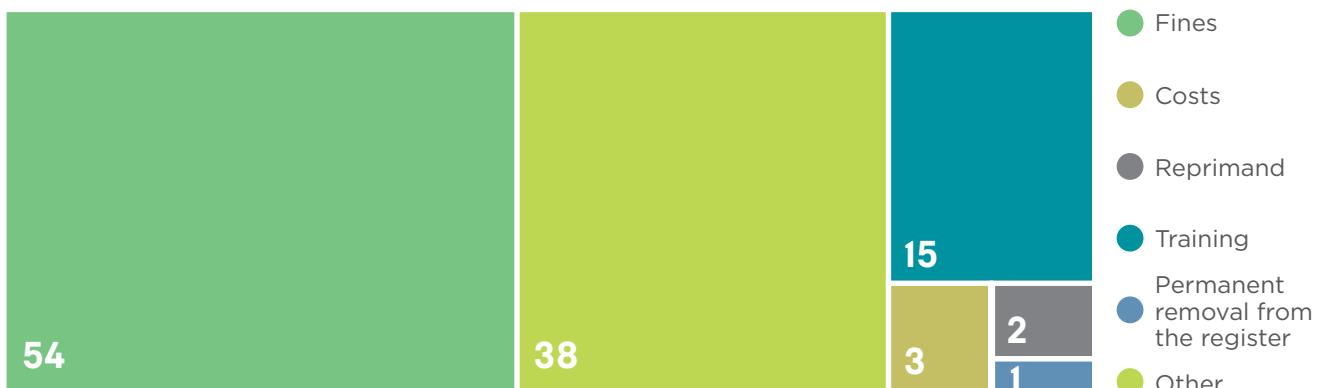
## Sanctions

Section 51(1) of the APA empowers the ENCOM, where the auditor has pleaded guilty to the charge(s) of improper conduct, to impose sanctions in a form of a caution or reprimand; a fine not exceeding the amount determined by the Minister of Finance in the Gazette<sup>5</sup>; or require the auditor to attend appropriate training or impose any other relevant non-monetary sanction. Similarly, Section 51B empowers the DISCOM to impose such sanctions and a sanction of suspension from practice and/or a cancellation of registration, which can be permanent.

Both the ENCOM and the DISCOM have the power to impose more than one of these sanctions, suspend any sanction for a specific period or until the occurrence of a specific event; or impose any sanction, subject to the applicable conditions. In addition, both committees may order an auditor to pay such reasonable costs as have been incurred in connection with an investigation and/or the disciplinary hearing, or part thereof as they consider just.

Accordingly, in utilising their powers, the ENCOM and/or the DISCOM have imposed on auditors, in respect of the finalised 54 matters, the sanctions noted in the graphic below.

## Sanctions imposed



**Note:** As reflected above, fines were imposed in respect of all 54 matters where auditors were charged with improper conduct. Non-monetary sanctions, such as training, were imposed in 15 of the matters. Reprimands were issued in addition to fines in two of the matters, while one auditor was permanently struck off the register. Costs were ordered in three matters. There were no cost orders in relation to 51 of the matters finalised through admission of guilt processes, as the timeous admission of guilt avoided enforcement-related costs. In addition, there was no sanction relating to suspension from practice imposed in respect of any of the matters finalised.

The other 38 sanctions refer to orders for a portion of the imposed fine to be suspended over a certain period of time, on condition that the relevant auditor is not found guilty of improper conduct during that period. The committees view such suspensions as important tools in deterring improper conduct during the stated suspension period.

In certain instances, and where auditors had removed their names from the register of auditors, the committees would refer the outcome of the matter to the relevant professional body, for determination of the auditor's fitness to continue to practice as an accountant.



## Publication of Enforcement Outcomes

Section 51(6) of the APA empowers the ENCOM to, if considered appropriate, request the IRBA to publish on its website the name of the auditor who admitted guilt, the charge and the sanction or cost order imposed. Accordingly, in exercising its discretion, the ENCOM directed the IRBA to publish details relating to matters finalised through admission of guilt processes, as per Section 51(6), in 15 of the matters. These matters involved public interest entities, or the auditors were repeat offenders. In all other matters, publication was only made in general terms and without reference to the auditor's name, firm, or client.

On the other hand, Section 51B(6) mandates the IRBA, following a disciplinary hearing, to publish on its website – and, if deemed necessary, on any other appropriate medium – the name of the auditor found guilty, a summary of the charges, the finding, the sanction and the cost order imposed by the Panel. Accordingly, the publication of matters heard by the Panel and resulting in a guilty finding is mandatory, meaning the details of the two matters finalised following disciplinary hearings were published on the IRBA's website and this included the names of the auditors.

To access the published matters, see the issues of IRBA News on our website through the following link: <https://www.irba.co.za/library/irba-news>.

5. Regarding the matters dealt with in this report, the maximum fine available to the committees for imposition was R200 000 per charge, which is the maximum amount determined by the Minister prior to the promulgated APA amendments in April 2021. This is because all matters finalised in the reporting year involved improper conduct committed prior to the amendments.

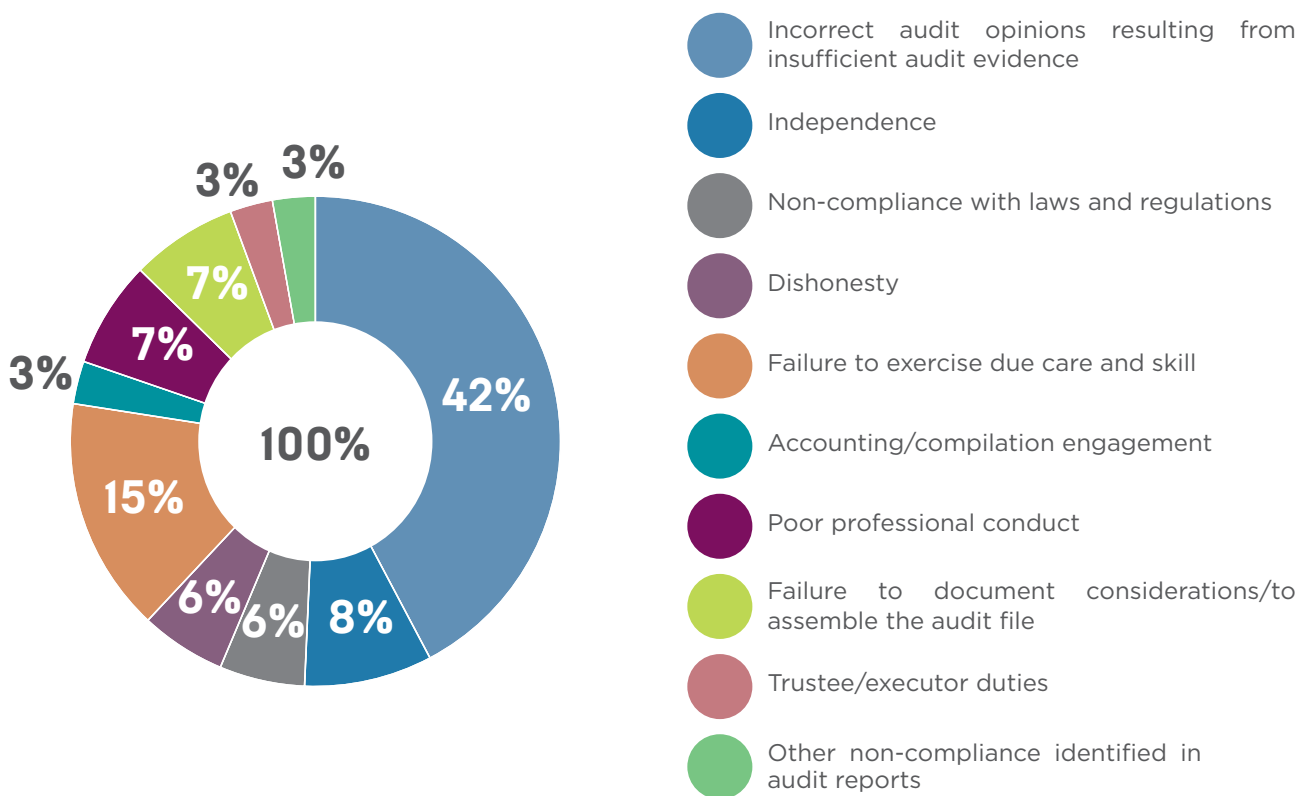


# **ENFORCEMENT THEME ANALYSIS**

# ENFORCEMENT THEME ANALYSIS

The 54 finalised matters dealt with in this report revealed a host of improper conduct themes. While each matter might have involved a number of charges, the relevant charges were categorised into 10 themes, as reflected in the accompanying graphic.

## Enforcement Themes 2022/2023



**Note:** The most common theme among the 54 matters was insufficient audit evidence, leading to an incorrect audit opinion; and this was prevalent in 30 of the matters. This was followed closely by auditors’ failure to exercise due care and skill (11 matters), with independence being third in the top three themes.

Other relevant themes related to poor professional conduct; failure to document considerations and assemble audit files; non-compliance with laws and regulations; dishonesty; accounting/compilation engagements deficiencies; breach of trustee/

executor duties; and other non-compliances identified in audit reports.

Each of the above themes is further discussed in more detail in the following sections.

## POOR PROFESSIONAL CONDUCT

### Relevant Prescripts

Paragraph 110.1 A1 of the IRBA Code of Professional Conduct for Registered Auditors (IRBA Code) states that the fundamental principles of ethics for auditors include integrity, which imposes a duty to be straightforward and honest in all professional and business relationships. Another principle is professional behaviour, including an obligation to avoid any conduct that the auditor knows, or should know, might discredit the profession.

Paragraph R115.1 expands on the principle of professional behaviour by incorporating the obligation for auditors to not knowingly engage in any business, occupation or activity that impairs, or might impair, the integrity, objectivity or good reputation of the profession. Such behaviour would be incompatible with the fundamental principles.

### Analysis of Charges

The auditors charged under this theme were found to have acted in a manner that lacked professionalism and integrity, with the charges arising from the following questionable conduct:

- a) Performance of remunerative work outside of the employment contract: This work was similar to that performed by the employer but was executed without their approval. Also, the employer's resources were utilised in the performance of such work, and its staff recruited by the auditor;
- b) Engaging with clients and/or professional colleagues in an unprofessional and/or derogatory manner;
- c) Failure to respond to the IRBA's requests for information, despite numerous reminders; and
- d) Solicitation of work or payment in an unethical manner: Here, an auditor requested a quotation from another auditor for the audit of a school and upon receipt of the quote asked the auditor to add 20%, as his consulting fee, and reflect his name on the auditor's letterhead as a consultant. Importantly though, he was neither the firm's consultant nor associated with the firm.

### Conclusion

While some auditors did not have a defence to put forward for their conduct, some tried to explain it as unintentional or warranted under the circumstances. An example is a case of unprofessional communication, where an auditor submitted that the manner of communication was warranted, due to the prior conduct of the recipient. Despite this, the committees concluded that the nature of the communication from the auditor to the client was unprofessional and unwarranted.

Overall, the committees took the view that the conduct for which auditors were charged:

- a) Lacked professionalism;
- b) Was devoid of appropriate ethical behaviour;
- c) Constituted a disregard of the other parties; and
- d) In some instances, specifically where the auditor engaged in private work, found that such conduct was not only in direct breach of various provisions of the IRBA Code, but also perpetuated a conflict of interest that compromised the relevant auditor's professional or business judgement.

### Learnings

Auditors have a duty to adhere to the highest standards of behaviour in the course of their work and in their professional relationships. This is necessary for the profession to maintain public confidence. Consequently, the conduct of auditors should be above suspicion and reproach.

Despite the above - and the detailed provisions of the IRBA Code outlining professional behaviour expected of auditors - the conduct dealt with under this theme showed purely unethical behaviour. In other matters, it was perpetuated by reactive behaviour that was akin to unprofessionalism. Therefore, such conduct fell short of the principles of professional behaviour, as detailed in the IRBA Code, constituted unethical behaviour and brought the profession into disrepute.

In view of the above, auditors are reminded that they must hold themselves in high regard and distance themselves from action that may discredit them and the auditing profession. Accordingly, auditors should:

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Be ethical and display professional, straightforward and honest behaviour in their professional dealings with others.

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Avoid placing themselves in situations that might give rise to a conflict of interest, thus impeding their objectivity.

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Be diplomatic and show respect for those with whom they work, including those people's opinions.

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Avoid insulting people or making them feel uncomfortable.

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Act fairly and be impartial towards everyone involved in the audit.

## DUE CARE, DILIGENCE AND SKILL

### Relevant Prescripts

Paragraph 110.1A1(c), read together with paragraph R113.1 of the IRBA Code, prescribes professional competence and due care as one of the fundamental principles of auditor ethics that requires an auditor to:

- (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (ii) Act diligently and in accordance with applicable technical and professional standards.

Rule 2.7 of the Rules Regarding Improper Conduct states that auditors shall be guilty of improper conduct if they, without a reasonable cause or excuse, fail to perform professional services or duties with such a degree of professional competence, due care and skill that may reasonably be expected of them.

### Analysis of Charges

Despite the duty of care required from auditors, numerous matters revealed a lack of due care, diligence and/or application of the requisite skill and/or competency in the provision of services. This manifested in respect of different types of services offered by auditors and at various levels of their respective engagements.

For example, lack of due care, diligence and skill, which was akin to negligence, was shown in a matter where the review of the audit files for the periods between 2014 and 2017 revealed the following similar deficiencies across the audits:

- a) Performance of inappropriate client relationships and engagement continuance assessments, or no client relationship and/or no engagement continuance assessment documented at all;
- b) Performance of inappropriate independence assessments, or no independence assessments documented at all;

- c) Performance of insufficient risk assessment procedures and/or documentation thereof;
- d) Consideration of non-compliance with laws and regulations not performed or not sufficiently documented;
- e) Insufficient audit work performed and/or no audit procedures performed to respond to the risks of material misstatement due to fraud; and
- f) Performance of insufficient finalisation procedures and/or no finalisation procedures performed at all.

The above deficiencies arose despite the prior existing risks related to the size of the audit engagement; the capacity of the audit firm in the relevant office; the adverse media coverage relating to the audit client; and the significance of the audit fees billed to the client vis-à-vis the total assurance fees of the firm.

Another example of conduct considered negligent by the committees, and lacking due care, was that of the auditor who had signed off on the audit report prior to the approval of the annual financial statements (AFS). The financials were subsequently withdrawn and amendments thereto incorporated in relation to the classification of property, plant and equipment (PPE). The final approved version also exhibited material monetary differences when compared to the initial set. Notwithstanding this, there was no evidence that the auditor, prior to signing off on the amended and approved financials, had reviewed the steps taken by management to ensure that all those in possession of the incorrect AFS were informed of the matter, as per the International Standard on Auditing (ISA) 560; nor that the auditor had obtained sufficient evidence to test if the sample items had been appropriately verified to be capitalised as PPE. In addition, the committees found the following conduct, in respect of other auditors, to fall short of the requisite due care, diligence and skill:

- a) Significant delays in rendering professional services;
- b) Failure to perform professional services in respect of which the auditor had been engaged;
- c) Failure to respond to communication from clients;
- d) Inadequate application and/or monitoring of the firm's quality management policies;
- e) Insufficient audit procedures performed in respect of various areas of the audit;

- f) Lack of or inadequate documentation at various stages of the audit and/or in respect of various procedures;
- g) Non-compliance with laws and regulations;
- h) Failure to timeously assemble the audit file and complete all relevant administrative procedures;
- i) Non-compliance with relevant standards; and
- j) Incorrect audit opinions.

## Conclusion

What is clear from the above is that the duty to act with due care, diligence and skill must be entrenched in all professional services that are rendered by the auditor. This is important because in most cases, the breach of a professional or ethical duty, or non-compliance with standards or laws and regulations, will also result in a breach of the duty to act with care, diligence and skill.

The committees have consistently taken the view that it is the auditors' duty to familiarise themselves with the issues related to the matter in respect of which they have been engaged. That is important because it enables them to act in line with the requirements of the assignment in a careful, thorough and timely manner, as per the requirements of the Code.

## Learnings

The duty to act with due care, diligence and skill is a legal obligation encompassing the responsibility that requires auditors to perform their work with a reasonable level of care, diligence and skill. This means auditors must use their knowledge, expertise and judgement to ensure that their work meets the standards that are relevant to the profession and is performed competently. Due care and diligence must be prevalent throughout the engagement and/or provision of services and be accordingly embedded in every action the auditor undertakes in respect of an engagement.

The exercise of due care, diligence and skill enables auditors to conduct their work in a professional and responsible manner, leading to improved quality outputs, while ensuring that auditors meet their legal, ethical and professional obligations. It also helps to maintain the integrity and reliability of the audit, as well as the good reputation of the profession.





The adoption and application of the following practices may assist auditors to ensure that they exercise due care, diligence and skill in the provision of services to their clients:

- Conducting thorough risk assessments prior to audits, to aid the development of appropriate audit procedures.
- Conducting appropriate audit testing.
- The application of relevant professional standards, to ensure compliance and adherence to best practices.
- Maintaining professional scepticism.
- Staying up to date with relevant laws and regulations, to ensure compliance.
- Documenting all audit work and relevant consideration, to demonstrate that they have exercised due care and skill.
- Seeking advice from experts or consulting with colleagues, when necessary, to ensure that engagements are conducted in accordance with professional standards.
- Paying attention to detail, which may involve conducting appropriate audit procedures, reviewing documentation thoroughly and identifying potential risks and issues.
- Effective communication, to enable auditors to communicate timeously, clearly and effectively with clients, stakeholders and other members of their teams. This may involve explaining audit findings, discussing potential risks or issues and seeking input/feedback from others.
- Acting in line with the requirements of the assignment or engagement.
- Maintaining continuous professional development.



## INDEPENDENCE

### Relevant Prescripts

Paragraph 14 of ISA 200 requires the auditor to comply with relevant ethical requirements, including those pertaining to independence, in relation to financial statement audit engagements.

Paragraph R400.1 of the IRBA Code mandates that auditors performing audit engagements must be independent. Furthermore, paragraph 400.6 requires a firm to apply the conceptual framework set out in paragraph 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

As stated in paragraph 120.6 A3 of the IRBA Code, threats to compliance with the fundamental principles fall into one or more of the following

categories: (a) Self-interest threat; (b) Self-review threat; (c) Advocacy threat; (d) Familiarity threat; and (e) Intimidation threat.

Paragraph 120.6 A4 states that circumstances might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Paragraph R520.4 stipulates that a firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management, unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable.

Paragraph 520.4 A1 provides that a self-interest or

intimidation threat might be created if there is a close business relationship between the audit client or its management and the immediate family of an audit team member.

In addition to the above, paragraph 300.6 A1 of the IRBA Code provides examples of facts and circumstances under each of the categories of threats that might create threats for auditors when undertaking a professional service.

## Analysis of Charges

The charges under this theme predominantly related to instances where auditors failed to conduct sufficient procedures, to enable them to identify and evaluate circumstances that could give rise to various threats to their independence; and/or to take appropriate measures to eliminate and/or reduce the threats to an acceptable level, as contemplated in the IRBA Code.

The most obvious independence threat is one that emanates from an existing business relationship with a client, which creates a **financial interest** in the business of the client. Notwithstanding this, charges were brought against an auditor who had subcontracted work to an audit client, in respect of which the fees billed by the client were significantly above the audit fee billed by the firm to the client in relation to audit services. The committees found the financial interest to be material for both the audit firm and the client, and considered the business relationship significant. Accordingly, the committees took the view that the threat created by this business relationship was so significant that no safeguards could reduce it to an acceptable level.

In a similar matter involving a threat of **self-interest**, two audit partners in an audit firm were also directors of a company that offered trustee services. The auditor accepted a review engagement in relation to a group of trustee companies, even though his partner, through their trustee services company, was appointed as one of the three trustees of the holding trust and had the ability to influence the financial decisions of the trust companies. The auditor contended that he had performed the relevant client acceptance procedures – and considered that he was not involved in any of the trust companies – but still could not identify any threat to independence. The committees, though, took the view that the assessment was insufficient, in as much as he failed to consider the partner’s trusteeship in the holding trust. Consequently, the acceptance of the review engagement was in contravention of the International Standard for Review Engagements

(ISRE) 2400 and the independence requirements set out in the IRBA Code, which prohibit the audit firm and partners to hold a direct or a material indirect financial interest in an audit client as trustees. It was therefore the committees’ view that since the partner’s appointment as a trustee preceded the engagement, the auditor should not have accepted the review engagement.

In a separate matter that revealed intertwined independence threats, the committees had to pronounce on the conduct of a firm that had accepted an audit engagement and a forensic investigation engagement in respect of the same client. Over time, the scope of the forensic investigation was extended to include claims against the client, specifically on the identification (together with the client’s attorneys) of necessary evidence to “fight the claims” brought against the client. Later, this was extended to include the consideration of possible outward claims against third parties, as well as the identification of evidence regarding the nature and extent of certain investments by the client.

Accordingly, the firm’s forensics team attempted to “clean” the client’s balance sheet by determining which assets actually existed and at what value liabilities should be recognised in respect thereof – all this in an attempt to establish the client’s position in relation to the claims. It is important to note that the claims against the firm’s audit client were instituted by another audit client of the firm. To exacerbate the situation, the firm went on to accept an investigation appointment by a regulatory body to conduct a factual investigation involving the same client, despite an express prohibition by its clients. The firm took the view that it was performing separate investigations on behalf of its clients. The committee, however, had a different perspective, finding that the firm’s conduct had:

- Created an **advocacy threat**, as it resulted in the firm acting for a financial statement audit client in the resolution of a dispute; and in circumstances where the amounts were material to the annual financial statements.
- Created a **self-review threat**, as it led to the firm’s consultancy wing acting for a client where the amounts involved were material to the annual financial statements audited by the audit wing of the same firm.

The committees then concluded that the conduct of the firm created a threat to its independence, resulting in the fundamental principle of objectivity being impaired. As such, this could lead a reasonable and informed third party to conclude that the

objectivity and independence of the firm had been compromised.

A **threat of self-review** was considered wherein an auditor oversaw the preparation of the financial statements of a body corporate and then proceeded to sign off on the audit report in respect of the same financials. This is despite the provisions of Section 26(5) of the Sectional Titles Schemes Management Regulations rules, which preclude the auditing of the AFS by the preparer; and those of the IRBA Code that clearly state that auditing the AFS that the auditor has prepared, creates a self-review threat<sup>6</sup>. What was even more alarming was that there were 16 entities identified wherein the auditor was both the preparer and an auditor of the body corporates' financials.

In another matter, the committees found that a threat to independence existed where the client's group assurance fees contributed to more than 60% of the audit firm's total assurance fees. Subsequently, they concluded that under the circumstances, the auditor ought to have identified the value of the fees as a threat and then put the appropriate safeguards in place to mitigate the risk.

### Threats to independence:

1. **Self-Interest Threat**
2. **Self-Review Threat**
3. **Advocacy Threat**
4. **Familiarity Threat**
5. **Intimidation Threat**

### Conclusion

In responding to a self-interest threat, the auditors would mostly indicate that the interest was insignificant. Similarly, in response to the self-review threat, the relevant auditors indicated that their determination of the risk was viewed as being low; while in other instances, they indicated that no threats to independence were identified.

The committees considered these defences to be inadequate, asserting that auditors have the duty to obtain relevant information to identify and evaluate circumstances and relationships that can create threats to independence, so as to apply adequate safeguards to eliminate/reduce such threats to acceptable levels.

In addition, the committees took the view that the duty to assess independence threats should never be narrowed or isolated but needs to be holistic and consider the firm as a whole, the engagement team, as well as the partners and/or directors of the firm.

### Learnings

Auditor independence calls for the auditor's impartiality and objectivity in conducting an audit. It requires that the audit be conducted free of conflicts of interest and biases. The rules and standards regulating auditor independence are aimed at increasing the public's confidence in financial reporting by ensuring that the auditor's opinions and assessments are objective. Therefore, auditors are expected to provide an independent, unbiased and professional opinion on the financial statements they audit. It then follows that an auditor who lacks independence renders their audit report unreliable to the markets.

### Addressing threats to independence may include:

- **Identifying the threat.**
- **Evaluating the significance of the threat, to determine the risk level.**
- **Taking appropriate measures to mitigate the threat by implementing safeguards, e.g. use of an engagement quality reviewer.**

<sup>6</sup> It is important to note that in this particular case, there was no documentation in the engagement file demonstrating how the threat of self-review had been reduced to an acceptable level, as required by the ISAs and the IRBA Code.

From the IRBA's analysis of the relevant matters, it appears that the lack of independence, or failure to appropriately deal with it, is often perpetuated by the following:

a) Auditors frequently underate the impact of the independence threat, with most having indicated that the nature of the business relationship with the client, the value of the interest or the risk was insignificant;

b) Auditors do not have regard for perceived threats to independence, with their focus being on actual threats to independence;

c) Insufficient client acceptance or risk assessment procedures conducted; and

d) Self-interest, which borders on unethical behaviour.

In view of the above and the committees' strict adherence to the provisions of the ISAs and the IRBA Code and supporting standards aimed at managing threats to auditor independence, to protect the integrity of the audit product, it is recommended that auditors should approach independence assessments and independence threat management with the same seriousness, and that requires the following:

- Prior to an audit engagement, the audit engagement team needs to obtain the relevant information to identify and evaluate circumstances and relationships that may create threats to their independence.
- If any member of the engagement team is exposed to a certain independence threat, the conceptual framework set out in paragraph 120 of the IRBA Code must be applied and safeguards developed to reduce the threat to an acceptable level.
- If the threat is such that it cannot be reduced to an acceptable level, or is expressly prohibited by the IRBA Code, the business relationship must not be entered into, or should be terminated.
- The assessment of an independence threat, the identification thereof and how the threat was addressed must be documented in the audit file.

## INCORRECT AUDIT OPINIONS RESULTING FROM INSUFFICIENT AND/OR INAPPROPRIATE AUDIT EVIDENCE AND/OR PROCEDURES

### Relevant Prescripts

Paragraph 24 of ISA 330 states that the auditor shall perform audit procedures, to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework.

Additionally, according to paragraph 2 of ISA 230, audit documentation that meets the requirements

of the ISAs and the specific documentation requirements of other relevant ISAs<sup>7</sup> provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the audit. Also, it provides evidence that the audit was planned and performed in accordance with the standards and applicable legal and regulatory provisions.

Paragraph A5 of ISA 500 states that audit evidence is necessary to support the auditor's opinion and report. Audit evidence is cumulative in nature and is primarily obtained from audit procedures performed during the audit.

Furthermore, paragraph A8, read together with paragraph A9, indicates that the sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence, which is affected by the auditor's assessment of the risks of misstatement (i.e. the higher the assessed risks, the more audit evidence is likely to be required), and the quality of such audit evidence (i.e. with higher quality, less may be required). Appropriateness is the measure of the quality of audit evidence, that is, its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

Paragraphs 10, 11 and 13(d) of ISA 700 require auditors to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. To form such an opinion, auditors are required to evaluate whether, in view of the requirements of the applicable financial reporting framework, the information presented in the financial statements is relevant, reliable, comparable and understandable; and then to conclude if reasonable assurance has been obtained as to whether the financial statements as a whole are free from material misstatements<sup>8</sup>.

## Analysis of Charges

Auditors charged under this theme failed, in the final analysis, to obtain and/or document sufficient appropriate audit evidence or procedures to support their audit opinions. They thus failed to provide correct audit opinions on the fair presentation of the financial statements of the relevant entities.

One of the matters that revealed extensive insufficient appropriate audit evidence and/or appropriate audit procedures at various stages of the audit – including planning, execution/fieldwork, completion and disclosures, leading to an incorrect audit opinion – was the following matter, wherein an investigation into the audit engagement revealed, among others, the following deficiencies:

- a) Risk assessment procedures were either not performed or not documented.
- b) Procedures to identify and address the risk of non-compliance with laws and regulations were not performed and/or not documented.
- c) There were no identified/documentated audit risks; therefore, the investigation could not conclude on whether sufficient appropriate audit evidence was obtained or not.
- d) There was insufficient audit work performed (if any) on the presumed fraud risk areas.
- e) There was insufficient audit work performed on related parties, bank and cash/payments, as well as expenses.
- f) There were material disclosures not included in the financial statements.

Despite the above, the auditor insisted that sufficient audit evidence was obtained and procedures were performed to support an unmodified audit opinion. Essentially, the auditor gave assurance that the financial statements for the relevant years fairly presented, in all material respects, the client's financial position and the results of its operations and cash flow; and were prepared properly, in accordance with the basis of the accounting and financial reporting framework, as disclosed in the financial statements. This was an assurance that the committees found unwarranted and unsupported either by the evidence, documentation and/or relevant standards. In fact, the committees found the audit files to be indicative of a prevalent lack of professional scepticism on the part of the auditor.

Another investigation of audit engagements in relation to four high-profile entities revealed extensive insufficient audit evidence and/or procedures regarding the following areas of the entities' financial statements:

- a) The classification and/or evaluation of investment property, per International Accounting Standard (IAS) 40;
- b) The evaluation of liabilities, specifically, advances for the subscription of shares as accounted for in the financial statements, in circumstances where the financial statement disclosures did not agree to the relevant audit engagement working papers;

<sup>7</sup> See paragraph A1 of ISA 230 in relation to the timely preparation of sufficient and appropriate audit documentation.

<sup>8</sup> Refer to ISA 700 on the types of audit opinion that may be issued and the circumstances wherein the differing opinions are warranted.

c) Refundable deposits accounted for under non-current assets, as well as the fair value adjustments made in relation thereto;

d) The accuracy of cashflow statements; and

e) In circumstances where the group operated through an extensive and complex range of relationships and structures, there was insufficient audit evidence and/or procedures performed in relation to the:

(i) Identification and classification of related party relationships and transactions; and

(ii) Assessment of risks of material misstatements for related parties.

In addition, the auditor failed to address tax issues raised in respect of the tax engagement performed by his firm, in circumstances where such issues were or ought to have been known to him. Accordingly, the auditor herein had failed to obtain sufficient and appropriate audit evidence to reduce audit risk to an acceptable low level and draw reasonable conclusions on which to base his opinion, as required by paragraph 17 of ISA 200. This was despite his assertion that he had applied his professional judgement and, at the time of the audit, there was no evidence to suggest that the work performed was insufficient or inappropriate.

Numerous other matters revealed lack of sufficient and/or appropriate evidence in respect of the following areas of the audit:

a) Testing of provisions, contingent liabilities and the disclosures regarding events after the end of the reporting period;

b) Assessment of impairments;

c) Related party disclosures;

d) Classification of liabilities in the financial statements;

e) Disclosures related to the statement of cash flows, including the identification and consideration of material non-cash dividends, interest or transactions in the statement of cash flows and/or the consideration of outflow cash in circumstances where no actual payment had occurred;

f) Completeness of revenue;

g) Material misstatement in the statement of changes in net assets and funds;

h) Material non-current assets held for re-sale and expenditure;

i) Accuracy and validity of deferred tax and the tax computation;

j) Material departure from the accounting framework;

k) Assessment and evaluation of material misstatements;

l) Consideration and documentation of material misstatements arising from the omission of a third statement of financial position in circumstances where the entity made a retrospective restatement of items in its financial statements, which had a material effect on the entity's financial position;

m) Assessment and/or revision of materiality;

n) Compliance with laws and regulations;

o) Assessment of the need to consolidate or account for, in the audit client's AFS, subsidiaries (in this specific matter, a special purpose entity), in respect of which the audit client held a controlling interest, as per the requirements of the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs);

p) Consideration of the consolidated financial information of the audit client (holding company) and its subsidiaries;

q) Fraud risk assessment;

r) Opening balances, for the purpose of determining whether they contain misstatements, as required by ISA 510; and

s) In respect of public sector audits:

(i) Procurement contracts; and

(ii) Completeness of irregular expenditure.

## Conclusion

While some auditors asserted that work was done appropriately and there was no evidence suggesting the contrary, a majority conceded to the evidence shortcomings in respect of their audits and did not provide any defence in relation thereto. However, in all these matters, the committees concluded that the auditors had failed to identify or address numerous material departures from the relevant accounting framework, including material misstatements in the financial statements. Furthermore, the auditors failed to obtain and/or document sufficient appropriate evidence to support their respective audit opinions, thus falling short of the required standards. Their conduct not only cast doubt on the appropriateness of their audit opinions, but also resulted in incorrect audit opinions being issued.


## Learnings

Obtaining sufficient and appropriate audit evidence is crucial in an audit because it helps to mitigate the risk of material misstatements, enhances audit quality and enables the auditor to form a reasonable and unbiased opinion about the financial statements under review. It also enables auditors to provide appropriate assurance to users of the financial statements on the reliability and accuracy thereof, while reducing the risk of legal liability for the auditors in relation to possible claims by stakeholders resulting from inappropriate audit opinions.

In addition, and as detailed above, auditing standards require auditors to obtain sufficient and appropriate audit evidence to support their opinions on the financial statements. Accordingly, failure to obtain sufficient and appropriate evidence will, in addition to increasing the risk of an incorrect audit opinion and exposing the auditor to legal liability, result in the auditor's non-compliance with prescribed auditing standards.

Despite the importance of, the requirements and guidance on appropriate and sufficient audit evidence, a number of auditors deviated significantly from their obligations in respect of various areas of the audit. The identification and classification of related party relationships and transactions, as well as the assessment of items on the cash flow statements have been recurring areas where sufficient and/or appropriate audit evidence is not obtained during audits. From the IRBA's analysis of relevant deviations by the auditors, the lack of sufficient and appropriate audit evidence or procedures may be equated to, among others:

- Inadequate planning;
- Incomplete or inaccurate information;
- Familiarity or lack of professional scepticism;
- Lack of understanding of the client's business;
- Inadequate risk assessment procedures;
- Management's resistance or scope limitation;
- Insufficient and/or ineffective procedures performed in relation to related party relations and transactions;
- Insufficient procedures performed or evidence obtained in relation to items reflected on cash flow statements; and/or
- Ineffective audit procedures in respect of other audit areas.



Therefore, some of the steps that auditors can take to mitigate the risk of inappropriate or insufficient audit evidence or procedures, include:

- Proper and adequate planning to support the attainment of audit objectives. This should involve identifying areas of significant risks; determining the appropriate audit procedures and the required resources; and setting realistic timelines for the completion of the audit.
- Understanding the entity and its environment, including its business operations, industry, regulatory environment and governance structures, to enable the auditor to assess relevant risks and design appropriate audit procedures.
- Use of appropriate audit procedures, including the testing of internal controls, substantive procedures and analytical procedures.
- Ongoing monitoring of audit procedures, to ensure that they are achieving the audit objectives, and modifying them, as necessary.
- Use of professional scepticism in approaching the audit, which involves critically evaluating the evidence obtained and questioning any inconsistencies or unusual transactions.
- Reviewing working papers, to ensure that they support the conclusions reached and that the evidence obtained is sufficient and appropriate.
- Engaging the client to obtain the necessary information and documentation. This may involve discussing issues and concerns with management and seeking clarification on certain matters.
- Documentation of any considerations made.



## **FAILURE TO DOCUMENT CONSIDERATIONS AS WELL AS PREPARE AND ASSEMBLE AUDIT DOCUMENTATION**

### **Relevant Prescripts**

Paragraph 8(b) of ISA 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, who has no previous connection with the audit, to understand the results of the audit procedures performed and the audit evidence obtained.

ISA 230, paragraph 14, mandates the auditor to assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

Paragraph A21 of ISA 230 calls for the completion of the assembly of the final engagement file to take place no later than 60 days after the date of the auditor's report. Paragraph 16 provides that where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit, the auditor shall, regardless of the nature of the modifications or additions, document the specific reasons for making them and indicate when and by whom they were made and reviewed.



Audit evidence may include information obtained from:

- Audit procedures performed;
- Previous audits;
- The firm's quality control procedures for client acceptance and continuance;
- The entity's accounting records and its other internal sources;
- The work of management's expert;
- An external information source; and/or
- In some cases, the absence of information (e.g. management's refusal to provide a requested representation), which is used by the auditor and constitutes audit evidence.

Paragraph A5 of ISA 500

## Analysis of Charges

Even with the above requirements, auditors have been charged with improper conduct for failing to document considerations during audit engagements. Such failures have been noted at various stages of the audit and in respect of various aspects of the audit and are highlighted herein below.

In one instance, the auditor had failed to document considerations regarding tax implications arising from fringe benefits received by a director. These were lease agreements in relation to a residential home and a vehicle owned by the company and respectively let to the director at rental rates that were below market value. In relation to this, the auditor further failed to document relevant considerations to rule out the occurrence of a reportable irregularity (RI).

There was also another occasion where an auditor issued an unqualified opinion in relation to a group of companies (group), notwithstanding several

non-compliances in the consolidated financial statements. Despite the requirement, in terms of paragraph B86 of IFRS 10, for the consolidated financial statements of the group to combine similar items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of the subsidiary, the group's consolidated AFS did not incorporate the subsidiary's revenue and operating expenses. The consideration of the misstatement, the materiality thereof and the reasons for the non-consolidation were not documented in the consolidation working paper. That then meant it would be impossible for another auditor, with no previous connection to the audit, to understand why the material result in respect of revenue and operating expenses of the subsidiary were not consolidated in the group's financial statements, as required by the standard.

The committees also had to address an auditor who failed to document considerations relating to a self-review threat. They considered the fact that the IRBA Code may permit such conduct where the client is not a public interest entity and the necessary safeguards to eliminate or reduce the threat to an acceptable level have been applied, but could not consider the matter to fall under the remit of the IRBA Code since the engagement file did not have documentation demonstrating how the self-review threat was reduced to an acceptable level.

### Some of the standards that are relevant to cash flow statements are:

**Paragraph 7.18 of IFRS for SMEs:** An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalent.

**Paragraph 10 of IAS 7:** The statement of cash flow must report cash flows during the period classified by operating, investing and financing activities.

**Paragraph 43 of IAS 7:** Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from the statement of cash flows.

In another instance, despite the appointment of an engagement quality control reviewer during the audit, evidence of the review and conclusions reached by the reviewer were not documented in the audit file.

Further inadequate documentation was noted in relation to: planning procedures; independence assessment procedures; outcome of taxation calculations; testing of salaries; misstatements identified; reassessments done on materiality; evaluation of the materiality of uncorrected misstatements; and incomplete working papers that did not adequately document evidence relating to the work performed by the engagement team on various aspects, and/or that were not signed off by the preparer or the reviewer.

Another issue in relation to documentation was the failure by auditors to timeously prepare audit documentation and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. In some instances, the audit file was only assembled six months later. In others, even at the time of delivery of the file to the IRBA for investigation purposes, key audit evidence and/or considerations were not included in the audit file and were only provided upon further enquiry by the investigating team, signalling a clear failure to assemble the audit file timeously and completely, as contemplated in the standards. A further issue was the post factio modification of working papers, which arose from one auditor's modification of over 60 electronic working papers in the audit file, more than 60 days after the date of the audit report.

## Conclusion

When called upon to account for their conduct – and while acknowledging the lack of documentation or failure to assemble the audit file timeously – auditors often insisted that the work was done and simply pleaded oversight when it came to documenting the work done or explained it as an “administrative error”.

**The general principle when it comes to documentation remains:**

**IF IT'S NOT DOCUMENTED, IT'S NOT DONE.**

**Therefore, the audit file must stand on its own.**

**The committees considered such explanations as inadequate; and they continuously affirm that without timeous, complete and appropriately documented considerations and/or audit evidence in the audit file, the basis for the audit opinion cannot be understood by another experienced auditor and/or rationalised.**

Even worse, modifications of working papers after the assembly period cast significant doubt on the integrity of audit files, the considerations made by the engagement team during the audit and the appropriateness of the audit opinion issued. Accordingly, failure to document goes to the core of the credibility of the audit opinion, and the breach thereof is improper conduct that cannot be excused.

## Learnings

From the IRBA's observation, the failure to document considerations and/or audit evidence often stems from:

- a) The fact that work was simply not done;
- b) Inadequate time or resources were allocated to the audit, resulting in insufficient time for work to be done and documented throughout the various stages of the audit. That could also be as a result of poor planning, and/or inadequate client acceptance procedures as they relate to risk assessment;
- c) Familiarity, where the auditor or the engagement team, through history, are well acquainted with the operations of the client, resulting in conclusions being drawn based on historical knowledge and without documenting the considerations made or calling for evidence; or
- d) In some instances, auditors would argue that the deviation did not have a significant impact on the opinion, the client or stakeholders; or that it would not have influenced the economic decisions of the users of the AFS, signalling a lack of appreciation of the purpose and importance of documentation and/or compliance with the standards.

### Modification of working papers

Generally, audit files should not be modified after they have been finally assembled. However, should a legitimate need to modify the file arise, auditors need to document the following:

- Specific reasons for the modification;
- Date on which the modification was done;
- Details of the persons who made the modification; and
- Details of the persons who reviewed the modification.

In view of the above, and the committees' position that documentation is at the core of credibility, auditors need to:

- Ensure that they sufficiently document all considerations made in relation to the audit and throughout all phases of the audit engagement;
- Ensure that documentation supporting their considerations is on the audit file;
- Ensure that the documented considerations and supporting evidence are sufficient to enable an experienced auditor, who has no previous connection with the audit, to understand the reasoning behind the particular result;
- Ensure that files are assembled in their totality, without delay, and no later than 60 days from the date of the audit opinion; and
- Refrain from modifying working papers after the file has been assembled and, where absolutely necessary, document the modification in line with paragraph A24 of ISA 230.



## NON-COMPLIANCE WITH LAWS AND REGULATIONS

### Relevant Prescripts

In terms of paragraph 110.1 A1 of the IRBA Code, read together with paragraph R115.1, the fundamental principles of ethics for auditors include professional behaviour, which imposes a duty on auditors to comply with relevant laws and regulations and avoid any conduct that the auditor knows or should know might discredit the profession<sup>9</sup>

### Analysis of Charges

Those charged under the theme of non-compliance with laws and regulations failed to comply with legislative or regulatory obligations in respect of which they had a duty to comply.

One of the matters dealt with revealed a breach of Section 45 of the APA, specifically the auditor's failure to identify and/or report to the IRBA unlawful

<sup>9</sup> Also see Rules 2.2 and 2.16 of the Rules Regarding Improper Conduct, which provide that failure to comply with legislation that the auditor has a duty to comply with and behaviour that brings or may bring the profession into disrepute constitute improper conduct.

acts or omissions committed by persons responsible for the management of an entity, which may have caused or were likely to cause material financial loss to the entity or constituted a breach of the fiduciary duties of those responsible for management. This was because of the client's non-compliance with the requirements of the Companies Act, relating to the maintenance of an accurate and complete share register that discloses the details of the beneficial owners of the shares held in the company. While the evidence in the audit file revealed that some of the shareholding of the company was held on behalf of beneficial owners (stokvels), whose details were not included in the register, the Reportable Irregularity (RI) working paper did not identify an RI and neither did the auditor report an RI to the IRBA. Nonetheless, he contended that based on the audit evidence, he was satisfied that the share register was complete, accurate and compliant with the requirements of the Companies Act, and that he did not come across any irregularities requiring reporting in terms of Section 45. The committees rejected this assertion, finding that a non-compliant share register is in breach of the Companies Act and unlawful. In addition, such unlawfulness had the potential to cause material financial loss to the company or could constitute a breach of the fiduciary duties of management.

A similar breach of Section 45 of the APA arose where – notwithstanding suspected fronting at the audit client that had been reported in the media prior to the audit – the auditor failed to consider or investigate a possible RI and timeously report it to the IRBA, only reporting it about eight months after the audit was concluded.

The auditor's explanation was that the information was only obtained after signing off on the audit report. This explanation was unacceptable to the committees, especially since the same allegations in the auditor's belated report were reported in the media some years back. The same auditor failed to identify, consider, investigate and/or report the following possible irregularities that pointed to money laundering:

- a) Unusual related party transactions, where payments and receipts of the same amount happened on the same day or within days of each other.
- b) Donations of large sums that were split into multiple smaller rounded payments made to unknown recipient(s).
- c) Funds that were transferred to the attorneys' trust bank accounts for no apparent business reasons.

The committees found that the above factors were money laundering indicators that should have been identified and considered by the auditor as possible irregularities requiring reporting, as per Section 45 of the APA. Further, the auditor was found to have contravened his reporting responsibilities under the Prevention and Combating of Corrupt Activities Act in relation to reportable offences that he knew, or should have known, considering the existence of a court judgement that stated that the audit client's gifts to government officials were intended to incentivise them to favour the audit client for tenders.

In another matter, the auditor, who was also a tax practitioner, was charged with improper conduct for failing to comply with the Tax Administration Act, Income Tax Act and Value-Added Tax (VAT) Act, as a result of failure to file his personal income and VAT tax returns for two consecutive years. He had thus failed to comply with relevant laws, even though he was obliged to do so. The auditor also failed to give a plausible explanation for his non-compliance, with the committees concluding that his conduct constituted improper conduct, as it deviated from his obligations to comply with relevant laws, including those set out in the IRBA Code.

The committees also found the conduct of an auditor who had failed to inform every member of a Close Corporation of his removal as an accounting officer, as required by Section 59(5) of the Close Corporation Act, to be a contravention of the relevant legislative provision and a breach of the IRBA Code.

**The Disciplinary Hearing Panel concluded as follows in one of the matters that came before it:**

*"The public holds auditors ... in high regard and places great trust in their opinions in relation to their [financial matters] and personal taxes ...*

*... the [auditor] ought to have known his duties and obligations as a taxpayer and registered auditor, as set out in the relevant tax legislation, the Code of Conduct, as well as the Rules Regarding Improper Conduct."*

## Conclusion

The approach adopted by the committees, despite the explanations provided by the auditors in relation to their failure to report an RI, asserts that the test herein is not whether or not the auditors identified non-compliances that meet the definition of a reportable irregularity. Rather, it is whether the auditors, based on the information before them, should have identified a reportable irregularity. If the answer is yes, then the duty to report such irregularities and ensure compliance with their legislative obligations rested on the auditors.

The Disciplinary Committee has previously taken a view that auditors ought to have knowledge of the duties and obligations resting upon them, as set out in relevant legislation, the IRBA Code and Rules Regarding Improper Conduct. Accordingly, deviations from such cannot be overlooked and this is evidenced by the committees' refusal to excuse non-compliance with laws and regulations.

## Learnings

Auditors are responsible for examining and evaluating the financial statements and internal controls of an entity, to provide assurance thereon. To ensure the credibility and integrity of such assurance, auditors must comply with laws and regulations that govern the profession and/or those that are applicable to them and their clients. However, beyond the professional responsibility, the duty to comply with laws and regulations is in fact a legal and ethical requirement that rests on the auditor. *For example, reporting a reportable irregularity is a key part of an auditor's responsibility to provide an independent and objective assessment of a company's financial position and operations, as dictated by the IRBA Code, giving credibility to the audit product. Furthermore, laws and regulations serve a specific purpose. In this regard, by reporting a reportable irregularity, auditors help to ensure that companies are accountable, transparent and responsive to stakeholders' needs.* The upshot of all this is that compliance with laws is not discretionary but mandatory.

Despite the duty to and the importance of compliance with laws and regulations, some of the non-compliances noted under this theme were perpetuated by:

- a) Disregard of laws and regulations;
- b) Failure to allocate adequate time to deal with one's personal legislative obligations;
- c) Failure to appreciate the importance and purpose of relevant legislative provisions; and/or
- d) Failure to act with due care and diligence.

### Considering the above, auditors should:

- Continuously ensure that they comply with legislative obligations.
- Where a deviation occurs, auditors must immediately take appropriate steps to rectify it.
- Ensure that their financial affairs are in order, to reinforce public confidence in their financial compliance and reporting expertise.
- Ensure that all the elements of a reportable irregularity, as set out in Section 1 of the APA, are assessed when faced with an unlawful act, breach of legislation by or fiduciary duty resting on those responsible for management.
- While the assessment of an RI requires some exercise of professional judgement, such exercise must be adequately documented in the audit file.





## DISHONESTY

### Relevant Prescripts

Paragraph 110.1 A1 of the IRBA Code states that integrity is one of the fundamental principles of ethics for auditors. Paragraph R111.1 mandates auditors to comply with the principle of integrity, which requires auditors to be straightforward and honest in all their professional and business relationships. Paragraph R111.1 A1 specifies that integrity implies fair dealing and truthfulness when engaging with others<sup>10</sup>.

Paragraph R111.2 prohibits an auditor from knowingly associating with reports, returns, communications or other information where they believe that the information contains a materially false or misleading statement; statements or information provided recklessly; or information that omits/obscures required details, where such omission or obscurity would be misleading. Paragraph R111.3 imposes a duty on the auditor who becomes aware of having been associated with such information to take steps to be disassociated from it.

### Analysis of Charges

Most of the auditors charged under this theme conducted themselves in a manner that was not overtly honest, enshrouding their deception and lacking straightforwardness.

In one such matter, which displayed multiple conduct perpetuated by dishonesty, the auditor, following the withdrawal of his signing powers by his firm, went on to sign an audit report under the name of another audit partner within the firm. The use of another audit partner's signature was without knowledge and/or consent of the relevant partner, who had also not participated in the audit. Accordingly, such conduct was dishonest, in as much as it represented to the client and the public that the other audit partner had performed the audit or signed off thereon, or that he had authority to sign on behalf of the partner.

It was the committees' view that audit opinions have legal significance, and a falsified audit opinion could have several prejudicial legal implications for the auditor whose signature has been falsified, the client receiving the opinion and/or the public placing reliance on the opinion.

The same auditor was placed on a remedial plan by his firm for poor audits. The remedial plan sought the retraction of approximately 17 audit opinions that were issued to clients without supporting audit evidence. While the retractions were issued, the auditor's retraction letters were evasive, citing the reason for the withdrawal as being the "wording used in the reports" and/or "omission of certain references", as opposed to the fact that there was no sufficient audit evidence to support the opinions. The conduct of the auditor was found misleading and dishonest, in breach of the Rules Regarding Improper Conduct. What was more aggravating with his conduct was that he knew that reliance was placed on his reports when the South African Revenue Service (SARS) returns were prepared, yet he failed to ensure that management took appropriate steps to ensure that SARS was informed of the issues arising therefrom.

In another matter, on two occasions an auditor signed audit opinions, notwithstanding the fact that his firm was not registered with the IRBA, and he was registered as a non-assurance auditor, which, according to the IRBA rules, meant that he was not permitted to sign off on audit reports. Accordingly, his conduct was not only in breach of the IRBA registration requirements, but also dishonest because he knew that without being linked to an IRBA-registered firm and registered as an assurance auditor, he could not provide assurance on audits. Therefore, he should not have signed off on the relevant audit reports.

<sup>10</sup>. Also see Rule 2.4 of the IRBA Rules Regarding Improper Conduct, which provides that an auditor shall be guilty of improper conduct if they, without reasonable cause or excuse, are dishonest in the performance of any work or duties devolving upon the auditor in relation to any professional services they performed or any office of trust the auditor has undertaken or accepted.

*The Disciplinary Committee had previously stated as follows:*

*“... honesty and integrity lie at the heart of the auditing function. It is because of these values that the members of the public place faith and trust in the representations made, assurances given and opinions expressed by auditors ... when an auditor becomes involved in misconduct of a kind contemplated in the charge ... that faith and trust [are] compromised.”*

Furthermore, an auditor was charged with invoicing a client for tax-related services, despite the fact that at the time of issuing such an invoice he had not, and in fact could not have, performed the relevant tax services for the client, as he did not have access to the client’s SARS profile to enable him to render the service. While the auditor submitted that the invoice was an interim fee for the time spent preparing the client’s financial statements, the committees ruled that on the face of it, the invoice was misleading and sought to give the impression that tax services were performed on behalf of the client; thus, amounts for such services were due to the auditor, while in fact they were not. Accordingly, the auditor was found guilty of dishonesty.

In another matter, the committees found the conduct of the auditor to be lacking integrity because he had signed his mother’s signature on the family trust AFS for two financial years, in line with a pre-existing power of attorney, but without disclosing on the financial statements that he was signing on her behalf. The committees considered such conduct to fall short of the requisite straightforwardness entrenched in the principle of integrity.

## Conclusion

Some of the auditors charged under the theme conceded liability without offering a defence, while others proffered defences akin to administrative errors and/or mitigation in that the risk of adverse consequences as a result of their conduct was low. Such explanations, or lack thereof, were found insufficient to excuse the conduct of the relevant auditors, who were not honest and straightforward in their professional and business relationships, which contravened the fundamental principles in the IRBA Code. Moreover, the conduct complained of raised questions as to the integrity of the auditors in question and could give rise to adverse reputational harm for the profession as a whole.

## Learnings

In most of the instances detailed above, the relevant auditors did not appreciate the extent of their conduct on their clients, stakeholders, business relationships and the auditing profession. They measured the demand on their honesty in relation to impact. Therefore, according to some of them, and because their conduct did not equate to theft or was not for personal gain, they thought less of such conduct being dishonest and unethical. This is despite the fact that auditors are held to a higher ethical standard, due to the position of trust that they occupy in the public realm.

In fact, integrity is the core value of auditor ethics. As such, auditors have a duty to adhere to high standards of behaviour in the course of their work and in their relationships, whether personal or professional. Anything less is unacceptable.

Regarding falsified or unauthorised signatures, the committees’ position is stern and appreciative of the possible adverse financial and reputational consequences for all relevant parties, including the instigator, the client, the public and those whose signatures are falsified. Afterall, public confidence in the audit product cannot be severed from the integrity of those who produce such products. Accordingly, if the integrity of the preparer is questionable, confidence in the product and the profession is lost and public interest is at stake.

In view of the above, it is important for auditors to understand that any information that is misleading, however vague, remains dishonest. Therefore, auditors are required to conduct themselves with honesty and integrity and must at all times remain forthright, candid and unconcealed.

In addition, auditors are reminded that:

- Only assurance registered auditors can sign off on audit reports.
- An auditor may only sign on behalf of another where express authority has been obtained and a disclosure made as to the relevant authority.
- Attention to detail must be reflected in every document produced or service rendered.



## ACCOUNTING/COMPILATION ENGAGEMENTS

### Relevant Prescripts

Paragraph 25 of International Standard on Related Services (ISRS) 4410 requires that terms of engagement must be agreed and recorded in the form of an engagement letter or other suitable form of written agreement, prior to performing the engagement. Furthermore, paragraph 40(k) calls for a compilation report to be signed and dated by the practitioner.

Paragraph 34(c) states that if the practitioner becomes aware, during the engagement, that the compiled financial information is otherwise misleading, the practitioner shall propose appropriate amendments to management.

Paragraph 28 of ISRS 4410 requires the practitioner to obtain sufficient understanding of the entity's business and operations, including the entity's accounting system and accounting records; and the applicable financial reporting framework, including its application in the entity's industry, to enable the practitioner to perform the compilation engagement.

Paragraph 38(a) mandates the practitioner to include in the engagement documentation: (a) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner; (b) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management; and (c) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.

Paragraph A22(a) of ISRS 4410 states that law, regulation or ethical requirements may require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.

In line with the above paragraph, the IRBA Code, in paragraph 360, requires the auditor to address possible non-compliance with laws and regulations and also sets out the relevant steps to be followed in doing so.

Where there is a suspected non-compliance with laws and regulations, paragraph 360 of the IRBA Code requires the auditor to address that in the following manner:

- a) Obtain an understanding of the matter;
- b) Address the issue with management and those charged with governance;
- c) Communicate the matter to the entity's group auditor;
- d) Determine whether public interest demands that further action be taken to address the matter, e.g. disclosing to the appropriate authorities; and
- e) Document the matter, the result of the discussions with management or those charged with governance and the actions taken.

### Analysis of Charges

In relation to the duties of an auditor when undertaking compilation engagements, the committees had to consider the conduct of an auditor who had been engaged to compile trust AFS for several years, and the investigation of the compilation engagements revealed the following non-compliances:

- a) Notwithstanding the provisions of paragraph 25 of ISRS 4410, the auditor failed to issue engagement letters in relation to the compilation engagements for five consecutive years.
- b) The compilation reports issued were undated, contrary to the requirements of paragraph 40(k) of ISRS 4410.
- c) Despite the following significant matters arising during the compilation engagement:
  - (i) the trustee having billed the trust an amount of R1.5 million in consultation fees, in addition to the R50 000 annual remuneration arising from his appointment; and
  - (ii) the trustee having transferred to himself cumulative loans of up to R2.2 million, notwithstanding the fact that he was not a beneficiary to the trust;



there was no documentation of the significant matters and how they were addressed by the auditor during the compilation.

- d) The auditor failed to report a possible non-compliance with laws and regulations, arising from the trustee's questionable administration of the trust account, including the excessive loans and payments made to himself from the relevant trust accounts, which were clearly indicative of possible non-compliance with the Trust Property Control Act that imposes a duty on the trustee to administer the trust to the benefit of the beneficiaries and with due care and diligence.
- e) The auditor failed to propose amendments regarding misleading disclosure in the AFS, in relation to anomalies regarding investments, as required by paragraph 34(c) of ISRS 4410.

In a different matter related to the duties of an auditor during a compilation engagement, the conduct of the auditor regarding the compilation of trust AFS for two consecutive years was found wanting. This was due to the auditor's failure to document his understanding of the entity's accounting system and accounting records, to enable him to perform the compilation engagement as required by paragraph 28 of ISRS 4410. Moreover, the auditor had failed to document whether there were significant matters arising during the compilation engagement and how those matters were addressed, as per paragraph 38(a) of ISRS 4410.

## Conclusion

In responding to the charges, the auditor in the first matter had submitted that the trustee had

the authority to manage the trust as he saw fit and the right to make decisions on trust matters, including investments, borrowing, agreements, as well as accounting for items as capital or income. Accordingly, he had acted in line with the trustee's instructions and on the basis of information received from the trustee. However, the committees decided that despite the powers of the trustee, the auditor had a duty to carry out the compilation agreement in accordance with relevant standards. Furthermore, despite the auditor's duty, his conduct was at direct odds with the relevant provisions of ISRS 4410, as far as they relate to compilation engagements. Moreover, the auditor failed to realise that due to the suspected non-compliance with laws and regulations, a self-interest or intimidation threat to compliance with fundamental principles of integrity and professional behaviour had been created, as detailed in the IRBA Code. Therefore, the auditor's conduct constituted improper conduct.

In respect of the other matter, the auditor pleaded compliance, notwithstanding the fact that there was no such evidence on the file. Accordingly, the committees concluded that the auditor had failed to comply with the requirements of ISRS 4410 in his compilation engagement.

## Learnings

The conduct of the auditor in the first instance indicated lack of professional scepticism. He simply did not approach the engagement with a questioning mind, as obligated by the standards and the IRBA Code. The auditor in the second instance failed to document his considerations, as required by the standards, thus raising the question as to whether the work was actually performed.

Consequently, auditors, whether in providing compilation or assurance services, ought to:

- Ensure that there is supporting information or explanations relevant to transactions dealt with.
- Question, to their satisfaction, the information presented by management.
- Consider their obligations and duties, as set out in the relevant standards, and adhere thereto.
- Document their considerations.
- Where there is a possible non-compliance with laws and regulations, interrogate the possible non-compliance, follow the process set out in the IRBA Code to address the non-compliance and ensure documentation of same.
- Ensure that the terms of engagement are documented, prior to commencing with the engagements.
- Ensure that reports are not only signed, but also dated to ensure compliance.



## TRUSTEE/EXECUTOR DUTIES

### Relevant Prescripts

Section 9(1) of the Trust Property Control Act requires a trustee to act with the care, diligence and skill that can be reasonably expected of a person who manages the affairs of another, in the performance of their duties and the exercise of powers.

Section 35 of the Administration of Estates Act mandates the executor to forthwith, inter alia, distribute the estate after the liquidation and distribution account has been laid open for inspection.

Paragraph R114.1(d) of the IRBA Code states that an auditor should respect the confidentiality of information acquired as a result of professional and business relationships and not disclose any such information outside the firm, without proper and specific authority, unless there is a legal or professional duty or right to disclose.

Paragraph R112.1 stipulates that the principle of objectivity imposes an obligation on all auditors not to compromise their professional or business judgement because of, among others, a conflict of interest.

### Analysis of Charges

Auditors charged under this theme failed to comply with the IRBA Code, in one way or another, in respect of the execution of their legal and/or professional obligations as trustees and/or executors, leading to them being charged with improper conduct.

In a matter where the auditor, acting as a co-trustee to a testamentary trust, disclosed information relating to the assets of the trust and/or value thereof to third parties who were neither trustees nor beneficiaries, and without authority and/or a legal or professional obligation to do so, the committees found that by his conduct the auditor failed to respect the confidentiality of information acquired as a result of his appointment as a trustee. Therefore, by disclosing such information to third parties, without an obligation or authority to do so, the auditor was guilty of improper conduct.

In respect of a separate engagement, the committees found the conduct of the same auditor wanting, as a result of his failure to disclose – after being requested to do so – a conflict of interest to his co-executor and the heirs to the estate, to which he was appointed as the co-executor.


In another matter, a failure to comply with the legal obligations of an executor, where the auditor had been appointed as the executor of the deceased estate, resulted in the beneficiary's inheritance (interest in a Close Corporation and shares in a private company) being released before the liquidation and distribution account was laid open for inspection. The committees considered the auditor's conduct to be in contravention of the Administration of Estates Act and accordingly found him guilty of improper conduct.

### Conclusion

The auditors charged under this theme proffered various explanations for their conduct, including that they acted on the direction and instruction of the trustee; the issues were as a result of miscommunication with the client and accountant; and/or the disclosures were not made to third parties, but rather to the parents of the adult heirs to the estate. The committees, however, concluded that the auditors had failed to perform their duties with due diligence and care. In relation to conflict of interest, it was the committees' position that the auditors had contravened the principle of objectivity, which imposes an obligation on auditors not to compromise their professional or business judgement because of a conflict of interest.

### Learnings

The deviations noted under this theme constitute a disregard of the legal or ethical obligations set out in the relevant laws and/or the IRBA Code. The relevant auditors failed to uphold the clearly articulated duties relevant to the professional services they had been appointed to provide, or to deal with their professional duties appropriately. This disregard could be as a result of lack of knowledge and/or no understanding of the requirements applicable to the professional services provided; or it could be blatant disregard of the requirements while performing the professional service.



Notwithstanding the reasons for the non-compliance, one cannot shy away from the fact that irrespective of the professional service rendered, auditors have an obligation to familiarise themselves with the requirements applicable thereto and should at all times:

- Consider possible conflicts of interest and ensure that those are appropriately addressed, so as to comply with the principle of objectivity;
- Understand the legal obligations that are relevant to the service to be provided;
- Keep abreast of the ethical obligations included in the IRBA Code through Continuing Professional Development;
- Adopt a zero-tolerance approach when it comes to legislative compliance; and
- Refrain from disclosing confidential information acquired as a result of professional and business relationships, without proper and specific authority, unless there is a legal or professional right or duty to disclose.



## OTHER NON-COMPLIANCES IDENTIFIED IN AUDIT REPORTS

### Relevant Prescripts

Paragraph R113.1 of the IRBA Code mandates auditors to comply with the principle of professional competence and due care, which requires auditors to, among others, act diligently and in accordance with applicable technical and professional standards.

Sections 44(2) and (3) of the APA preclude an auditor from issuing an unmodified audit opinion, unless the auditor has carried out the audit free from any restrictions and in compliance, as far as applicable, with auditing pronouncements relating to the conduct of the audit.

Rule 2.5, read together with Rule 2.6 of the IRBA Rules Regarding Improper Conduct, states that an auditor shall be guilty of improper conduct, if such auditor, without reasonable cause or excuse, contravenes or fails to comply with any requirement in the Auditing Pronouncements or Code of Conduct prescribed by the IRBA.

### Analysis of Charges

Despite the duty to comply with relevant standards and the IRBA Code, several other non-compliances, in breach of standards and/or the Code, were noted in reports issued by auditors and they included the following:

- a) The auditor's failure to consider, prior to accepting the review engagement, whether the financial reporting framework applied in the preparation of the financial statements was acceptable, as required by paragraph 30(a) of ISRE 2400. This resulted in reference to a discontinued standard being made in the financials.
- b) Issuing an undated report, contrary to the requirements of paragraph 86(k) of ISRE 2400.
- c) Issuing a report that is not on the auditor's letterhead and/or reflective of the name of the audit firm, despite this requirement being stipulated in the IRBA Code.

- d) Issuing an audit report prior to the approval of the annual financial statements by the client, in contravention of paragraph 49 of ISA 700.

## Conclusion

In accounting for the above non-compliances, auditors cited oversight, administrative errors and lack of adverse impact on the report. However, the committees considered such conduct not only to constitute a breach of auditing standards or pronouncements, but to be reflective of the auditors' failure to perform their duties with an appropriate degree of professional competence, due care and skill, as is expected of auditors, constituting improper conduct.

## Learnings

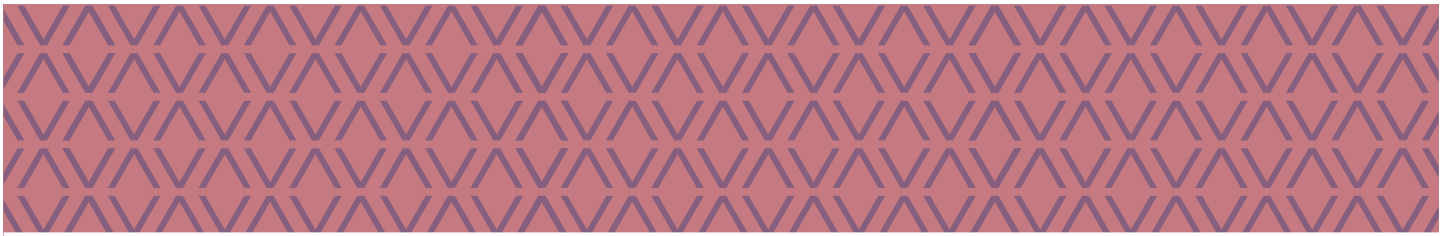
Standards and/or the prescripts in the IRBA Code are designed to serve a purpose, be it to improve audit quality, ensure the credibility of the audit product or protect the interests of the public. Therefore, compliance should not be treated as a mere tickbox approach and/or measured by impact. It is mandatory for auditors to comply with the standards, where these are applicable to their relevant engagements. Consideration of the relevant matters revealed that the non-compliances are exasperated by the following:

- a) Disregard for compliance;
- b) Lack of knowledge and/or appreciation for standards and/or related requirements; and
- c) Lack of due diligence in rendering professional services.

In view of the importance of various standards and related prescripts, as set out in the IRBA Code, as well as the committees' stance on non-compliance, irrespective of the extent or impact, it is imperative that auditors:

- Ensure ongoing professional development in relation to standards and the prescripts of the IRBA Code;
- Embed compliance and relevant training into their organisational culture;
- Design tools that are necessary to aid their firms' compliance with standards and/or the IRBA Code; and
- Pay particular attention to services rendered and/or the professional products issued.

*Auditing Standards constitute the criteria or yardstick against which the quality of the audit result is evaluated.*



# **CONCLUDING REMARKS**

# CONCLUDING REMARKS

Enforcement plays a critical role in the auditing profession. Auditors are responsible for providing independent assurance on the fair presentation of the financial information prepared by their clients. However, without effective enforcement, compliance is often trumped upon. This could result in misleading financial statements, financial loss to investors and reputational damage to the profession.

Therefore, enforcement is key in ensuring that auditors adhere to professional standards and the IRBA Code, and that they are held accountable for any violations or improper conduct. This, in turn, helps to promote confidence in the auditing profession and the financial reporting processes, which is important for maintaining the integrity of the financial markets and protecting the interests of investors and other stakeholders.

Effective enforcement also serves as a deterrent to potential violators, as it sends a message that improper conduct will not be tolerated and that there will be consequences for those who engage in unethical behaviour. This promotes a culture of compliance, which is critical for ensuring that audits are performed with the highest levels of quality, professionalism and integrity.

Accordingly, the IRBA recognises that enforcement is essential for maintaining the credibility and trustworthiness of the auditing profession, and for the protection of the public interest. It is for this reason that it is committed to strengthening the effectiveness of its enforcement processes, which includes the improvement of relevant efficiencies.

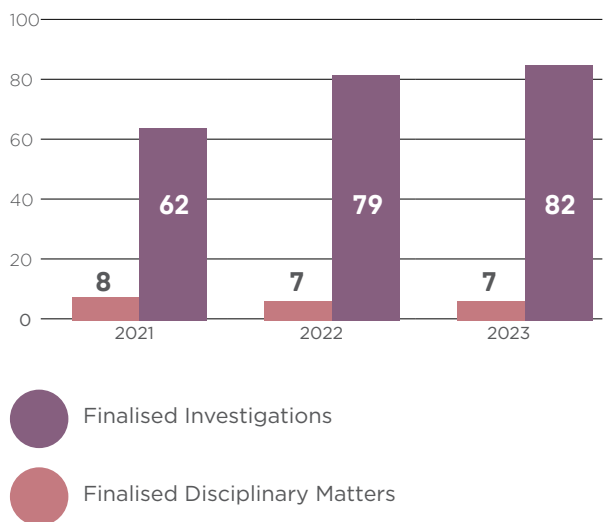
Effective enforcement relies on a number of elements that must be in place. These comprise *clear regulations, adequate resources for enforcement, effective enforcement strategies and strong sanctions* that can act as a deterrent to other auditors.

There should be no doubt that sufficient auditing and ethical standards and related regulations exist to guide the performance of high-quality audits.

However, as reflected under the enforcement theme analysis conducted herein, enforcement-related issues emanate from non-compliance with standards and regulations. It then follows that education and effective enforcement become critical in the overall achievement of compliance and, consequently, improved audit quality.

The enhancement of enforcement resources has been a major focus for the IRBA over these past few years, with the Investigations team growing substantially since 2019. The disciplinary team has also seen some upward movement in its numbers. It is due to the strides made in these areas that the IRBA has seen progress in the number of investigations finalised year-on-year, as reflected in the accompanying graphic<sup>11</sup>.

## Finalised Enforcement Matters: Year-on-Year Analysis



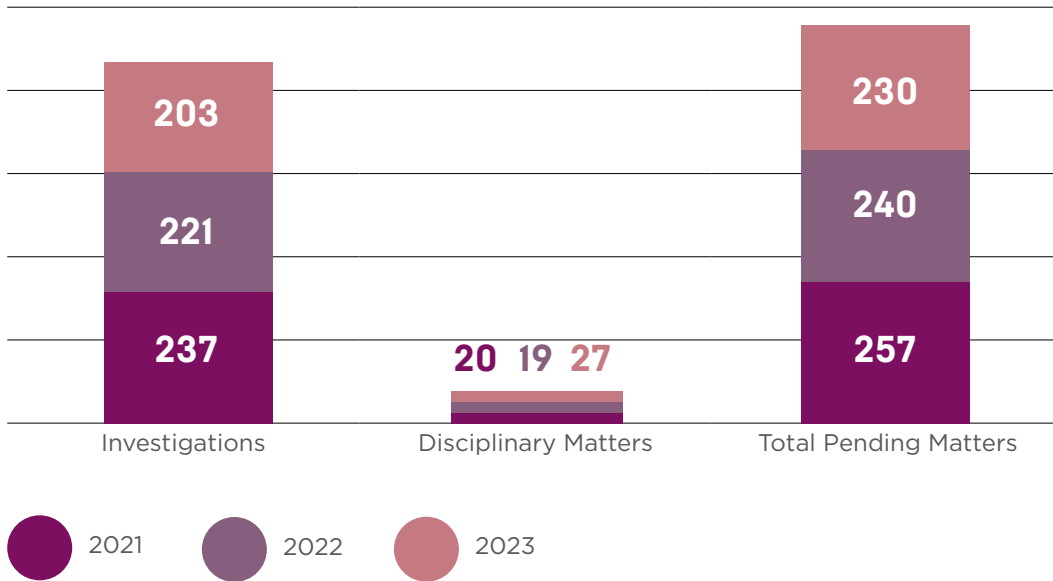
<sup>11</sup> Please note that the number of finalised investigations reported herein is as at 28 February 2023, and includes 16 matters referred for disciplinary hearings; and some of those matters may still be open at the time of publication. The complete year-end numbers will be published in the IRBA 2023 Annual Report.

While the number of disciplinary matters concluded appears fairly stagnant, this has been mostly due to challenges experienced in relation to the impending APA amendments, which has prevented the scheduling of matters wherein auditors were charged prior to the promulgation of the amendments. Nevertheless, the disciplinary hearing strategy adopted by the Board in 2020 has

enabled the finalisation of the matters recorded above through means other than hearings, and that includes admission of guilt processes and settlement engagements.

Similarly, and aside from the 71 new investigations initiated during the period, the year-on-year comparison of open pending matters (as at year-end) reflects an improvement.

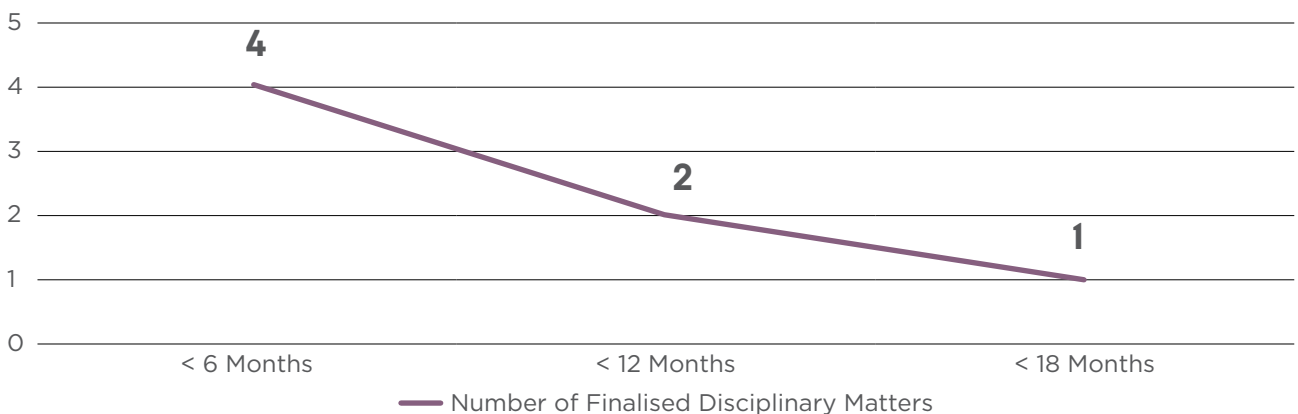
## Pending Enforcement Matters: Year-on-Year Analysis



As reflected above, the inability to schedule some matters for disciplinary hearings – due to the pending amendments – is slowly leading to a backlog on disciplinary matters. This is despite efforts to resolve most of the matters through admission of guilt processes and/or schedule newly referred matters for hearings without delay. However, as elaborated on further below, the Board has adopted appropriate measures to mitigate the impact of the pending amendments.

Furthermore, with 16 new matters having been referred to the Legal Department for disciplinary hearings in the current period, there has been a 33% increase in referrals in comparison to the previous year. However, the IRBA must highlight that the team’s commitment to prioritising new matters that have been referred for disciplinary hearings has resulted in a significant improvement in turnaround times for the finalisation of disciplinary matters, as reflected in the accompanying graphic.

## Turnaround Times - Finalised Disciplinary Matters



Therefore, of the seven matters finalised following a referral for a disciplinary hearing, four were finalised in less than six months; two in less than 12 months; and one in less than 18 months (and this took longer than 12 months, due to a prolonged hearing).

While the IRBA celebrates the strides made by the enforcement teams, despite the challenges experienced, it also appreciates that a lot of work lies ahead, due to the significant number of matters that are still pending finalisation.

To address the pending matters, the Board has, on the advice of senior counsel, resolved to establish a Transitional Disciplinary Committee, in terms of Section 20 of the APA, read together with Section 19. This committee will be responsible solely for adjudicating matters involving auditors who were charged with improper conduct prior to the 2021 APA amendments. This will enable the disciplinary team to schedule pending disciplinary hearings and quickly address the growing backlog, thus mitigating the impact of the pending amendments, while ensuring the overall effectiveness of enforcement processes.

In addition to the above, and in line with the IRBA disciplinary hearing strategy, the enforcement teams have adopted annual plans in respect of the pending matters. Investigations plans to finalise at least 96 investigations in the upcoming financial year, while the disciplinary team intends to have at least 10 matters scheduled for hearings or finalised. The achievement of these targets, together with the employment of other strategies to expedite the finalisation of matters without referrals for disciplinary hearings, will have a positive knock-on effect on the growing caseload.

To ensure that the capacity of the Investigations team continues to grow, a decision has been taken to appoint a Panel of Expert Investigators. The appointed experts will, as and when necessary, be allocated investigations to conduct on behalf of the IRBA, and that will ensure that there are sufficient resources to address the current caseload meaningfully and improve the turnaround times.


Having put the above measures in place to support enforcement, the IRBA continues to rely on the cooperation and accountability of its auditors to aid the attainment of effective and efficient enforcement. If auditors respond swiftly to investigation enquiries and requests, are open in their sharing of relevant information, are willing to admit where they have erred and take responsibility, enforcement processes will address the root causes

in an expeditious manner. Therefore, the IRBA calls on auditors to continue to proudly show integrity in their work and not get weary of cooperating with the regulator.

The final component of effective enforcement is sanctions that are strong enough to deter violations. The committees' commitment to impose sanctions that are fitting for the relevant improper conduct and sufficient to deter violation is reflected in the variety of sanctions they imposed. These ranged from fines to the cancellation of registration and non-monetary sanctions. However, monetary sanctions were still limited to R200 000 per charge, as regulated by the Minister in terms of the APA prior to its amendment in 2021.

It is this limitation that has, over the years, led to public scrutiny and criticism of what is perceived to be the IRBA's ineffective sanctions, which are too low to protect public interests and/or serve as a deterrent. Consequently, it is on this basis that the IRBA, through legislative amendments, sought the implementation of higher fines that could contribute to the effectiveness of its enforcement efforts.

To this end, and following the 2021 APA amendments, the Minister of Finance published, for public comment, new proposed maximum fines for improper conduct and that will be, in the IRBA's view, adequate to achieve the attainment of effective enforcement. The comment process closed in October 2022, and the IRBA is currently awaiting the Minister's imminent promulgation of the maximum fines. Upon the promulgation, the IRBA will finalise and publish a framework that will guide the fair and consistent imposition of fines.



Finally, while the IRBA remains committed to achieving effective enforcement, it wishes to take this opportunity to appreciate and commend all auditors who continue to do the right thing all the time.



**This commitment is reflected in the low percentage (2%) of newly initiated investigations, in comparison to the total number of auditors. Moreover, the 20 dismissed matters wherein no improper conduct was found, and/or where there was a reasonable explanation provided, are confirmation of the good work done by auditors and recognised in the enforcement process, in a fair manner. Equally, the IRBA commends those auditors who, at the realisation of their wrongdoing, reflected accountability and were quick to take responsibility. This is evidenced**

**by the percentage (96%) of matters that were finalised through admission of guilt processes, with only 4% having been finalised through disciplinary hearings.** It is such integrity for which the IRBA continues to advocate. In addition, the regulator commends every other auditor who has cooperated and engaged openly throughout the investigation and/or disciplinary processes, thus demonstrating transparency and contributing to the effective and efficient finalisation of enforcement matters.

The IRBA trusts that this report will be received as a positive step towards achieving transparency between the regulator and its stakeholders, in respect of the enforcement of relevant standards and prescripts within the auditing profession. Moreover, the IRBA believes that the analysis of the enforcement matters and the relevant themes will serve as an education tool for auditors, enabling them to promptly discern improper conduct, shy away from it and ensure compliance, which will progressively lead to improved audit quality.

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