

# Integrated Report 2017

# SIGNIFICANT MILESTONES



2006: The Public Accountants' and Auditors' Board (PAAB) becomes the Independent Regulatory Board for Auditors (IRBA).

2006: The IRBA's first Board is appointed.

2006: The International Forum of Independent Audit Regulators (IFIAR) is formed, with South Africa serving as one of the founding members.

2008: The IRBA hosts an IFIAR meeting.

2008: An IRBA staff member is appointed as a member to the IFIAR Standards Coordination Working Group (SCWG).

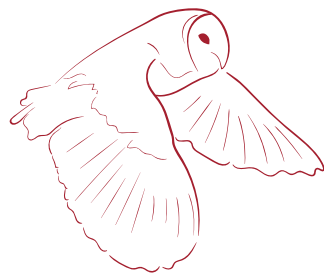
2008 and 2016: The IRBA is approved as an equivalent competent authority under the European Union legislation and by the Federal Audit Oversight Authority of Switzerland, respectively.

2010-2016: South Africa is ranked No. 1 for the strength of its accounting and auditing standards for seven consecutive years.

2010-2016: The IRBA receives an unqualified audit report and the clean audit award for seven consecutive years.

2013: An IRBA staff member is appointed as a member to the IFIAR Investor and Other Stakeholders Working Group (IOSWG).

2014: An IRBA staff member is appointed as a member to the IFIAR Inspections Workshop Working Group (IWWG).



2015:  
The first black  
female Chairman  
is appointed to the  
IRBA Board.

2015:  
An IRBA staff  
member is  
appointed as a  
member to the  
International  
Accounting  
Standards Board  
(IAESB).

2015:  
The IRBA  
publishes the first  
Public Inspections  
Report.

2015:  
The Audit  
Development  
Programme (ADP)  
is launched.

2015:  
The Board and  
Board committees  
become  
independent of the  
audit profession,  
with practising  
auditors no longer  
representing the  
majority of  
members.

2016:  
An IRBA staff  
member is  
appointed as a  
member to the  
International  
Auditing and  
Assurance  
Standards Board  
(IAASB).

2016:  
The IRBA hosts the  
IAESB meeting in  
South Africa.

2016:  
An IRBA staff  
member is  
appointed as a  
technical advisor  
to a member of  
the International  
Ethics Standards  
Board for  
Accountants  
(IESBA).

2016:  
An IRBA staff  
member is  
appointed to the  
IFIAR Enforcement  
Working Group  
(EWG).

2017:  
The IRBA Board  
approves  
Mandatory Audit  
Firm Rotation  
(MAFR) as a  
measure to  
strengthen auditor  
independence in  
South Africa.

2017:  
South Africa is  
appointed to the  
IFIAR Board and  
as chairman of the  
Audit and Finance  
Committee.



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# ABOUT THIS REPORT

## OUR APPROACH TO INTEGRATED REPORTING

We are pleased to present our fourth Integrated Report, which aims to be a concise and balanced communication to all our stakeholders, locally and internationally, who are interested in the IRBA's sustainability and ability to create value over time. Our Integrated Report presents the IRBA's performance for the period between 1 April 2015 and 31 March 2017.

This report reflects how our strategy, performance, prospects and ability to create value are affected by our governance, resources, structure and stakeholders, as well as the internal and external environments in which we operate. Our report is structured around our material issues. We have identified these material issues through robust dialogue with our Board, leadership, governance structures and employees, and also from our continuing engagement with key stakeholders. The report also aims to demonstrate our integration between the different strategic functions of the IRBA and the value we create through our interaction with our stakeholders.

The CEO and the Management Committee (MANCO) guided the team of employees who drafted this Integrated Report, and ensured that it is aligned with other reporting processes. The process followed to compile this report was reported to and approved by the Audit and Risk Management Committee (ARMCO) and our Board.

### FRAMEWORK

In preparing this Integrated Report, we have been guided by the International Integrated Reporting Council (IIRC) integrated reporting framework.

### REPORTING BOUNDARY

The IRBA is a statutory body established in terms of the Auditing Profession Act (APA), 2005 (Act No. 26 of 2005), and is also classified as a Schedule 3A public entity in terms of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999). In our report, the principle of materiality has been applied in determining the content and extent of disclosure. For full details and statutory disclosures, reference should be made to the IRBA's Annual Reports for the years ending 2016 and 2017 respectively, which can be found on our website ([www.irba.co.za](http://www.irba.co.za)).

### FUTURE OUTLOOK

The forward-looking statements that present the IRBA's future outlook are based solely on the views and considerations of the Board and MANCO.

These statements involve risk and uncertainty as these relate to possible events and future circumstances. Factors that could cause actual results to differ from those in the forward-looking statements include, but are not limited to:

- Global and national economic conditions;
- The regulatory environment;
- Availability of funding;
- Extension of the IRBA mandate;
- The status of the auditing profession; and
- The socio-economic and political environment.

### WHY DOES THE IRBA PUBLISH AN INTEGRATED REPORT?

- In South Africa, the publication of an Integrated Report is mandatory for all companies listed on the JSE.
- Though the publication of an Integrated Report is not a legal requirement, we believe that it is important to communicate the value created by the IRBA for our stakeholders.
- We believe that the preparation of an Integrated Report by entities in the public sector supports good governance.
- We are also a member of the IAASB Task Group on Integrated Reporting and have played a leading role in the development of assurance on integrated reporting, a process we continue to support.

# BOARD RESPONSIBILITY AND APPROVAL STATEMENT

The Board, assisted by its Audit and Risk Management Committee, acknowledges its responsibility in ensuring the completeness and integrity of this Integrated Report. The Board members applied their collective thinking to the preparation and presentation of this report and have concluded that it addresses material issues of the IRBA and is guided by the International <IR> Framework in its presentation.

On 27 July 2017 the Board approved the report, taking into consideration the completeness of the material issues it deals with and the reliability of data and information presented.



**Abel Dlamini**  
**Chairman of the Board**

**Duly authorised by the Board**



# ASSURANCE OF THE REPORT

The IRBA has adopted the combined assurance model, and obtained the necessary comfort that the various assurance providers have satisfied themselves that risks have been adequately addressed and any required controls to mitigate those risks have been established. This model is also aimed at deriving assurance that both the strategic and operational risks are adequately managed by co-ordinating:

- Risk management, including internal controls;
- Internal assurance provided; and
- External independent assurance provided.

The responsibility for the implementation and management of the combined assurance model ultimately rests with the Board, which delegates those obligations to the Board committees, management and its governance structures.

## RISK MANAGEMENT INCLUDING INTERNAL CONTROLS

**The Board is responsible for risk governance. It obtains assurance regarding the effectiveness of the risk management process. The risk management framework includes:**

- The Board's risk management structure;
- The risk management approach;
- The standards and methodology approach;
- Integration with training and awareness programmes; and
- The review and assurance of the risk management process.

## COMBINED ASSURANCE

### INTERNAL ASSURANCE PROVIDERS

**The internal audit function was outsourced to Ubuntu Business Advisory and Consulting on 1 August 2016 for years 2016 and 2017 respectively. Prior to this, ARMCO approved a three-year rolling internal audit plan.**

**The internal audit follows a risk-based approach and performs the following:**

- Identifies and monitors significant risks on a continuous basis;
- Submits reports to ARMCO on a quarterly basis;
- Reviews the risk management process as part of the internal audit programme;
- Annually provides the Board with independent assurance that the internal financial controls are appropriate and effective; and
- Annually provides the Board with a written assessment of the system of internal control and risk management.

### EXTERNAL ASSURANCE PROVIDERS

**The external auditor, the Auditor-General, performed the following:**

AREA	OUTCOME
IRBA's systems of internal financial control	No significant deficiencies
Financial statement for the periods	Unqualified
Compliance with laws and regulations	No material instances of non-compliance
Performance information against predetermined objectives	No material findings were raised

**A clean audit report was obtained for the years 2016 and 2017 respectively, which is consistent with previous years.**



# OUR VISION AND MISSION

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## OUR VISION

To be an internationally recognised, comprehensive and independent regulator of the accounting and auditing profession in South Africa.

## OUR MISSION

To protect the financial interests of the South African public as well as those of local and international investors through the effective and appropriate regulation of auditors, in accordance with internationally and locally recognised standards, codes and laws. To do so, the IRBA must create an enabling environment to allow suitably qualified auditors to enter and remain in the profession.



### INTEGRATED REPORT DRAFTING TEAM:

From left to right: Ciara Reintjes, Lebogang Manganye, Mahdiyyah Moola, Jill Levendal, Luleka Mangquku and Herman Thlako.



# OUR STRATEGY

## Q&A WITH BERNARD AGULHAS, CHIEF EXECUTIVE OFFICER

The IRBA celebrated its 10<sup>th</sup> anniversary in 2016 and it was at the beginning of that decade that the organisation moved from operating as the Public Accountants' and Auditors' Board (PAAB) to becoming the IRBA.

### Q: WHY DOES THE IRBA ASSOCIATE ITSELF WITH THE GIANT EAGLE OWL?

**A:** The Giant Eagle Owl is the largest owl in Africa. Its large eyes look black at a distance and are always watching. The Giant Eagle Owl flies silently, but never drops its guard, and is identifiable by its huge and powerful feet, talons and wide wingspan. Like the rest of the owl family, it is the symbol of wisdom and its silent and guarding nature makes it the epitome of integrity. These owls are usually found alone, although sometimes in pairs; so, they are largely independent.

### Q: WHAT DID THE CHANGE FROM THE PAAB TO THE IRBA MEAN?

**A:** The establishment of the IRBA meant that we moved away from a "self-regulated" environment to operating as an independent regulator.

We invested significant time engaging with our stakeholders and sharing the mandate and strategy linked to the transition to independent regulation. Although the transition initially caused some anxiety, as change often does, the change was eventually accepted by our stakeholders.

### Q: HOW DOES THE IRBA CREATE VALUE IN THE ECONOMY?

**A:** Our value is demonstrated by the role we play across the assurance value chain. The assurance value chain extends from the universities that our registered auditors (RAs) graduate from to the audit firms that train these graduates and the clients for whom RAs provide assurance. The value chain also encompasses other regulators such as the Financial Services Board and the CIPC. All participants in this value chain work towards a common goal of protecting the financial interests of investors and the South African public. The role of the IRBA within this value chain is to protect the financial interests of the South African public through the effective regulation of RAs. We promote integrity in financial reporting; and by building a basis for providing confidence, auditors reduce financing costs and contribute to the efficiency of capital markets, thereby promoting economic growth, which, in turn, will contribute towards creating employment.

### Q: WHAT CONDITIONS AND CIRCUMSTANCES HAVE IMPACTED THE BUSINESS OF THE IRBA AND ITS STAKEHOLDERS DURING THE PERIODS UNDER REVIEW?

**A:** Business in South Africa has been experiencing substantial challenges, including weakening commodity prices and rising operational costs that have affected the country's mining sector. In addition, South Africa has recently experienced the worst drought on record, which tested the agricultural sector, while there has also been a weak demand both locally and globally for products/services in the manufacturing and retail sectors. These difficulties have created going concern issues, with businesses entering financial distress and some having to undergo business rescue. These challenges are set against a backdrop of a difficult political and social environment, both locally and globally.

During the periods under review, other major developments in South Africa have included political disruption; allegations of state capture; and protest actions, including the "fees must fall" movement at the Higher Education Institutions. In the global environment there has also been political disruptions, including Brexit and the redefining of geopolitical boundaries.

In these times of great uncertainty, investors call for greater transparency and accountability from companies, auditors and regulators to protect their financial interests. Globally, there is also a greater call for more to be done to combat “economic crimes” such as money laundering and profit shifting.

While it is widely accepted that investors and global financial markets rely on auditors to assure the integrity of financial statements, the relevance of audit is under great scrutiny. As such, we expect that RAs of the future will require a skill set that is different from the current one to remain relevant and value-adding.

At the same time, companies’ operations, business models, transactions and product/service offerings have become more complex. These complexities require sophisticated standard-setting initiatives as well as highly experienced and competent personnel for organisations such as the IRBA to effectively regulate.

Rapid technological advancement and developments, such as cyber risks and data analytics, create opportunities and challenges, respectively, for audit firms and their clients. Similarly, the contrasting roles that artificial intelligence poses as both a potential enabler of audit efficiency and a potential disruptor of the audit profession provide further complexities to the operating environment. These developments will directly have an impact on our regulatory processes, particularly with regard to standard setting and monitoring.

These challenges affect our regulatory philosophy and the work of those we regulate. Fee pressures, tighter profit margins and audit fees that have remained largely stagnant, along with increased compliance requirements, have affected the work of RAs. This has led audit firms to continue exploring ways to improve audit efficiency, including offshoring, establishing centres of excellence, outsourcing aspects of the audit and utilising data technicians. These changes in the business of RAs impact our regulatory approach.

In addition, the momentum in Africa’s growth has led many investors to consider the continent’s gradually expanding potential as a competitive investment destination. With this in mind, the IRBA has included in its five-year strategy collaboration and partnerships that seek to enhance and improve overall audit regulation across the continent.

It is in these crucial times that we strive to strengthen our regulatory oversight to promote the integrity of financial reporting and build a basis for providing confidence and efficiency in capital markets, thereby promoting economic growth. The stagnation in economic growth continues to have a direct bearing on the funding allocated to the IRBA for it to fulfil its mandate.

## **Q: WHAT IS THE ROLE OF THE IRBA IN THE REST OF AFRICA AND ON INTERNATIONAL BOARDS?**

**A:** In line with our objectives, we continue to participate in and secure representation on international forums, in addition to assisting other African countries in setting up their own regulatory frameworks. The latter entails visits to the different regions and interaction with regulatory organisations to determine the assistance required.

### **EVENTS IN AFRICA**

Events attended in various parts of Africa include the following:

- Africa Congress of Accountants in May 2015.
- Pan African Federation of Accountants (PAFA) Technical and Standards Setters Forum in May 2015.
- PAFA Technical and Standards Setters Forum in April 2016.

### **VISITS FROM OTHER AFRICAN COUNTRIES**

The purpose of these visits is to expose our guests to the regulatory function of the IRBA, including the inspections, investigations and disciplinary functions as well as the standard-setting process and operational matters. Representatives from the following bodies have thus far visited the IRBA during the periods under review:

- Sudanese Accounting Profession in June 2015;
- Professional Accounting Body from Mozambique in August 2016;
- Accounting and Auditing Board of Ethiopia in December 2016; and
- Botswana Accounting Oversight Authority in April 2017.

Various undertakings have resulted from these collaborations and have led to invitations to attend committee meetings at the IRBA, as well as obtaining a better understanding of our processes, such as inspections.

## COMMITTEES

We have been privileged to host staff from other African regulators on our committees, the CFAS being one of those. We are also honoured to have the CEO of PAAB Zimbabwe serving on our Investigating Committee. A member of our staff serves on the Education Committee of PAAB Zimbabwe.

## AUDIT DEVELOPMENT PROGRAMME (ADP)

We have been working closely with PAAB Zimbabwe and the Namibian Public Accountants and Auditors Board to assist with implementing the ADP in their jurisdictions. We are pleased to report that Namibia has already implemented the programme.

## IRBA REPRESENTATION ON INTERNATIONAL BODIES

INTERNATIONAL BOARD	NAME	POSITION AT THE IRBA	POSITION ON THE INTERNATIONAL BOARD
IFIAR	Bernard Agulhas	CEO	Board member and chairman of the audit and finance committee
IAESB	Bernard Agulhas	CEO	Board member
IAASB	Imran Vanker	Director Standards	Board member
IAESB	Robert Zwane	Director Education and Transformation	Technical advisor to board member
IESBA	Saadiya Adam	Professional Manager	Technical advisor to board member
IAASB	Nicolette Bester	Professional Manager	Technical advisor to board member
Zimbabwe Public Accountants and Auditors Board Education Committee	Robert Zwane	Director Education and Transformation	Member
IFIAR Investor and Other Stakeholders Working Group	Bernard Agulhas	CEO	Member
IFIAR Inspections Workshop Working Group	Imre Nagy	Director Inspections	Member
IFIAR Enforcement Working Group	Herman Thlako	Manager in the Office of the CEO	Member
IFIAR Standards Coordination Working Group	Nicolette Bester	Professional Manager	Member

## Q: WHAT HAS BEEN THE IMPACT OF THE ROSC RECOMMENDATIONS ON HOW THE IRBA DOES ITS WORK?

**A:** The World Bank issued its second Report on the Observance of Standards and Codes: Accounting and Auditing (ROSC A&A) in South Africa at the request of the Minister of Finance in 2013. The first review was conducted in 2003. The report summarises the findings and policy recommendations that will contribute to the development of a comprehensive reform plan that will strengthen the accountancy and auditing practices in the country, with the overall aim of enhancing competitiveness and advancing governance and financial accountability in both private and public sector entities. In addition, the report also shares good accounting and auditing practices adopted in South Africa.

The issuance of the World Bank ROSC had a significant impact on the IRBA's operations. During the periods under review, much of our effort was focused on implementing the recommendations, and strengthening our regulatory processes. This included strengthening our inspections process to make it more robust and risk focused, establishing a separate Investigations Department with more stringent processes, introducing the ADP, which is a specialisation programme undertaken by professional accountants who want to become RAs, and introducing stricter requirements for establishing an audit practice.

Some of the recommendations require legislative changes that still need considerable planning and preparation before they become law, but the process to accomplish these has been built into our five-year strategy.

## Q: WHAT ARE THE CURRENT FOCUS AREAS?

**A:** During the periods under review, we primarily focused on strengthening our regulatory processes, in line with the ROSC recommendations. We also continued with our involvement in influencing international regulatory efforts through our participation in various global platforms.

In 2015, we reported on the IRBA's extended mandate, which had been approved by the Board. This comprises the Four Pillar Strategy, which entails:

- Comprehensive regulation;
- Independence;
- Leadership in Africa; and
- Transformation.



At the time of approving the IRBA annual plan, there had not yet been confirmation from National Treasury that the IRBA's mandate would be extended in relation to comprehensive regulation. In addition to the uncertainty, no additional funding was provided by National Treasury for some of the pillars in the extended strategy. However, during the periods under review we began work on some of these strategic initiatives, details of which are contained on pages 16-18.

### **Q: WHAT ARE THE CHALLENGES FACING THE IRBA AND THE PROFESSION?**

**A:** Transformation of the auditing profession remains a key challenge. The reality is that of the 4 283 RAs in South Africa, 74.8% are white and only 10.5% are black Africans. We believe that while some initiatives have been implemented, more must be done. It is not just about increasing the number of black trainee accountants; it is about giving black accountants and auditors long-term prospects in the profession equivalent to those of their counterparts. This requires a cultural shift and a more inclusive approach that will provide black accountants with a positive experience at the firms, resulting in improved retention. The challenge is everywhere and the IRBA has also not been spared. While there is a small pool of chartered accountants (CAs) who are also transformation candidates to recruit from, most of our CAs who left public practice were transformation candidates. These employees represent scarce skills within the financial sector and are paid higher salaries and premiums by other employers.

Funding also presents a challenge. Our sources of revenue are government, firm fees and registration fees. This is not an ideal scenario and we are looking at a new funding model that will sustain us, provide adequate resources and, more importantly, ensure our independence from the profession. Our proposal for a comprehensive regulation model will possibly provide alternative sources of funding.

The rate of inspection failures has increased over the past couple of years, with the latest Public Inspections Report showing an overall regression in the inspection results. Even though the inspection findings are in line with the global inspections survey results issued by the IFIAR, we continue to be concerned as a regulator. These results show a lack of consistency in the execution of high-quality audits and point to the need to address firm-wide systems, including auditor independence.

### **Q: WHY DID THE BOARD APPROVE THE IMPLEMENTATION OF MANDATORY AUDIT FIRM ROTATION (MAFR)?**

**A:** Over the past two years the Board spent a significant amount of time deliberating on measures that could be implemented to strengthen auditor independence. To address concerns with independence in our environment, a research project was initiated in July 2015. We conducted an exploratory study into MAFR, Mandatory Audit Tendering (MAT) and Joint Audits (JA) and the implementation of these worldwide. For any perceivable risks, the Board primarily looked at, among others, the key threats to independence that arose from inspection findings, the length of audit tenure and familiarity threats between auditors, audit committee chairs and Chief Financial Officers.

Concerns with auditor independence have also led international role players around the world, including the European Union, to implement more robust measures. The aim has been to enhance the independence of auditors as well as the independence of audit regulators so as to avoid "regulatory capture". More importantly, independence is a critical component of audit quality. Without the required independence, investors cannot have the assurance that the opinion expressed by the auditor is appropriate in order for them to take economic decisions.

In addition, the Board was concerned with the level of market concentration in the audit industry. Given the global concentration of listed companies audited by the "Big Four", any failure of a firm, as happened with Arthur Andersen, could permeate other economies and jurisdictions. Also, with these levels of concentration, both globally and locally, the loss of one auditing firm would likely have a serious impact on many of the world's largest and most complex listed entities. In 2016 alone all the "Big Four" firms globally were fined, sued or settled court cases with amounts running into billions of dollars.

Within a South African context, an additional concern is that audit firms that are not members of the "Big Four" networks may not receive opportunities to acquire the required experience to replace any of the global networks should there be another audit failure. Global companies that are large, complex and often in specialised industries are audited primarily by one of the "Big Four". The potential collapse of one of these firms could therefore possibly disrupt stability in the financial market and damage investor confidence.

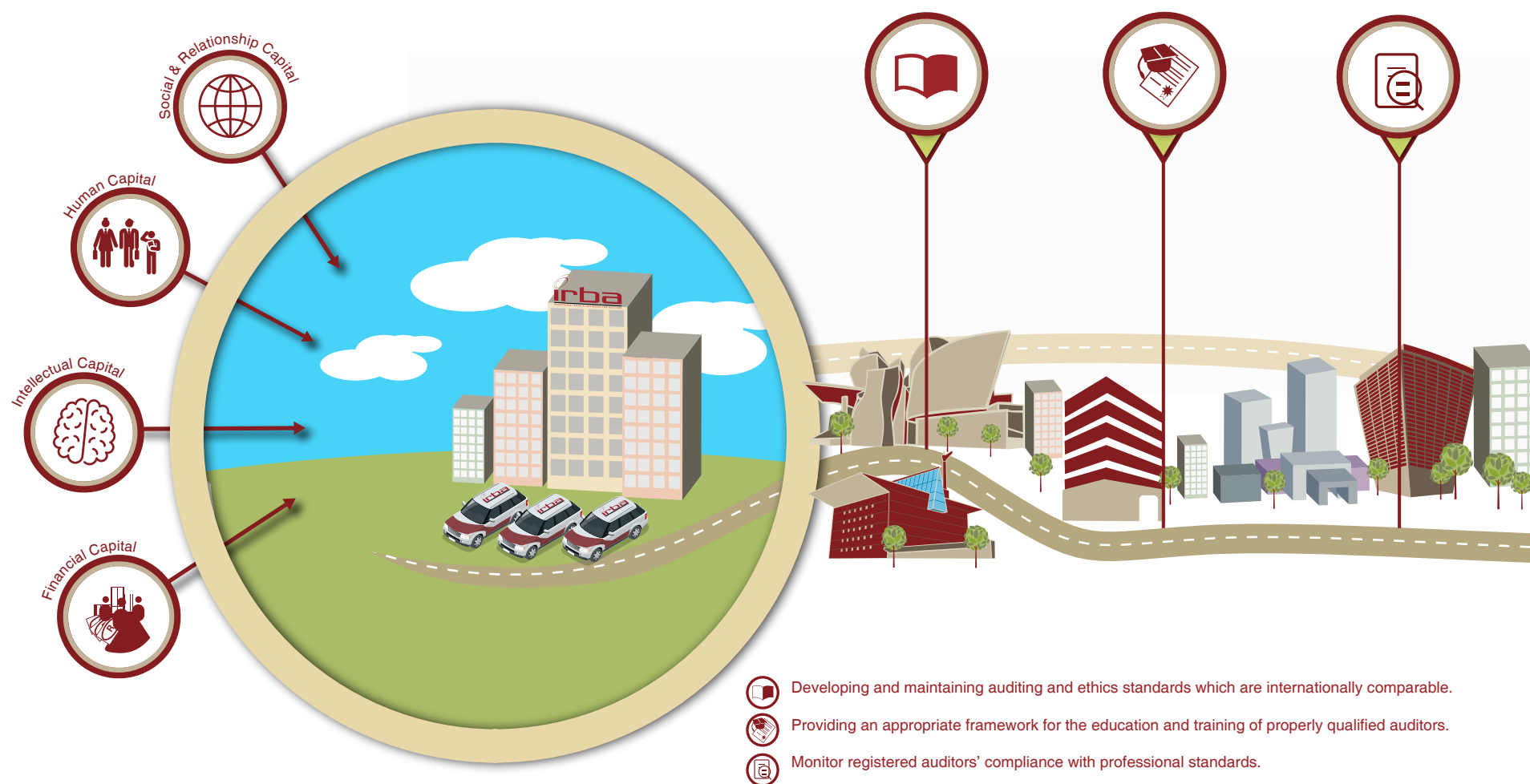
The Board was also concerned with the lack of transformation in the audit industry. During our research we identified the lack of economic transformation within the profession as a further major issue. These and other facts were of grave concern to the Board as the IRBA, as a public entity, has an important role to play in the transformation of the profession, in line with government's economic and transformation policies for economic inclusion.

On 29 August 2016 we announced that we will begin a process to implement MAFR for audit firms to strengthen their independence from their clients. We were challenged on our consultation process and as such the Board took a decision to extend the consultation process to 20 January 2017 to allow for the broader participation of stakeholders.

There have been some positives and some challenges in getting to the point where the Board took the decision to implement this measure. We faced significant resistance from some stakeholders and have received negative publicity and media coverage in this area.

On 29 March 2017 the Board held a special Board meeting and considered all the available information and concluded that MAFR is still the most suitable measure to achieve the Board's intended objectives. This decision was publicly announced by the Minister of Finance in June 2017.

Preparation for the successful implementation of the MAFR rule in 2023 will continue to occupy us until then. We will continue to engage with our stakeholders during this period.



### Q: WHAT ARE THE KEY MESSAGES THAT YOU WOULD LIKE READERS TO TAKE FROM THIS REPORT?

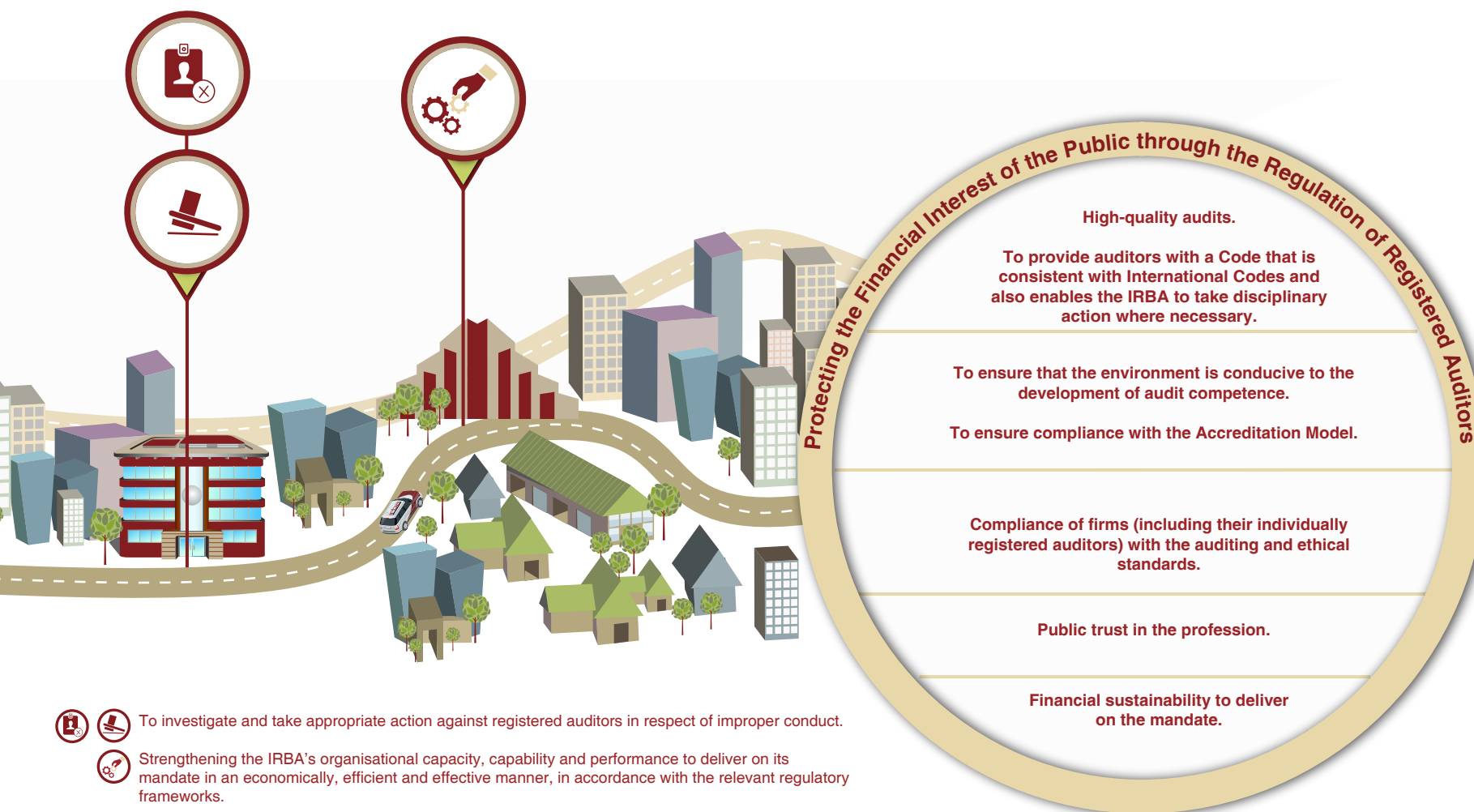
**A:** In this report we provide insight to enable the public to better appreciate the value that we create in protecting the financial interests of the South African public and international investors.

We demonstrate the value added by the different structures, the secretariat and assurance providers in creating such value. Importantly, we have attempted to also demonstrate that the IRBA alone

cannot discharge such a critical responsibility, but that it needs the support and co-operation of a multitude of stakeholders to achieve our common objectives.

### Q: WHAT IS THE IRBA BUSINESS MODEL?

**A:** The graphic below gives an overview of how our business model is structured.



## Q: WHAT ARE THE IRBA STRATEGIC OBJECTIVES?

**A:** Our Strategic Plan for the period 2015/2016 to 2019/2020 was approved in March 2015.

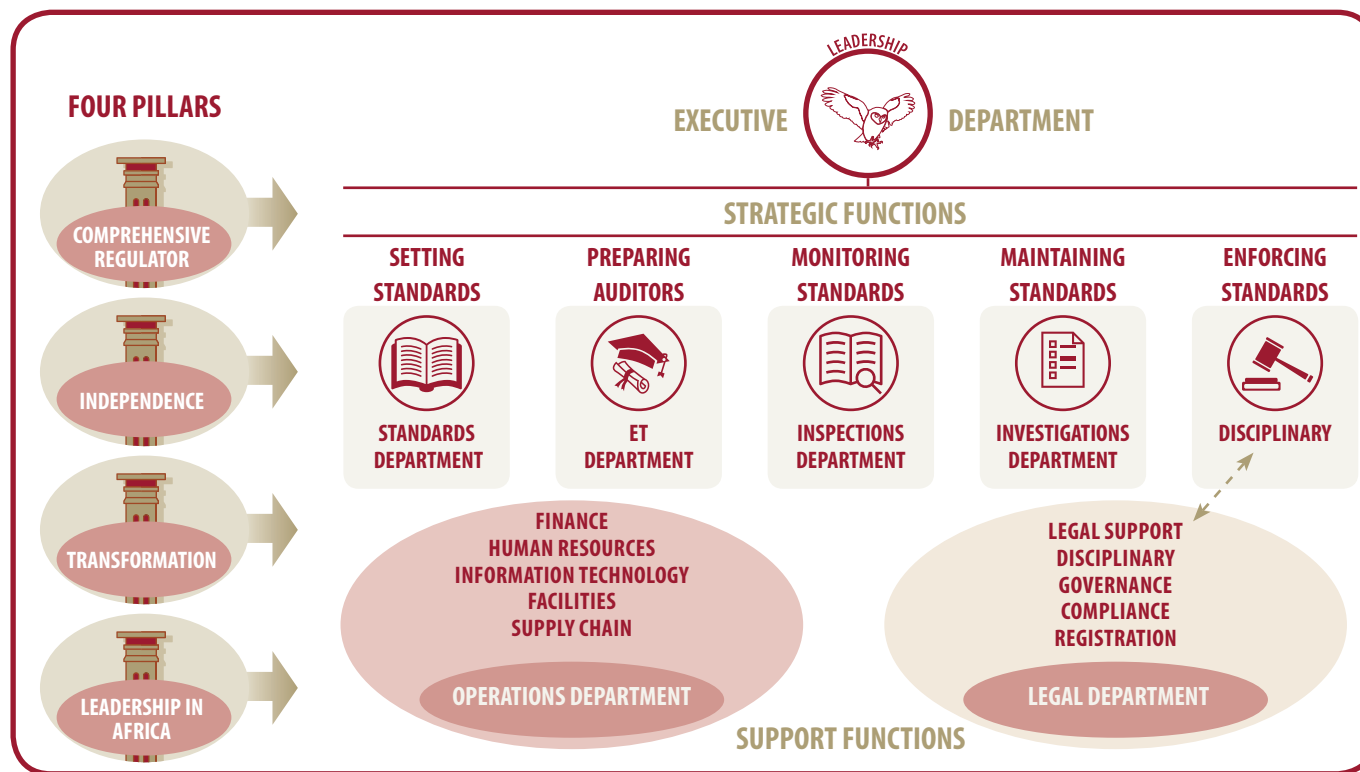
Stakeholder relationships constitute an underlying principle that permeates everything we do. As such, in preparing the Strategic Plan it was important to ensure that our internal stakeholders were part of the process for it to be truly and fully integrated. This is because everyone in the organisation must be able to associate with and support the strategy.

Although the Strategic Plan builds on our legislative mandate, it also includes strategic focus areas to strengthen our regulatory processes. However, these focus areas, which we refer to as Programme

2 – The Four Pillar Strategy, might not arise from the IRBA's founding legislation. Nevertheless, they support government's national priorities, which are in line with the ROSC recommendations. In that way, our overall strategy is aligned to the state's policy outcomes and the goal of protecting the financial interests of the public through the regulation of RAs.

## Q: WHAT IS THE FOUR PILLAR STRATEGY?

**A:** The four pillar strategy, as discussed above, supports government's national priorities, which are in line with the ROSC recommendations.





## COMPREHENSIVE REGULATOR

This pillar is based on the recommendation in the 2013 ROSC Accounting and Auditing, which is to introduce the regulation of Professional Accountancy Organisations (PAOs).

PAOs continue to contribute in the development of more technical and professional accountants who serve the public and private sectors, despite a continued shortage of entrants in the field.

There are 12 PAOs offering different qualifications and that are recognised by various regulatory bodies. However, the PAOs are not supervised by any institution in the country in terms of their qualifications, capacity and mechanisms of how they monitor their members. This increases the risk of reputational damage to the accounting profession as some members may offer inferior quality services. Further, the current model limits the recognition and ability to promote the different qualifications offered by the PAOs to prospective accountants, training institutions and employers.

There is a need for a comprehensive arrangement to supervise and regulate PAOs to ensure that all of them serve the public interest – a move that would also contribute to enlisting all accountants to be members of PAOs<sup>1</sup>. Membership of a recognised PAO that is subject to oversight will also add credibility to the services delivered by all accountants.

Therefore, our intention is to expand our offering to make the IRBA a comprehensive, multi-disciplinary and value-adding regulator.

## INDEPENDENCE

This pillar is based on further recommendations in the 2013 ROSC A&A as follows:

1. ***An independent Board should govern the proposed regulatory body with support from a secretariat that has adequate capacity in financial and human resources.***

The 2015-2017 Board composition comprised members who were independent of the profession.

2. ***The disciplinary process and sanctioning requires independence, rigor, and timely resolution.***

The Board made significant progress, where practically possible, in appointing statutory committee members who are independent of the profession. Regarding the sanctions, though, the monetary penalty available under the law should be increased from its current level of R200 000 per charge.

3. ***Resources and capacity should be increased and the funding model should be stabilized.***

In addition to the ROSC recommendation, IFIAR's core principles provide that the audit regulator "should have a stable source of funding, which is secure and free from influence by auditors and audit firms and sufficient to execute its powers and responsibilities". The core principles also state that "in order for audit regulators to be effective, it is a prerequisite that there is sufficient staff of appropriate competence". Research is in progress to determine an alternative funding model that will strengthen the IRBA's independence from the profession and government.

4. ***The independence of our inspection and investigations processes should be strengthened.***

In addition to the ROSC recommendation, IFIAR's core principles provide that an audit regulator should be "operationally independent", meaning that it should have "the ability to undertake regulatory activity without external interference by those regulated". While we have full-time staff in the Inspections and Investigations departments, the most critical decisions regarding the IRBA's monitoring and enforcement programmes are derived from the Inspections Committee and the Investigating Committee. With regard to these committees, the Board made significant progress, where practically possible, in appointing statutory committee members who are independent of the profession.

In addition to the above, the independence of auditors and regulators has become a focal point for governments and oversight structures globally. Investors and the public are also demanding more information about their investments as well as transparency from auditors and management; they have also become more aware of their shareholder rights that need to be protected. These developments have led international role players to implement more robust measures that will enhance the independence of auditors as well as that of audit regulators. This is the reason why after a lengthy consultation process with various stakeholders the Board took a decision to introduce MAFR as a measure to further strengthen the independence of auditors.

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1. Extract from ROSC A&A – SA

## TRANSFORMATION

This pillar is based on the overall transformation of the RA profession, and this has been imperative for us for a number of years. Although the number of black RAs in the profession is increasing, it is still not representative of the national demographics of the country. We are, however, not alone in these endeavours to increase the number of black RAs. There are a number of organisations that have a similar goal; and we will work with those organisations for maximum impact and exposure.

Our project plan follows a three-pronged approach, which encompasses projects at the learner level, the university student level and the trainee level. Our projects at the learner level are aimed at raising awareness of the audit profession. We see the promotion of pure mathematics as an important aspect of this level. Our projects at the student level are aimed at recruiting students into the auditing profession, and this is done through the promotion of the profession and the RA brand. Projects at the trainee level are aimed at facilitating the retention of trainees in the auditing profession and raising awareness of the ADP.

## LEADERSHIP IN AFRICA

This pillar is driven by looking at ways to facilitate knowledge sharing with other regulators on the continent. Initially, a "Partnership Strategy" was proposed to implement this pillar, but that was stalled in 2016 due to lack of funding. However, we have and are engaging with our African counterparts through involvement in other activities, including:

- Responding to invitations to attend events hosted by other regulators in the rest of Africa;
- Hosting visitors to the IRBA and at committee meetings;
- Appointing one non-South African to a statutory committee;
- Assisting with organising PAFA activities; and
- Supporting IFAC, on request, in its capacity building activities.

As funding is not yet available, this pillar will continue to be managed on an ad-hoc basis.

## OUR MATERIAL ISSUES

### Q: HOW WERE THE MATERIAL ISSUES IDENTIFIED?

**A:** Our report is structured around our material issues. We have identified these material issues through robust dialogue with our Board, governance structures and employees, and also from our continuing engagement with key stakeholders. This process took into consideration our strategic objectives, external and internal operating environments, risk assessments and interactions with our stakeholders. Our report considers the following key capitals: financial; human; intellectual; and social and relationship. The remaining capitals, manufactured and natural, although important, are not as critical to our business.

The material issues identified were:

- Audit quality;
- Relevance of the IRBA and sustainability of the profession;
- Regulatory approach and expanding our influence;
- Independence of the IRBA and RAs; and
- The economic and political environment.



MATERIAL ISSUE	WHY IT IS A MATERIAL ISSUE	RISK/OPPORTUNITY	RESPONSE
Audit quality	Creating an environment that supports high audit quality is important in achieving our mandate and ensuring the continuing relevance of the audit profession. In recent years we have noted a high unsatisfactory failure rate among inspected RAs and audit firms, which suggests that high-quality audits are not always being delivered.	Loss of confidence in the profession.	<ul style="list-style-type: none"> <li>Formally include the Remedial Action Process in the inspections process.</li> <li>Issue a Public Inspections Report to communicate examples of inspection findings and possible root causes.</li> <li>CPD monitoring processes (random sample) as per the CPD policy, and reflection on the CPD policy (process of policy amendment has started).</li> <li>Use the ADP as a tool to influence lifelong learning.</li> <li>Focus inspections on risk.</li> <li>Raise awareness of the importance of audit quality.</li> <li>Risk-based inspections.</li> <li>Awareness-raising.</li> <li>Publish a new RI Guide.</li> </ul>
Relevance of the IRBA and sustainability of the profession	Our mandate is to protect the financial interests of the investing public by regulating RAs. Significant changes in our operating environment have resulted in greater scrutiny by the public of the value of the IRBA, the RA and the assurance profession.	The important role the IRBA and the profession must play in strengthening confidence in the markets, improving ratings and addressing corruption and white-collar crime.	<ul style="list-style-type: none"> <li>Investigations are strengthened to ensure that action is taken against non-compliant auditors. The current fines structure and other measures are being researched.</li> <li>The Accountant-General or a representative attends Board meetings and assists in addressing issues with National Treasury on which the IRBA requires support.</li> <li>Stakeholder Engagement and Communication Plan include promotion of the IRBA and the value of audit.</li> </ul>
Regulatory approach and expanding our influence	Our regulatory approach in response to our operating environment requires regular reconsideration to ensure that we are satisfying our mandate and, at the same time, not impeding the workings of an efficient economy.	Change in confidence in the IRBA. Perception that the IRBA is not a proactive regulator.	<ul style="list-style-type: none"> <li>Implement a Remedial Action Process.</li> <li>Regularly communicate with RAs through quarterly IRBA News and emails to make RAs aware of changes.</li> <li>Consult with professional bodies, including those not accredited, on changes in the IRBA's accreditation model.</li> <li>Effective monitoring process as per the accreditation model.</li> <li>Well researched monitoring standards and indicators.</li> <li>Oversight RAs (ORAs) orientation meetings held with all ORAs to afford firms the opportunity to comment on standards, indicators and monitoring processes.</li> <li>Process implemented to build data intelligence and share information.</li> <li>Robust investigations and disciplinary processes.</li> <li>Research project being conducted on the level of fines.</li> </ul>

MATERIAL ISSUE	WHY IT IS A MATERIAL ISSUE	RISK/OPPORTUNITY	RESPONSE
Independence of the IRBA and RAs	<p>The independence of the IRBA structures from the RAs that we regulate is critical to prevent a self-regulatory environment and guard against instances of undue influence by those we regulate.</p> <p>The independence of RAs from their clients is important to ensure high-quality audits and confidence in audit opinions.</p>	<p>IRBA not perceived as an independent regulator and therefore confidence lost from the public and investors.</p> <p>Loss of standing of the RA brand if auditors are not independent when discharging their public interest responsibilities; and credibility of opinions challenged.</p>	<ul style="list-style-type: none"> <li>• No RAs in public practice on the current IRBA Board, the Inspections Committee and the Investigating Committee.</li> <li>• Protocol developed to consider the independence of proposed members for all new appointments to the IRBA structures.</li> <li>• The Board's Four Pillar Strategy includes the independence of the IRBA and RAs.</li> <li>• Less reliance placed on external service providers who may not be independent of the profession, e.g. legal advisors.</li> <li>• Stakeholder engagement by the CEO and directors.</li> <li>• Due process of the IRBA for standard-setting for audit standards and the Code.</li> <li>• MAFR to strengthen the independence of auditors.</li> <li>• Process in place to ensure appropriate composition of task forces.</li> </ul>
Economic and political environment	<p>Our operating environment has gone through dramatic changes, including low growth, difficult business conditions, political instability, the higher education crisis, poor governance of public entities and corruption. All of these have an impact on audit quality and our pipeline of RAs; they also pose a challenge to the standard-setting process.</p>	<p>Loss of confidence in the profession.</p>	<ul style="list-style-type: none"> <li>• Monitoring of changes in regulatory universe for RAs.</li> <li>• Standards remain alert to local and international trends via our interaction with other national standard setters.</li> <li>• CFAS has a project prioritisation process that takes into account the South African environment.</li> <li>• Continuous awareness raising and engagement with regulators and various government departments.</li> <li>• Monitoring concomitant legislation to be amended to include enforcement provisions for the relevant regulator.</li> <li>• Forging close stakeholder relationships with our shareholder and other government departments.</li> </ul>



# OUR GOVERNANCE

*Q&A WITH JILL LEVENDAL, BOARD SECRETARY (LL.B, LL.M)*

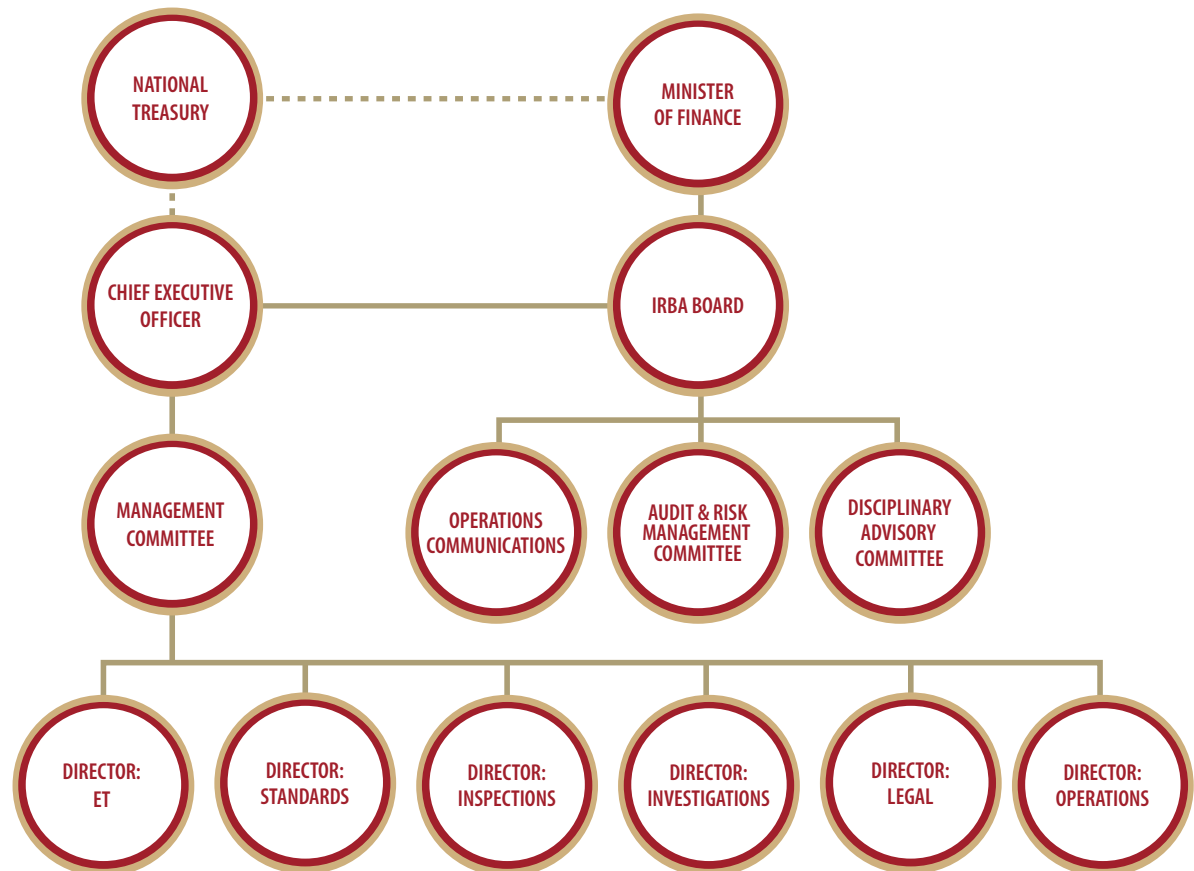
## Q: WHAT IS THE GOVERNANCE STRUCTURE?

**A:** The IRBA's governance structure includes Board members and executive directors who have a vital role in supporting the IRBA to achieve its strategic objectives. This structure is instrumental in driving the organisation's ability to create value.

## Q: WHAT IS THE ROLE OF THE BOARD REGARDING THE EFFECTIVE FUNCTIONING OF THE REGULATOR?

**A:** The IRBA Board is our designated accounting authority, and it governs the IRBA in accordance with the provisions of the APA, the PFMA and good corporate governance principles of the King III Report. During the periods under review, no material issues were identified to suggest flaws in governance.

### THE IRBA GOVERNANCE STRUCTURE



## Q: WHO APPOINTS THE BOARD MEMBERS AND WHAT ARE THEIR RESPONSIBILITIES?

**A:** The Board is appointed by the Minister of Finance (the Minister) for a period of two years, renewable only once. All members are non-executive members who are competent persons, and they could include RAs. Their mandate is to effectively manage and guide the activities of the Regulatory Board based on their knowledge and expertise.

The role of the Chairman of the Board and that of the Chief Executive Officer are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. The Chairman of the Board has no executive functions.

## Q: WHAT VALUE IS ADDED BY THE BOARD MEMBERS' EXPERIENCE AND SKILLS?

**A:** The collective knowledge, expertise and experience that our Board members bring are some of the key factors that help the IRBA to effectively perform its regulatory responsibilities. One of those responsibilities, according to the governing Act, is for the members to "provide effective, transparent, accountable and coherent corporate governance". As their brief biographies below show, the individual proficiencies they have from a cross section of sectors are also instrumental in promoting the integrity of the profession.

The Board members during the periods under review were:

### RENE KENOSI CA (SA) – CHAIRMAN

Rene is a director at Bridging Concepts Financial Services (Pty) Ltd, her own financial services firm, and she has expertise in internal audit, risk management, corporate training and management consulting services.

Her career spans over a number of years and across various industries, including banking, breweries, motor vehicle, and professional services consulting.

She has served on various audit and risk management committees, including those of ICASA, LGSETA, Metrobus, CIPC and the Department of Home Affairs.

Her second and final term commenced on 15 April 2015.

### ABEL DLAMINI CA (SA) – DEPUTY CHAIRMAN

Abel is the Executive Chairman of accounting firm SekelaXabiso. He was a founding member of Sekela Consulting, one of the partners in the merger that created SekelaXabiso. Abel has cultivated profound experience in professional services and the advisory space, with significant exposure in internal audit and external audit over the years. He was a partner at KPMG and Arthur Andersen, and served as the Chief Executive Officer at Dlamini Inc. Abel has served on a number of boards across industries and sectors, including regulatory boards and community NGOs.

His first term commenced on 15 April 2015.

### ADVOCATE LISE KEECH B.IURIS, LL.B

Lise is an admitted advocate of the High Court of South Africa. She is a state prosecutor with more than 15 years' experience. Prior to her current position, she was a prosecutor in the Office of the Deputy Director of Public Prosecutions in Port Elizabeth. While serving on the Board, she was appointed to the Fraud Investigating Task Team, a project between the Road Accident Fund and the National Prosecuting Authority. She was later appointed as Senior Advocate at the Specialised Commercial Crime Unit of the NPA stationed in Port Elizabeth.

She has expertise in conducting trials, prosecuting and investigating fraud and corruption cases, as well as preparing reviews of opinions, indictments, bail appeals and appeals in the High Court of South Africa.

Her first and final term commenced on 15 April 2015.

### PROF ALEX VAN DER WATT CA (SA)

Alex is a chartered accountant who holds a master's degree in financial management. While serving on the Board, he was an associate professor and head of the Department of Accountancy at the University of Johannesburg. He previously served on the board of SAICA.

He is passionate about the transformation of the accounting and auditing profession and serves as a trustee of the Thuthuka Bursary Fund and a director of the Thuthuka Education Upliftment Fund.

His second and final term commenced on 15 April 2015. He resigned in August 2016.

#### **THIRU PILLAY CA (SA)**

Thiru is a Group Executive of Liberty Holdings Ltd, where he is jointly responsible for the Group Enablement business unit of the Liberty Group.

He has more than 20 years of experience in risk management, compliance and internal audit at a listed entity gained from working across diverse industries both locally and internationally.

Prior to joining Liberty he was the Senior Executive Partner responsible for the Business Risk Services division at Ernst & Young's African practice (including South Africa).

He previously held senior executive positions at South African Airways and Transnet. He also chaired the audit committee and served as a non-executive director on the board of the Central Energy Fund and was a trustee of the Libcare Medical Scheme for five years.

His first term commenced on 15 April 2015.

#### **PHUMZO NOXAKA CA (SA)**

Phumzo is an entrepreneur with various business interests. While serving on the Board, she was the Managing Director of Alatha Consulting, which provides business management and advisory services.

She has 21 years' experience in operational, financial, executive and strategic roles within the private and public sectors.

For the past 10 years she has served as an independent non-executive director on a number of boards and independent committees, including at a JSE-listed company, private companies, state-owned companies, public entities and municipality audit committees. She has also served on the board of the African Women Chartered Accountants Forum, an organisation that advocates for the development of qualified and aspiring African women CAs.

Her first and final term commenced on 15 April 2015. She resigned in October 2016.

#### **AMANDA MAZIBUKO CIA (SA)**

Amanda is the Director Audit and Internal Control at the Kwa-Zulu Natal Department of Health. She is a certified internal auditor with 19 years' experience.

Prior to joining the department, she was the Chief Internal Auditor at Sebenza Forwarding & Shipping (Pty) Limited, after serving in a similar position at SA Shell & BP Petroleum Refineries.

She has also served as a member of the Audit Committee in the Office of the Public Service Commission and at Sisonke District Municipality.

Her first and final term commenced on 15 April 2015.

#### **ZOLA FIHLANI CA (SA)**

Zola is the founding member and Chief Executive Officer at EVI Capital Partners.

He is a former senior member of the Global Loans team at Absa Capital and has more than 10 years' investment banking experience and 13 years of banking experience. He is a former senior member of the Leveraged and Acquisition Finance team at the South African branch of Barclays Bank. While with Global Loans at Absa Capital, he was responsible for the structuring and execution of Leveraged Finance deals.

His first and final term commenced on 15 April 2015. He resigned in August 2016.

*The term of the above Board members came to an end on 14 April 2017. Abel Dlamini and Thiru Pillay continue with their second term.*

#### **MATSHEPO MORE CA (SA)**

Matshepo is currently the Chief Financial Officer and Executive Director of the Public Investment Corporation (PIC) Limited, one of the largest asset managers in Africa.

She joined the PIC in 2009 after being appointed as Finance Manager. In 2011 she was appointed as the Chief Financial Officer and tasked with responsibility for the corporation's finances and ensuring that the PIC complies with the Public Finance Management Act.

Matshepo was also a member of the Financial Reporting Standards Council, a statutory body responsible for issuing financial reporting standards in South Africa.

Her first term commenced on 1 December 2016.

#### JOE LESEJANE CA (SA), FCMA, CD (SA)

Joe currently offers risk management consulting services. He has a wealth of experience in internal audit, risk management, corporate governance and external audit in both the private and public sectors. He is a corporate governance specialist with extensive board experience.

He recently completed his term on the audit committee of National Treasury and is Chairman of the Export Credit Insurance Corporation Limited.

He was formerly employed at KPMG, Du Pont Internal, Eskom SOC Limited and SAICA, and is an active member of the Institute of Directors SA.

His first term commenced on 1 December 2016.

#### Q: WHAT EXPERIENCE DOES MANAGEMENT BRING TO THE IRBA?

**A:** Their respective brief biographies below give some details and insights into the collective knowledge and experience that they bring to the IRBA.

#### BERNARD PETER AGULHAS CA (SA) – CHIEF EXECUTIVE OFFICER

Bernard brings a wealth of experience in the audit industry with over two decades of experience in the auditing sector. He is passionate about the transformation of the profession and ensuring that South Africa's auditing and reporting standards are on par with global benchmarks.

For seven consecutive years under his leadership at the IRBA South Africa was ranked number one for the strength of auditing and reporting standards.

His drive and understanding of the important role that the auditing sector plays in ensuring a strong and growing economy have resulted in him serving on international forums, such as the IFIAR and the IAESB. Also, he was recently appointed to the IFIAR Board and as chairman of the audit and finance committee.

Prior to his appointment as CEO, he served in various technical positions at the Office of the Auditor-General, SAICA, IRBA, IFAC and IFIAR structures, and has an in-depth knowledge of Auditing and Ethics Standards.

He was appointed as CEO in June 2008.

#### IMRAN VANKER CA (SA), RA – DIRECTOR STANDARDS

Imran brings a unique blend of private and public sector executive work experience in the audit industry. He is able to channel his knowledge of and experience from those industries towards interacting with role players in those areas to enhance the standard-setting work of the IRBA, in the public interest.

He was a member of the Executive team at the Auditor-General, first as Provincial Auditor-General of Gauteng, leading the South African audit team at the United Nations and then as Executive responsible for corporate services and specialised audits.

He has leveraged on his five-year experience at the United Nations to support the IRBA's strategy to enhance independent audit regulation in Africa. As a public member of the IAASB, Imran is closely involved in global audit standard setting, which he is able to share with local standard-setting structures.

He was appointed in May 2014.

#### ROBERT ZWANE CA (SA) – DIRECTOR EDUCATION AND TRANSFORMATION

Robert is driven by the passion to change South Africa's educational landscape. He is passionate about matters that pertain to education and transformation.

He was a senior lecturer at the University of Johannesburg's Department of Accountancy for three years. His experience in the education field was gained from presenting lectures at various universities, while his insightful perspectives regarding the audit profession were acquired from working at different audit firms.

He has been interviewed on radio and presented at various events, locally and internationally, where he has spoken about, among others, the IRBA, the profession and his educational interests.

He was appointed in October 2016, replacing Laine Katzin who resigned in January 2016.



#### **IMRE NAGY CA (SA), RA – DIRECTOR INSPECTIONS**

As a professional in the auditing profession with more than 12 years of audit experience, Imre fully understands the environment that auditors are operating in, which helps him bring a balanced practical perspective to the IRBA. He has dedicated his career to audit regulation. One of his value-adds since joining the IRBA has been to introduce a formal remedial action process to prompt the required improvements in audit quality, where deemed necessary.

He is committed to enhancing and promoting high audit quality and protecting the public. Also important to him is promoting appropriate behaviour among auditors and ensuring that they comply with the professional standards, codes and applicable legislation.

He is equally passionate about promoting trust and credibility in assurance work performed by auditors registered with us.

He was appointed in February 2013.

#### **JILLIAN BAILEY CA (SA), RA – DIRECTOR INVESTIGATIONS**

With almost 30 years' work experience, Jillian has a wealth of experience in regulation, auditing, business and management. This extensive experience includes 14 years of serving as an executive director. Her abilities and skills have been broadened by having been exposed to diverse work environments both locally and internationally. She was previously the Director of Practice Review at the IRBA before joining the Auditor-General as Head of Audit, after which she was Director of Technical and Quality Assurance at an internal audit firm.

She was appointed in November 2015.

#### **JANE O'CONNOR BA, LLB – DIRECTOR LEGAL**

Jane brings an incisive, well trained legal brain, having articulated and trained at a renowned legal firm. She also has 30 years of corporate memory and experience, including a recollection of why things were done or not done in a particular manner, or why certain views were taken, which is not always readily accessible otherwise. She brings a different type of thinking to the organisation, in contrast to her fellow directors who are all accountants, and who see things through a different prism.

She was appointed in June 1986.

#### **WILLEMINA DE JAGER CA (SA), FCMA – DIRECTOR OPERATIONS**

Since completing her studies, Willemina has had a passion for business planning, which resulted in her not only qualifying as a CA but also as a management accountant. Willemina was recently approved as a fellow member of CIMA.

Her work experience includes having been an auditor, locally and internationally, and a few years of exposure in the manufacturing sector. Prior to joining the IRBA, she worked for nine years at the FSB, where she gained experience in PFMA requirements while setting up the Risk and Supply Chain function. Under her management as CFO, the IRBA has been one of the few public entities that have received a clean audit award from the Auditor-General for eight consecutive years.

She was appointed in May 2009.

## Q: HOW DOES THE BOARD DISCHARGE ITS RESPONSIBILITIES?

**A:** The Board, in discharging its responsibilities, is assisted by subcommittees as outlined below. These subcommittees operate in accordance with the terms of reference approved by the Board.

### AUDIT AND RISK COMMITTEE (ARMCO)

The objectives and responsibilities are:

- To assist the Board with its responsibility of safeguarding assets, maintaining effective and efficient internal controls, reviewing the financial information and overseeing the preparation of the annual financial statements.
- Risk management. The risk management process is aligned to the principles of good corporate governance. The risk management policy ensures that the IRBA identifies and manages strategic, operational and, where relevant, project risks. The policy has been prepared in terms of the principles prescribed in the King III Report on Corporate Governance, the PFMA and National Treasury Regulations. The committee is satisfied with the effectiveness of the risk management process.
- The governance of information and communication technology (ICT). Its mandate is to ensure proper and appropriate Governance of the ICT within the IRBA through the creation and implementation of a suitable governance framework, in line with the principles and practices of corporate governance put forward in the ICT policy. The committee ensures that its procedures and processes are compliant with the recommendations in the King III Report on Corporate Governance.

### OPERATIONS COMMITTEE (OPSCOM)

The objectives and responsibilities are:

- To assist the Board with human resources, including the annual review of the performance and remuneration of the CEO; recommendations on performance bonuses; assessing staff benefit plans and reviewing changes to the personnel policies of the Board; monitoring trends for remuneration; reviewing succession plans for senior management; and reviewing the overall results of staff performance appraisals.
- The nomination process, which includes receiving nominations for appointments to all IRBA statutory committees. After considering such nominations, it makes recommendations to the Board. In addition, the committee oversees the removal of statutory committee members for non-performance or other reasons.
- Considering other operational requirements, including cash resources. Other responsibilities include considering quarterly reports from departments and taking any measures it considers necessary for the proper performance and exercise of the respective departments' functions to achieve the objectives of the APA.

**BOARD**

### DISCIPLINARY ADVISORY COMMITTEE (DAC)

The objective of this committee is to consider, on the recommendation of INVESCO, whether charges should be brought against RAs for improper conduct. This responsibility is delegated by the Board.

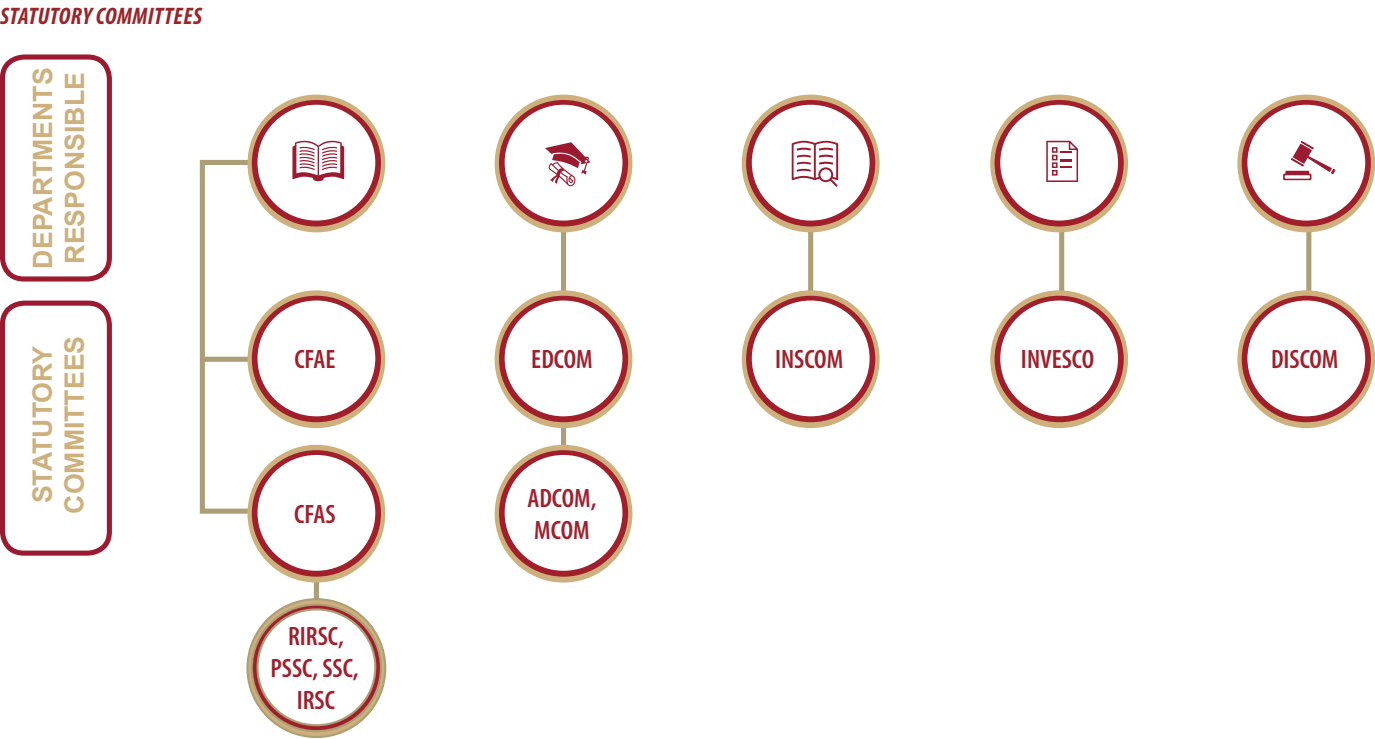
**Q: THE APA REFERS TO STATUTORY COMMITTEES. WHAT ARE THESE COMMITTEES AND WHAT ARE THEIR RESPONSIBILITIES?**

**A:** In line with the provisions of Section 20 (2) of the Act, and to help it further discharge its duties, the Board is also assisted by statutory committees.

These statutory committees consist of external parties, the composition of which is prescribed in the various sections in the APA. The statutory committee members assist by providing additional

resources and technical expertise to the relevant departments responsible for delivering on the various aspects of the IRBA's overall strategic objectives. Each statutory committee may appoint subcommittees to assist with projects.

The responsibilities of the statutory committees are prescribed in the various sections in the APA, and each statutory committee's chairman reports periodically at a Board meeting on their respective committee's activities.



Below is a brief overview on each of these statutory committees.

#### **COMMITTEE FOR AUDITOR ETHICS (CFAE)**

This committee is responsible for the adoption or development and issuing of a Code of Ethics with which RAs are required to comply. Ad-hoc subcommittees are established periodically for specific projects.

It also develops and issues additional guidance on ethical issues based on the IRBA Code of Professional Conduct for Registered Auditors, which became effective from 1 January 2011.

#### **COMMITTEE FOR AUDITING STANDARDS (CFAS)**

This committee is responsible for:

- Developing, maintaining, adopting, issuing and prescribing auditing pronouncements.
- Considering relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested.
- Ensuring the greatest possible consistency between auditing pronouncements and accepted international pronouncements.

#### **EDUCATION AND TRANSFORMATION COMMITTEE (EDCOM)**

This committee is responsible for driving the IRBA's education and transformation objectives, as the goals of the IRBA include providing a framework for the education and training of RAs, as well as their ongoing competence.

#### **INSPECTIONS COMMITTEE (INSCOM)**

This committee is responsible for considering findings from inspections that are reported quarterly on an anonymous basis. The committee also determines the final result of an inspection.

#### **INVESTIGATING COMMITTEE (INVESCO)**

This committee investigates complaints and then recommends to the DAC whether or not to charge an RA with improper conduct.

#### **DISCIPLINARY COMMITTEE (DISCOM)**

This committee receives referrals from the DAC after it has accepted an INVESCO recommendation for a disciplinary hearing. In addition to this, this committee is also responsible for imposing competent sanctions following a guilty finding.

Outcomes of disciplinary hearings are reported to the Board and published in IRBA News as well as in mainstream media, in some instances.



# OUR STAKEHOLDERS

**Q&A WITH LEBOGANG MANGANYE, PUBLIC RELATIONS AND CORPORATE SOCIAL RESPONSIBILITY MANAGER (NDIP JOURNALISM)**

## **Q: WHAT IS THE VALUE DERIVED FOR THE IRBA FROM STAKEHOLDER INTERACTIONS?**

**A:** Stakeholder relationships form an integral part of our business; to implement our legislative mandate, we rely on the value chain created by both our internal and external stakeholders.

The role we play within this value chain is to protect the financial interests of the public through the regulation of registered auditors. This value chain also includes universities, audit firms, professional bodies and other regulators.

Overall, through our activities and cooperation with our stakeholders, we have an impact on the reliability and sustainability of the South African economy through ensuring that we respond to stakeholders' needs, where required, and keep stakeholders informed of our own needs.

## **Q: HOW DOES THE IRBA ENSURE THAT ITS ENGAGEMENT WITH STAKEHOLDERS IS EFFECTIVE?**

**A:** In 2012, the Board approved the IRBA's Stakeholder Engagement and Communication Plan to raise awareness and educate the public on our role.

Our staff members also continue to represent the IRBA by serving on international structures and influencing standards and regulation. Therefore, ongoing engagement with our various stakeholders is a crucial ingredient in building collaborative and constructive relationships that can benefit all stakeholders.

The table in the next three pages reflects the range of stakeholder groups with which the IRBA engages; the nature of those relationships; the risks being addressed; and the value created.



STAKEHOLDER GROUP	WHY WE ENGAGE THEM	WHAT WE NEED FROM THEM	WHAT THEY NEED FROM US	WHAT THE RISKS ARE IF THE NEEDS ARE NOT MET	VALUE CREATED AND THE IMPACT OF ENGAGEMENTS
Legislative Authority <ul style="list-style-type: none"> <li>Parliament</li> <li>Minister of Finance</li> <li>National Treasury</li> </ul>	Oversight of the IRBA mandate.	Support in implementing the IRBA mandate.	<ul style="list-style-type: none"> <li>Implement the mandate.</li> <li>Indirect stimulation of the economy.</li> <li>Build investor confidence.</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate funding.</li> <li>Inability to deliver on the mandate.</li> <li>Independence perceived as compromised.</li> </ul>	<ul style="list-style-type: none"> <li>Better understanding and support of the IRBA mandate.</li> <li>Understanding of the role of audits in stimulating the economy and attracting investments.</li> </ul>
Registered Auditors and Audit Firms	Ensure an ethical, competent and globally respected profession.	<ul style="list-style-type: none"> <li>Compliance with standards and ethics.</li> <li>Consistency in audit quality and independence from clients.</li> <li>Support transformation in the profession.</li> </ul>	<ul style="list-style-type: none"> <li>High-quality audit and ethics pronouncements.</li> <li>Monitor compliance.</li> <li>Investigations and sanctions to maintain the independence and credibility of the profession.</li> <li>Robust and fair inspections and investigations processes.</li> </ul>	<ul style="list-style-type: none"> <li>Unregulated profession.</li> <li>Compromised credibility of the profession.</li> <li>Loss of confidence in the profession.</li> </ul>	<ul style="list-style-type: none"> <li>Guidance for the profession.</li> <li>Remedial action process for firms post inspections.</li> <li>Partnerships on transformation programmes.</li> <li>Technical inputs on statutory committees.</li> <li>Regulator aware of challenges faced by profession.</li> <li>Profession aware of regulatory philosophy and processes.</li> </ul>
Auditor-General South Africa	Contribute to quality audits in the public sector.	<ul style="list-style-type: none"> <li>Understand public protection in public sector audits.</li> <li>Protect audit quality.</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration on technical audit and assurance matters.</li> <li>Public protection.</li> </ul>	<ul style="list-style-type: none"> <li>Audit failures in public sector engagements performed by RAs.</li> <li>Reputation of the RA profession negatively affected.</li> </ul>	<ul style="list-style-type: none"> <li>Protection of the public's financial interests.</li> <li>Joint guidance issued for RAs.</li> <li>Comments on International Standards reflect public sector considerations.</li> <li>Confidence in audits performed by RAs in the public sector.</li> </ul>
International Standard-Setting Bodies <ul style="list-style-type: none"> <li>IAASB</li> <li>IESBA</li> <li>IAESB</li> </ul>	Influence the development of international standards.	<ul style="list-style-type: none"> <li>Development of internationally acceptable auditing, ethics and education standards for use in South Africa.</li> </ul>	<ul style="list-style-type: none"> <li>Expertise in technical areas.</li> <li>Submission of comments on exposure drafts and discussion papers.</li> <li>Facilitate the adoption, implementation and monitoring of new and revised standards issued.</li> </ul>	<ul style="list-style-type: none"> <li>Quality of pronouncements issued may be inappropriate for our jurisdiction.</li> <li>Local implementation guidance may be required.</li> </ul>	<ul style="list-style-type: none"> <li>Influence the international standards-setting process.</li> <li>Recognition of South African technical expertise on various boards.</li> <li>Technical knowledge shared globally.</li> <li>Global recognition of South African standards.</li> <li>Confidence in the local profession.</li> </ul>

STAKEHOLDER GROUP	WHY WE ENGAGE THEM	WHAT WE NEED FROM THEM	WHAT THEY NEED FROM US	WHAT THE RISKS ARE IF THE NEEDS ARE NOT MET	VALUE CREATED AND THE IMPACT OF ENGAGEMENTS
International Regulatory Forums • IFIAR	Share knowledge, benchmark and collaborate.	<ul style="list-style-type: none"> <li>Recognition of the IRBA as an effective audit regulator.</li> <li>Internationally aligned regulation.</li> <li>Comprehensive approach to regulation and enforcement.</li> </ul>	<ul style="list-style-type: none"> <li>Shared expertise and weaknesses in regulation identified.</li> <li>Participation in international meetings and workshops on audit regulation.</li> <li>Views on developments in global trends in regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Ineffective inspection processes and compliance monitoring.</li> <li>Proactive responses not achieved.</li> <li>Loss of confidence in the local regulator and profession.</li> </ul>	<ul style="list-style-type: none"> <li>Promote independent audit regulation across various jurisdictions.</li> <li>Good governance in audit regulation.</li> <li>International recognition by jurisdictions such as the EU and Switzerland.</li> <li>International collaborations with other independent audit regulators.</li> <li>World-class regulations implemented in South Africa.</li> </ul>
Accredited Professional Bodies • SAICA	Source of the pipeline of RAs. Monitoring accreditation compliance.	<ul style="list-style-type: none"> <li>Compliance with accreditation requirements.</li> <li>CPD for RAs.</li> <li>Potential RAs.</li> <li>Transformation of the profession.</li> </ul>	<ul style="list-style-type: none"> <li>Accreditation and monitoring of the SAICA programmes.</li> <li>Technical knowledge and advice.</li> <li>Influencing and issuing of Education, Ethics and Assurance Standards.</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in the number of CAs (SA) registering for the ADP.</li> <li>Knowledge, skills and competencies inappropriate for RAs.</li> <li>Transformation in the CA (SA) and auditing profession remains a challenge.</li> </ul>	<ul style="list-style-type: none"> <li>Facilitating transformation of the profession.</li> <li>High-quality accountants and auditors.</li> <li>Globally respected profession.</li> </ul>
Students • Universities • Audit firms	Create awareness of the RA designation. Create awareness of the ADP and RCA career opportunities and study choices. Recruitment and retention of RAs.	<ul style="list-style-type: none"> <li>Increase in numbers seeking a career as an RA.</li> <li>Increase in the number of trainees registering as RCAs.</li> <li>Increase in the number of transformation candidates seeking a career as an RA.</li> </ul>	<ul style="list-style-type: none"> <li>Encouragement and support.</li> <li>Partnerships on audit programmes.</li> <li>Research on the future of the profession, including competencies required for an “auditor of the future”.</li> </ul>	<ul style="list-style-type: none"> <li>Stagnant growth in the profession.</li> <li>Lack of transformation.</li> <li>Lack of research on the future of the profession.</li> </ul>	<ul style="list-style-type: none"> <li>Awareness of the RA designation.</li> <li>Increase in candidates on the ADP.</li> <li>Relevance of future RAs.</li> </ul>
Professional Bodies Driving Transformation • ABASA • AWCA	Drive transformation of the profession.	<ul style="list-style-type: none"> <li>Partner with the IRBA to drive the transformation of the profession.</li> </ul>	<ul style="list-style-type: none"> <li>Transformation of the accounting and auditing profession.</li> <li>Developments and initiatives to drive transformation through the ADP.</li> </ul>	<ul style="list-style-type: none"> <li>Slow pace of transformation of the accounting and auditing profession.</li> <li>Negative perceptions of the risks associated with auditing.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in the number of transformation candidates who become RAs.</li> </ul>
Other Local Regulators, Enforcement Agencies (FSB, JSE, CIPC, etc.)	Share knowledge, benchmark and collaborate on mandates and enforcement.	<ul style="list-style-type: none"> <li>Collaboration on issuing guidance to auditors.</li> <li>Share knowledge of the various sectors and the impact on the work of auditors.</li> </ul>	<ul style="list-style-type: none"> <li>Expertise and guidance.</li> <li>Create awareness of changes in standards, investigations and disciplinary action outcomes.</li> <li>Communication of RIs reported.</li> </ul>	<ul style="list-style-type: none"> <li>Ineffective monitoring.</li> <li>Regulations difficult to implement or enforce.</li> <li>Enforcement not achieved.</li> <li>RIs not reported timeously.</li> </ul>	<ul style="list-style-type: none"> <li>Good governance.</li> <li>International recognition.</li> <li>Local and international collaborations.</li> <li>Curtail white-collar crime.</li> </ul>

STAKEHOLDER GROUP	WHY WE ENGAGE THEM	WHAT WE NEED FROM THEM	WHAT THEY NEED FROM US	WHAT THE RISKS ARE IF THE NEEDS ARE NOT MET	VALUE CREATED AND THE IMPACT OF ENGAGEMENTS
Investors <ul style="list-style-type: none"> <li>PIC</li> <li>ASISA</li> <li>CRISA</li> <li>Individual investors</li> </ul>	Build investor confidence in the profession. Share awareness on the role of the IRBA. Profile the work of the IRBA.	<ul style="list-style-type: none"> <li>An understanding of the role of the IRBA.</li> <li>Support for the IRBA programme to promote investor protection.</li> </ul>	<ul style="list-style-type: none"> <li>Information about the role of RAs.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of understanding of the role of RAs.</li> <li>Missed opportunity to inform investors and build confidence.</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of the role of RAs.</li> <li>Support for the independence of RAs and improved audit quality.</li> <li>Investor confidence in the profession and the IRBA.</li> </ul>
Government <ul style="list-style-type: none"> <li>Various departments and ministries</li> </ul>	Share technical knowledge and assistance. Monitor regulatory developments affecting RAs. Communicate RIs.	<ul style="list-style-type: none"> <li>Impact of legislation on RAs.</li> <li>Implementation of legislation.</li> </ul>	<ul style="list-style-type: none"> <li>Expertise and guidance.</li> <li>Comments on draft legislation.</li> <li>Agreement on audit and reporting requirements for RAs.</li> </ul>	<ul style="list-style-type: none"> <li>Legislative non-compliance.</li> <li>Ineffective regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Clear guidance on technical information and legislation affecting auditors.</li> <li>Share information on the IRBA's work.</li> <li>Government confidence in regulation and the profession.</li> </ul>
Media <ul style="list-style-type: none"> <li>Local and international media</li> </ul>	Create awareness of the IRBA mandate. Address public concerns regarding the auditing profession.	<ul style="list-style-type: none"> <li>Accessibility.</li> <li>Understanding of the auditing profession.</li> <li>Understanding of the role and mandate of the IRBA.</li> <li>Communicate IRBA views on matters of importance.</li> <li>Understand public concerns about the auditing profession.</li> </ul>	<ul style="list-style-type: none"> <li>Credible and timeous information.</li> <li>Public protection.</li> <li>Information on new developments in the auditing profession.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of understanding of the role and mandate of the IRBA.</li> <li>Inaccurate media reports.</li> <li>Damage to brand reputation.</li> <li>Ill-informed public that has undue expectations of the profession.</li> <li>Negative public perceptions of the profession.</li> </ul>	<ul style="list-style-type: none"> <li>Proactive communication with the media on matters affecting the public.</li> <li>Education and awareness of the IRBA mandate.</li> <li>Improved public perceptions and expectations about the auditing profession and the IRBA.</li> <li>Building credibility and trust in the IRBA and the profession.</li> </ul>
Staff	Consistent and professional service orientation.	<ul style="list-style-type: none"> <li>Pride in the organisation.</li> <li>Active and professional engagement in representing the IRBA.</li> <li>Support of the IRBA mission and vision.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing communication and consultation.</li> <li>Ability to raise concerns and address expectations.</li> <li>Equity in remuneration and training opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Low productivity.</li> <li>Lack of commitment to the mandate.</li> <li>Uninformed staff.</li> </ul>	<ul style="list-style-type: none"> <li>Informed on all issues affecting the IRBA and their wellbeing.</li> <li>Active engagement on, and contribution to, the mandate and values.</li> </ul>
Regional Partnerships (Strengthening independent audit regulation in Africa)	Good governance on the continent. Encourage independent audit regulation. Share experience and knowledge.	<ul style="list-style-type: none"> <li>Understand challenges and support requests for assistance with the implementation of good governance and independent audit regulation in the region.</li> </ul>	<ul style="list-style-type: none"> <li>Share expertise in technical areas and standard setting.</li> <li>Assistance with the process for establishing own audit regulators.</li> </ul>	<ul style="list-style-type: none"> <li>Non-aligned profession on the continent.</li> <li>Delays in implementing audit regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Good corporate governance.</li> <li>Establishment of independent audit regulation on the continent.</li> <li>A globally respected continent.</li> <li>Consistent messages of good governance and regulation from the continent.</li> </ul>



## **Q: HOW HAS CORPORATE SOCIAL RESPONSIBILITY (CSR) BEEN FORMALISED?**

**A:** We have appointed an internal CSR Committee with formalised Terms of Reference. Over the years, a number of charities have benefitted from the generosity of our staff through monetary and in-kind support. Below are brief overviews of the organisations we have supported in the past two years.

### **THEMBALAMI CARE CENTRE**

The centre looks after frail pensioners of limited means, primarily those receiving a social grant from government. The centre has been a recipient of the IRBA CSR donations for seven years. Last year, the care centre extended its reach to 20 grandmothers from Alexandra Township as part of its outreach programme. We provided reading material to the centre as well as Christmas food hampers to the grandmothers.

### **SANTA SHOEBOX PROJECT**

The project is a community initiative of the Kidz2Kidz Trust, which coordinates the donation, collection and distribution of personalised gifts at Christmas for underprivileged children across South Africa and Namibia.

Our staff members participated in the donations drive by donating shoeboxes filled with personalised gifts. We would also like to acknowledge the soccer gear donated by the Mpumalanga Black Aces in 2015.

### **FLAMING BURNING BUSH MINISTRIES (FBBM)**

FBBM is a faith-based organisation serving the community of Mandela Square in Kliptown, Soweto. The organisation provides a safe and secure environment where children are looked after and given refreshments while their parents are out looking for employment.

We donated a gas stove with a cylinder as well as children's clothes and toys. Through the items donated, FBBM now provides a soup kitchen for the children and the community, and it was also able to provide clothes and toys to more than 10 children.

### **THE COMFORT PACK PROJECT**

The Comfort Pack Project is aimed at survivors of rape and abuse, who include women, men and children. The objective of this project is to provide a rape survivor with essential items to assist them during the initial reporting phases either at hospitals, crisis centres or police stations. The packs, which contain essential toiletry items that become extremely helpful once a statement has been taken and the medical examination has been completed, are given to the hospitals and crisis centres that deal with police stations.

Our staff members donated comfort packs and money to the project.

### **MCBAIN CHARLES PRIMARY SCHOOL, ELDORADO PARK**

We had a successful Mandela Day 2016 initiative at Charles McBain Primary School, one of the oldest schools in Eldorado Park. The project, which coincided with the National Reading Day organised by the Department of Education, entailed coordinating the participation of our staff members to paint and help refurbish the school's tuck shop and kitchen, in addition to spending time reading to the learners.

Donations we made included snacks for the learners, paint, a stove, kitchen sink and procuring the services of a builder to rebuild the kitchen. The monetary donation was used to help with the development of the school's website.



# STRATEGIC FOCUS AREA 1: AUDITING AND ETHICS STANDARDS

**Q&A WITH IMRAN VANKER, DIRECTOR STANDARDS**

## Q: WHAT IS THE OBJECTIVE OF THIS STRATEGIC FOCUS AREA?

**A:** To develop and maintain auditing and ethics standards that are internationally comparable.

With effect from 1 January 2005, we adopted the entire suite of auditing standards issued by the IAASB. In 2010 we also adopted the IESBA Code of Ethics for Professional Accountants and published it as the IRBA Code of Professional Conduct for Registered Auditors, with additional requirements for RAs in South Africa.

Developing and maintaining auditing and ethics standards that are internationally comparable is important for us, and the Standards Department sets those standards.

To assist with carrying out this objective, two statutory committees, the Committee for Auditing Standards (CFAS) and the Committee for Auditor Ethics (CFAE), have been established.

The Standards Department has six highly skilled chartered accountants who specialise in standard setting. These staff members are experts in standard setting both locally and internationally.

## Q: HOW DO THE CFAS AND CFAE SUPPORT THIS STRATEGIC OBJECTIVE?

**A:** The CFAS does this by:

- Developing and maintaining high-quality local auditing and assurance pronouncements, including the development of local implementation guidance;
- Considering and responding to developments in the IAASB International Standards, and considering the adoption of new and revised International Standards; and
- Monitoring jurisdictional legislative and regulatory requirements and working together with stakeholders and regulators to develop auditing pronouncements relevant to jurisdictional needs.

The CFAE offers support through:

- Ensuring awareness of and influencing developments that have an impact on professional ethical behaviour;
- Creating awareness among all stakeholders of acceptable ethical behaviour as required by the Code of Professional Conduct; and
- Providing updates to the Code to ensure that it remains relevant. This includes clarifications, international updates and guidance on the application of the Code and matters of ethical conduct.

The CFAS's due process policy and its status and authority of pronouncements are available at <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/status-of-pronouncements,-due-process-policy-and-adoption-of-the-standards>.

An extensive due process is followed in order to decide on which projects to consider and implement, as well as to ensure an output of high-quality pronouncements, which include auditing standards, practice statements, guides and the Code.



### Q: CAN YOU PROVIDE SOME INSIGHT INTO THE STANDARD-SETTING PROCESS?

**A:** CFAS projects are approved by the CFAS Steering Committee in consultation with the Secretariat. Project requests arise from many sources, but mainly from regulators and auditors and as a result of international developments.

Similarly, CFAE projects are agreed to by the CFAE in consultation with the Secretariat. Projects generally arise from:

- Clarifications required, determined by feedback from auditors or inspection findings;
- International updates, as these are issued by the IESBA; and
- Guidance required on the application of the Code and matters of ethical conduct related to local circumstances.

The roles of the committees are to provide direction regarding which projects to implement, establish task groups to draft pronouncements, ensure that the due process is followed, and approve pronouncements or recommend pronouncements to the IRBA Board for approval.

### Q: HOW DID YOU PERFORM DURING THE YEARS UNDER REVIEW?

**A:** The Standards Department measures itself on projects planned versus projects completed. We are pleased to say that all targets were achieved for the periods under review. For 2015/2016, 11 projects of varying sizes were completed; while for 2016/2017 18 projects were concluded.

We have, however, experienced some difficulty with influencing statute reforms as, occasionally, legislation or regulation that requires some form of auditor engagement or auditor reporting has been passed without input from the IRBA. Nevertheless, we are working on strengthening relationships with other regulators so that we can comment on their draft legislation or regulation. That way we will be able to assist with clarifying what is expected of auditors by those regulators.

## PROJECTS COMPLETED DURING THE PERIOD

### INTERNATIONAL DEVELOPMENTS IN AUDITING PRONOUNCEMENTS

Comment letters on, and the adoption of:

- The final IAASB's new and revised Auditor Reporting Standards and related conforming amendments.
- ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information.
- ISA 800 (Revised), Special Considerations: Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.
- ISA 805 (Revised), Special Considerations: Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.
- ISA 810 (Revised), Engagements to Report on Summary Financial Statements. Revised ISAs – Addressing Disclosures in the Audit of Financial Statements and Related Conforming Amendments.
- ISA 250 (Revised), Consideration of Laws and Regulations in an Audit of Financial Statements.
- The IAASB's papers on:
  - Supporting Credibility and Trust in Emerging Forms of External Reporting.
  - The Growing Use of Data Analytics in the Audit.
  - The Demand for Agreed-Upon Procedures Engagements and Other Services.
  - Enhancing Audit Quality in the Public Interest – A focus on professional scepticism, quality control and group audits.
- Adoption of the International Auditing and Assurance Standards Handbooks.

The new and revised auditor reporting standards are effective for the audits of financial statements for periods ended on or after 15 December 2016. The Standards Department prepared a comprehensive list of resources to assist registered auditors with implementing these standards.

### HIGH-QUALITY LOCAL AUDITING PRONOUNCEMENTS

- SAAPS 3 (Revised November 2015), Illustrative Reports.
- Illustrative assurance report and engagement letter for GRI G4 sustainability engagements.
- IFRS 9/ECL IRBA Staff Audit Practice Alert: The Audit Implications of the Expected Credit Loss Model for the Auditors of Banks.

The Standards Department, in conjunction with the South African Reserve Bank, has been proactive in helping auditors to be better prepared and have an understanding of the audit implications of the expected credit loss model as per IFRS 9.

## REGULATORY AUDITING GUIDES AND REPORTS

### JSE

- Reporting Accountant's IRBA Guide and Report – Property Companies.
- Revised Guide for RAs: Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports Required by the JSE Listings Requirements, including revised Reports 4-8.
  - Staff Audit Practice Alert on what constitutes “other information”, for JSE-listed entities, as envisaged under ISA 720 (Revised).
  - Revised illustrative auditor reports: Reporting in terms of the Financial Markets Act, No. 19 of 2012 (FMA) and JSE Directive DG 1.7.
- Prudential Authority: Report as required by the Insurance Act (still to be enacted) on the Quantitative Reporting Templates (QRTs).
- Attorneys Fidelity Fund: Revised attorneys trust account audit guide and report.
- SARB:
  - Banks Act Regulatory Reports (Basel reports).
  - Illustrative report: SARB Macro-Prudential Foreign Exposure Limit Return Assurance Reports.
- Council for Medical Schemes: Guide for the audit of medical schemes including auditor reports.

## INTERNATIONAL DEVELOPMENTS IN ETHICS STANDARDS

Comment letters on the IESBA's:

- Limited Re-exposure Draft on Proposed Changes to Certain Provisions of the Code Addressing Long Association of Personnel with Audit and Assurance Clients.
- Exposure Draft on Proposed Changes relating to the Structure of the Code – Phase 1 and Phase 2.
- Exposure Draft on Proposed Changes relating to the use of Safeguards in the Code – Phase 1 and Phase 2.
- Proposed Standard on responding to Non-Compliance with Laws and Regulations (NOCLAR).

## ETHICS STANDARDS AWARENESS-RAISING

We hosted a workshop in 2016.

### CLARIFICATION, INTERPRETATIONS AND GUIDANCE REGARDING ETHICS STANDARDS

- Frequently Asked Questions on Public Interest Entities in the IRBA Code of Professional Conduct.
- Clarification of the definition of Public Interest Entity and Public Interest Score.

### ETHICS STANDARDS UPDATES

- Final Amendments to the IRBA Code of Professional Conduct for Registered Auditors:
  - Relating to the Definition of Public Interest Entities.
  - Relating to the Provision of Non-Assurance Services.
  - Responding to Non-Compliance with Laws and Regulations (NOCLAR).
- Proposed Amendments to the IRBA Code of Professional Conduct for Registered Auditors Relating to the Custody of Client Assets.

## IAASB TEAM VISIT

In May 2015 we hosted an IAASB team that was led by the chairman, Prof Arnold Schilder. The team's two-day outreach programme was part of the IAASB's efforts to communicate the new and revised Auditor Reporting Standards to various stakeholders.

Prof Schilder was interviewed on television and radio alongside our CEO.

### INTERACTION WITH SAICA

Professional managers represent the IRBA on many of SAICA's industry project groups, as well as on its Assurance Guidance Committee. This sharing of knowledge assists in disseminating

information through various channels. We have also collaborated with SAICA on various projects, including the following:

- An event on the new reporting standards, targeting JSE-accredited auditors, was held.
- Professional managers have been published in SAICA's Accountancy SA magazine, South Africa's leading accounting journal. The articles have included discussions on the new and revised Auditor Reports and assurance on emerging forms of external reporting.
- An outreach forum was held to obtain feedback from stakeholders on the Discussion Paper on the Assurance of Emerging Forms of External Reporting issued by the IAASB. The views of a broad group of stakeholders, including auditors, accountants, directors, preparers, academics and investors, were obtained.

## OUTREACH SESSION

The Professional Manager Ethics arranged an outreach session, where interested parties were invited to comment on the various IESBA Exposure Drafts. Discussions at this outreach session informed the comment letters that were later submitted to the IESBA.

## INTERACTION WITH THE PUBLIC SECTOR

The Auditor-General South Africa (AGSA) is our external auditor. Our inspectors work with the AGSA on the inspections process. Information regarding standard setting is continually exchanged, with the IRBA consulting with the AGSA and vice versa.

The AGSA participates in IRBA committees. A Public Sector Standing Committee, which is a standing committee of the CFAS, has been established to determine what guidance is to be provided to private sector auditors auditing in the public sector. As a result of this collaboration, the following guides have been issued:

- Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has opted not to perform the audit.
- Guide for Registered Auditors: Guidance on performing audits on behalf of the AGSA.
- Guidance for Auditing in the Public Sector – Auditing in the Public Sector and Audit of Predetermined Objectives.

## ASSURANCE ENGAGEMENTS ON BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) VERIFICATION CERTIFICATES

The IRBA was the Approved Regulatory Body for the regulation of B-BBEE approved registered auditors (BARs) since the mandate to do so was defined in Statement 005, Broad-Based Black Economic Empowerment Verification, which came into effect on 1 October 2011. This led to the registration of 338 BARs.

To this end, South African Standard on Assurance Engagements (SASAE 3502), Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification Certificates, was issued to provide BARs with guidance on these engagements.

The Department of Trade and Industry (DTI) and the IRBA, however, decided that the IRBA would discontinue regulating the industry as of 30 September 2016. A transitional three-month period (to 31 December 2016) was allowed for the sign-off of the verification certificates for engagements entered into prior to 30 September 2016.

As the objective, scope, work effort and reporting of an engagement performed under SANAS/DTI verification procedures was significantly different from the requirements of SASAE 3502 (Revised), the latter was withdrawn.

## Q: CAN YOU PROVIDE A FEW EXAMPLES OF HOW YOUR DEPARTMENT'S WORK INTEGRATES WITH OTHER DEPARTMENTS AND OTHER LOCAL AND GLOBAL ORGANISATIONS?

**A:** The Standards team consults with the Investigations team on standards and ethics related issues and with the Legal team mainly on reportable irregularities.

We also consult frequently with the Inspections Department on standards for auditors and provide updates to inspectors. In addition, we have joint projects with the Inspections Department and also collaborate with them and SAICA on addressing inspection findings.

Our involvement with other organisations locally and globally includes:

- CIPC – consultations regarding the Companies Act.
- FRSC/FRTC – Secretariat to the FRSC and FRTC.
- SAICA – Standards Department attends several SAICA committees and project groups, where inputs are provided, and vice versa.

### **Q: HOW DO YOUR STATUTORY COMMITTEE MEMBERS ADD VALUE TO THE IRBA?**

**A:** On the CFAS, five of the members are RAs and they are from the technical departments at audit firms. They represent a wealth of knowledge, in both the public and private sectors. Four of the members are regulators and provide unique perspectives from their organisations to the committee, with the public's best interests at heart. Two of the members are academics, lecturing in accounting and auditing.

Regarding the CFAE, three of the members are RAs. Two represent different sized audit firms from various geographical locations, and they provide vital practical knowledge to enable the committee to set ethics standards that are of a high quality. One member who is not in public practice provides the important independence element. Three of the members represent different industries and provide the perspectives of the users of an auditor. They help determine what is ethically expected of auditors. One of the members, a regulator with a wealth of knowledge in market abuse, provides the important perspective of the public interest. One member is a lawyer with years of experience in disciplining RAs in the public sector. This member provides special input on the enforceability of ethics decisions.

### **Q: WHAT DO YOU CONSIDER AS SOME OF YOUR ACHIEVEMENTS AT PRESENT?**

**A:** As we are represented on the IAASB by a member from South Africa, as well as a technical advisor to that member, we are privileged to be able to provide input early into international projects from a public interest perspective.

We leverage from our number one rating for the strength of auditing and reporting standards by influencing international standard-setting through the IAASB, as well as through the Standards Coordination Working Group (SCWG) of the IFIAR.

During the periods under review, the Standards Department's standard-setting process was streamlined, with projects being prioritised and completed as per the planned date of completion. This has assisted greatly with meeting the IRBA's objective of protecting the financial interests of the public through high-quality auditing pronouncements.

Other support to the IRBA's overall objectives has been the establishment of an Integrated Reporting Standing Committee, a standing committee of the CFAS, to identify the issues and techniques to address the assurance needs for integrated reporting.

### **Q: WHAT ARE YOUR FUTURE AMBITIONS FOR THE DEPARTMENT?**

**A:** We are privileged to be able to continue our international standard-setting influence through representation on the IAASB and IESBA. The IAASB is prioritising the revision of ISQC 1 and the development of a new ISQC 2. The IESBA is in the process of restructuring its Code, which will impact the IRBA Code.

A significant project for the year ahead is establishing AQIs for the auditing profession through comprehensive consultation with internal and external parties.

A further focus is the development of thought leadership for assurance on integrated reporting engagements by our Integrated Reporting Standing Committee.

We are engaged in a South African Assurance Engagements Practice Statement to address considerations when performing an assurance engagement on sustainability reports.

We will also be concentrating on further engaging with South African regulators and strengthening our relationships with them. This will assist in ensuring high-quality auditor reports are prepared in consultation with these regulators.



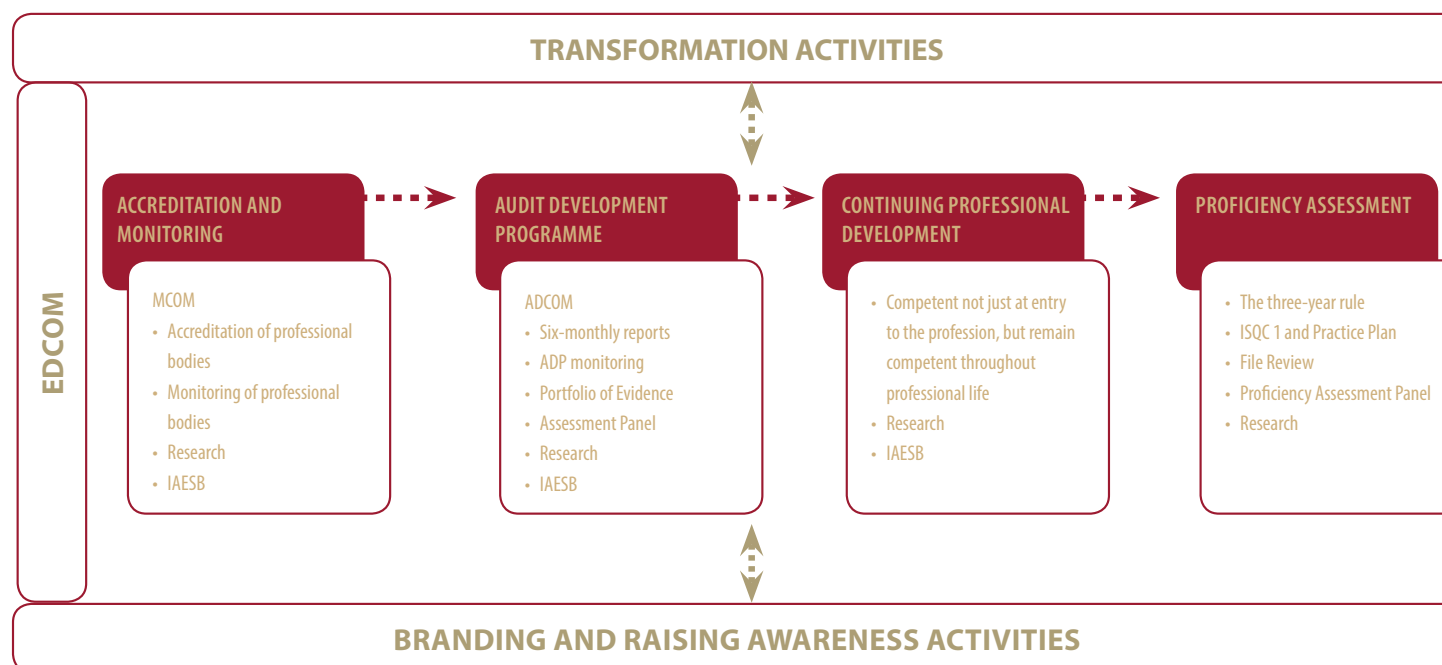


## STRATEGIC FOCUS AREA 2: EDUCATION AND TRANSFORMATION

**Q&A WITH ROBERT ZWANE, DIRECTOR EDUCATION AND TRANSFORMATION**

### Q: WHAT IS THE OBJECTIVE OF THIS STRATEGIC FOCUS AREA?

**A:** To provide an appropriate framework for the education, training and continuous professional development of properly qualified auditors. This objective is achieved through various education, transformation and awareness raising activities as illustrated below:

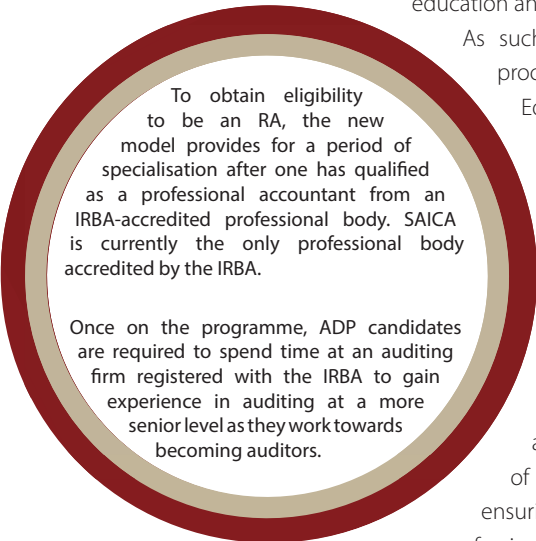


## Q: HOW DID YOU PERFORM DURING THE YEARS UNDER REVIEW?

**A:** During the years under review, a significant project that we launched was the Audit Development Programme (ADP).

The rapid changes in the audit profession have necessitated a relook at the education and training requirements to enter the profession.

As such, having concluded a lengthy consultation process into the qualification process, in 2015 our Education and Transformation Department (ET) launched the ADP.



To obtain eligibility to be an RA, the new model provides for a period of specialisation after one has qualified as a professional accountant from an IRBA-accredited professional body. SAICA is currently the only professional body accredited by the IRBA.

Once on the programme, ADP candidates are required to spend time at an auditing firm registered with the IRBA to gain experience in auditing at a more senior level as they work towards becoming auditors.

The launch of the ADP marked the end of the Public Practice Examination (PPE), which was discontinued in 2014. The last sitting for this examination was in November 2014 for repeat candidates. The PPE had served as the IRBA's measure to ensure that candidates are competent in auditing before registering as RAs. This contributed to the IRBA's mandate of protecting the public's financial interests by ensuring that all RAs are competent at entry to the profession.

With the ADP replacing the PPE as our final assessment of audit competence, all candidates are also required to write SAICA's Assessment of Professional Competence (APC). The APC replaced the two separate specialist exams (Auditing and Financial Management) that used to be a requirement. The APC focuses on the strategic and managerial aspects of the broader accountancy discipline; and its primary objective is to assess the professional competence developed during the education and training programmes.

The ADP is the joint responsibility of the IRBA and the RA firms. It builds on the competence of a professional accountant and focuses on the competence required for a specialist role within the field of professional accountancy – that of an RA.

To launch the ADP, ET undertook a number of initiatives, including discussions and workshops with professional bodies, training officers, universities and trainees. The workshops formed part of a bigger initiative to raise awareness of the ADP and encourage academics and practitioners to reflect on and discuss the challenges inherent in the development of audit competence. The department also hosted induction sessions for registered candidate auditors (RCAs). These sessions focused on the requirements of the ADP, with more emphasis on the Portfolio of Evidence and what RCAs should be doing to ensure that they retain sufficient supporting evidence. The sessions also provided the IRBA with the opportunity to remind the RCAs of their public protection responsibility and their ethical duty to remain up-to-date and competent for the work they undertake. We have since registered 224 RCAs.

With approximately 50 training offices having registered ADP candidates, and with the majority of these being small firms, the programme has provided the IRBA with an opportunity to work with such firms in the development of their quality structures for the ADP. This is done through our ADP monitoring process. As a result of the monitoring, some of these training offices have already developed action plans based on the IRBA's monitoring reports. The action plans include firms developing their quality manuals.

The ADP has also provided an opportunity for South Africa to develop stronger working relations with neighbouring countries, with some of them showing an interest in the implementation of the ADP, while others have already implemented the programme. This further creates an opportunity for Africa to work together in the development of professional competence.

## PROFICIENCY ASSESSMENTS

Part of our mandate is the responsibility to ensure that all RAs are competent at entry to the profession and remain so throughout their professional lives. We also have the responsibility to ensure that all applicants who wish to re-enter the profession after an "extended absence" from the audit and assurance environment are competent. To achieve this, we hold proficiency assessment interviews with potential RAs or RAs returning to the profession after an "extended absence". The proficiency interviews are developmental in nature and through them we seek to assist potential RAs as they carefully consider their practices and the risks associated with public practice.





During the periods under review, the Education and Transformation Committee (EDCOM) made changes to the proficiency assessment policy. The changes, which were approved by the Board on 18 July 2016, require potential RAs who intend to start their own practices to provide a practice plan, an ISQC 1 manual of the practice they intend to open as well as the name and RA number of the RA identified as the practice's quality reviewer.

This is a developmental process that ensures that all practices started are compliant with ISQC 1, which will enhance audit quality.

### HOSTING THE IAESB

In April 2016, we successfully hosted the International Accounting Education Standards Board (IAESB) and the IAESB Consultative Advisory Group meetings in Johannesburg. As part of this, we also hosted the Accountancy Education Forum, which was attended by various stakeholders, including academics, professional bodies as well as representatives from other parts of the continent.

### AUDIT EDUCATORS WORKSHOP

We hosted the Audit Educators Workshop where educators from universities across South Africa were invited to participate in a dialogue on various models focusing on learning as well as the teaching and training of auditors. As part of our transformation strategy, key challenges in addressing transformation were also discussed.

### RAISING AWARENESS OF THE AUDITING PROFESSION AND THE PROMOTION OF THE RA BRAND

We collaborated with SAICA on their learners' business games and mathematics camps. We also launched the Alexandra Mathematics and Science Academy project, a collaborative initiative between the IRBA and SAICA. The project was launched in 2016 with 100 learners from five high schools in Alexandra. The number of learners has since increased to 170. This project is aimed at assisting with the growing need to improve maths and science skills in South Africa.

We also hosted five career sessions at black high schools, including attendance at a career awareness session hosted by the provincial Department of Education in the North West in collaboration with SAICA.

As part of our initiatives to recruit university students into the auditing profession, we engaged with universities and educators. We attended several university career days and presented talks at some of the major universities on the attractiveness of the auditing profession.

### RETENTION OF TRAINEES IN THE AUDITING PROFESSION

Much of our efforts on the retention of trainees in the auditing profession overlapped with our ADP initiatives. We also partnered with the Association for the Advancement of Black Accountants of Southern Africa (ABASA) on their transformation projects. This included supporting an ABASA event in KwaZulu-Natal and exhibiting and presenting at the ABASA career session at the University of Zululand. We also hosted six talks to trainees and firms on the IRBA, the ADP and its possible contribution towards transformation.

A significant project that we undertook during the period was a survey to explore factors driving and limiting professional advancement in auditing to address diversity within the profession. In this regard, we commissioned an independent service provider to conduct the research. The data gathering process involved surveys with trainees at different levels of their training programmes, and recently qualified CAs. Diversity was taken to refer to race, gender and region, in this context. We have completed the survey and will be driving different initiatives in the next period to disseminate this information to relevant and interested parties in the development of solutions to address challenges of retention and diversity within the auditing profession.

### Q: CAN YOU PROVIDE A FEW EXAMPLES OF HOW YOUR DEPARTMENT'S WORK INTEGRATES WITH OTHER DEPARTMENTS AND OTHER LOCAL AND GLOBAL ORGANISATIONS?

**A:** We work closely with the Standards team in our engagement with academics in the profession, in terms of research initiatives and auditing education workshops. In the diverse Proficiency

Assessment Panel we work with our Inspections colleagues, who are familiar with the challenges facing RAs in practice. Our work with other regulators in Africa is discussed under the Leadership in Africa strategic pillar.

### **Q: HOW DO YOUR STATUTORY COMMITTEE MEMBERS ADD VALUE TO THE IRBA?**

**A:** Three members of EDCOM are involved in the academia and they bring both practical and theoretical perspectives to our discussions.

Two members are CFOs of major entities, one being a global entity. These members bring invaluable contributions as they are able to bring a user's perspective to our discussions. These members have also been involved in the profession in their past positions and therefore understand the profession.

Five members are practicing RAs and they bring the training perspective to EDCOM from the employer's perspective. Some of these members have also been involved in the public sector, which makes them key in ensuring that the development of RAs is based not just on the needs of private sector practitioners, but also on the needs of the public sector.

### **Q WHAT ARE YOUR FUTURE AMBITIONS FOR THE DEPARTMENT?**

**A:** We are looking at a wider implementation of the ADP, with more emphasis on growing the number of RCAs. The main focus will be on black RCAs to ensure that the ADP's reach is felt by firms of all sizes. Other projects include doing the following:

- We will be working closely with researchers to understand the competencies of a future RA. This will drive our project to revise our competency framework for RAs.
- A significant focus area will be our review of the current CPD policies, and this is in line with global developments in this arena.
- The quality of basic education in South Africa, specifically with regards to maths, continues to concern us. In this regard, we will begin to look at working with other regulators and stakeholders to find ways to address this challenge.
- We will also be working on initiatives to disseminate information from our transformation survey to the market to collectively develop solutions that relate to challenges with retention and diversity in the auditing profession.

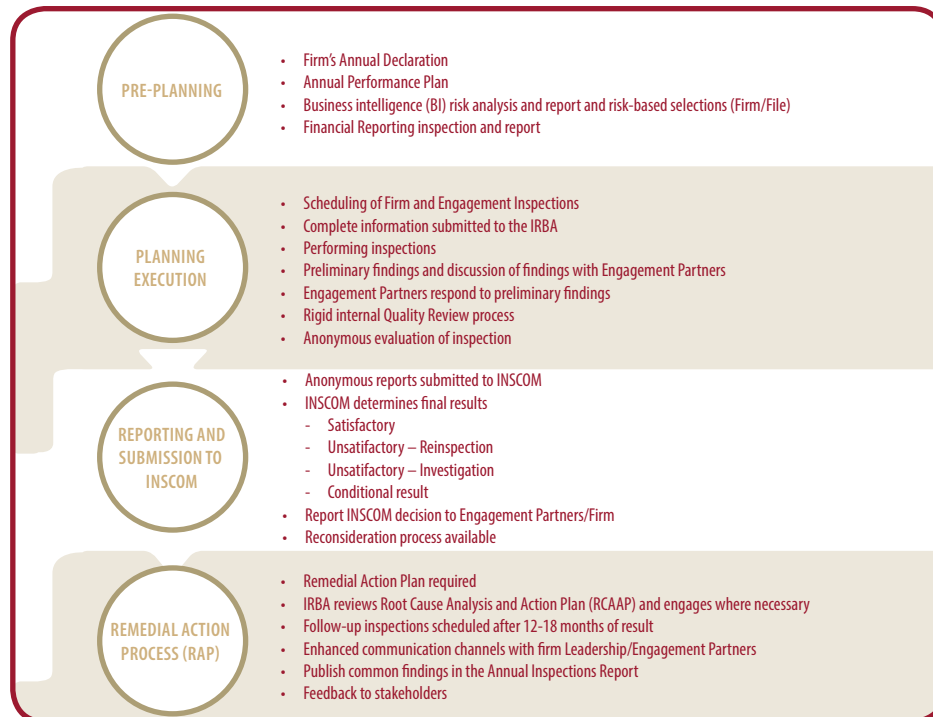


## STRATEGIC FOCUS AREA 3: INSPECTIONS

### Q&A WITH IMRE NAGY, DIRECTOR INSPECTIONS

#### Q: WHAT IS THE OBJECTIVE OF THIS FOCUS AREA?

**A:** To monitor registered auditors' compliance with professional standards. To achieve this objective we follow a robust inspections process as illustrated below.



#### Q: HOW DID YOU PERFORM DURING THE YEARS UNDER REVIEW?

**A:** Our main focus areas centred on strengthening our inspections processes, in line with international inspections best practice and the continued commitment to implement the recommendations of the Report on the Observance of Standards and Codes (ROSC): Accounting and Auditing. There were three focus areas.

#### (I) FOCUSING ON THE LEGISLATIVE MANDATE

To strengthen the inspections process, our first initiative was to realign our resources to the legislative mandate. While this process resulted in us setting a target to complete fewer inspections during the period, it concentrated more on those inspections that had higher public interest and risk. To complement this shift in focus and still meet the IRBA's obligation to protect the financial interests of the public, we continue to refine our risk-based inspections approach.

This approach is consistent with the IFIAR Core Principles, which state that audit regulators should ensure that a risk-based inspections programme is in place. The objective of the risk-based inspections approach is to ensure that firms performing high-risk assurance engagements are analysed, categorised and selected for inspection at the appropriate frequency, based on inherent and other risk factors identified, thereby fulfilling our legislative mandate. This involves the identification, gathering and analysis of relevant information, statistics, trends and market intelligence. This gathering and analysis of data forms the basis of a comprehensive risk analysis that enables the inspectors to make informed selection decisions on firms and engagements to be inspected and focus areas within those engagements.

The shift in focus also resulted in the department no longer doing B-BBEE inspections and reducing its inspections for the purpose of Johannesburg Stock Exchange (JSE) accreditation.

Over the past few years, we have been collaborating with the JSE on ways to respond to some challenges experienced with the accreditation of auditors who perform listed company audits. Due to constraints in capacity and other risks, we recommended alternatives to the JSE for the accreditation of auditors. In this regard, the JSE has consulted with us and the profession to initiate a process of considering an alternative approach to the current accreditation requirements in the Listings Requirements. We continue to engage with the JSE on this matter.

		NUMBER OF INSPECTIONS	SATISFACTORY AND CONDITIONAL SATISFACTORY	UNSATISFACTORY
2016	Firm	20	20%	80%
	Engagement	237	39%	61%
2017	Firm	23	74%	26%
	Engagement	197	49%	51%

## (II) INCREASING HUMAN AND INTELLECTUAL CAPITAL

To increase the human and intellectual capital, one of our initiatives has been to grow our team's capacity. This has further been necessitated by the challenges we faced with retaining inspectors during the period. To address this challenge, experienced and specialist inspectors and quality controllers were recruited to complement the existing team. We also implemented a stringent quality control function within the inspections process. The objective of this function is to ensure that as inspections are performed, factual findings reports of the highest quality and consistency are issued.

During the period, we continued to benchmark our processes against those of other regulators within the IFIAR. The purpose of the exercise was to ensure that the inspections processes are aligned with best practices internationally. Based on the outcome of the benchmarking exercise, processes are refined and updated, where necessary.

## (III) IMPLEMENTING A REMEDIAL ACTION PROCESS

The increase in unsatisfactory inspection results prompted us to consider strategies to promote audit quality at the affected firms/engagement partner level. The aim is to encourage

appropriate corrective action by communicating and engaging more with affected firms and engagement partners, in addition to providing them with an opportunity for the best possible outcome during their re-inspection. Aligned to this commitment to improve audit quality, we implemented the Remedial Action Process in 2015 to ensure that audit firms and engagement partners promptly address the causes of significant inspection deficiencies that were reported to them. During this process, we remain aware of our independence.

Through this process firms or engagement partners that received unsatisfactory inspections are requested to analyse the inspection findings and submit a root cause analysis and an action plan to us. While the ultimate responsibility for identifying root causes for unsatisfactory inspections results rests with the firm/engagement partner, the remedial action team reviews the root cause and action plans received. These plans form the basis of a dialogue initiated with engagement partners to ensure the plans will appropriately address the root cause and encourage the successful implementation of the plan.

## TRANSPARENCY AND INFLUENCE

We have also focused on communicating trends in the findings identified with both the engagement partners we inspected and those not selected for inspection so as to influence improved audit quality. We regularly communicate common areas of audit deficiencies that were noted during the inspections process via various SAICA structures. The first Public Inspections Report, which was issued in 2015, identified key findings that were observed during inspections performed between 1 April 2015 and 31 March 2016. The objective of issuing these reports is to focus the attention of engagement partners on areas where inspection findings are common.

For additional information on the inspection results as well as details on common findings and possible root causes, please see our latest annual Public Inspections Report, which is available on the IRBA website.

We have also identified that greater collaboration between the auditing standard-setters and those tasked with monitoring the practical application of those standards is vital in strengthening competency in the auditing profession. As such, we have intensified our efforts to foster close internal collaboration between the Standards Department and the Inspections Department. The two departments have also worked closely on a number of projects, including a pilot on the new audit reporting standards, i.e. the KAMs project.



**Q: CAN YOU PROVIDE A FEW EXAMPLES OF HOW YOUR DEPARTMENT'S WORK INTEGRATES WITH OTHER DEPARTMENTS AND OTHER LOCAL AND GLOBAL ORGANISATIONS?**

**A:** The Inspections team works closely with the Standards team. It provides feedback on trends in inspection findings to the Standards team for it to assess whether additional guidance or standard-setting projects should be initiated. The Standards team is also consulted on technical issues encountered during inspections. The Standards team provides training to the Inspections team on new standards being issued and implemented. The Inspections Department also uses its insights from inspections to provide input to Standards for comment letters. The Inspections team works with the Investigations Department by referring RAs when remedial action has failed, and fundamental breaches of the standards, Code or legislation have been identified during inspections.

On a global level, I represent the IRBA on the IFIAR Inspections Workshop Working Group where we share information and consult with other regulators on inspection trends and findings. We also participate in the annual inspection findings survey. We regularly engage with other local regulators and accountancy bodies, such as the CIPC, the JSE and SAICA, on matters of common interest. In addition, we are a member of the Financial Reporting Technical Committee (FRTC) and serve as secretariat to the Financial Reporting Standards Council (FRSC), which allows us to influence and stay abreast of the latest accounting developments.

**Q: HOW DO YOUR STATUTORY COMMITTEE MEMBERS ADD VALUE TO THE IRBA?**

**A:** All our INSCOM members are professionals with an auditing background, but they are independent from the profession. This gives credibility and adds value to our endeavours to protect the financial interests of the public. The members represent sectors that include commerce, financial institutions, the JSE, academia, government and the financial reporting arena.

**Q: WHAT WILL BE YOUR FOCUS GOING FORWARD?**

**A:** Our focus for 2017/2018 is to further improve our communication with registered auditors regarding common inspection findings. We also aim to improve our communication with other stakeholders, regulators and audit committees regarding our findings.

As we approach the 7th Inspections Cycle, we plan to further refine our inspections processes and respond to external changes in the audit environment. In line with technological advancements within the profession and a growing reliance by auditors on these, we aim to make our inspections processes more innovative to ensure our strategic objective of monitoring registered auditors' compliance with standards is met. We also aim to improve the efficiency of the inspections processes to address challenges faced by RAs. These challenges, which were noted during interactions, include improving the efficiency in issuing findings to RAs and increasing our focus on IT audits and controls.

We also aim to further our work on Audit Quality Indicators (AQIs).



## STRATEGIC FOCUS AREA 4: INVESTIGATIONS & LEGAL



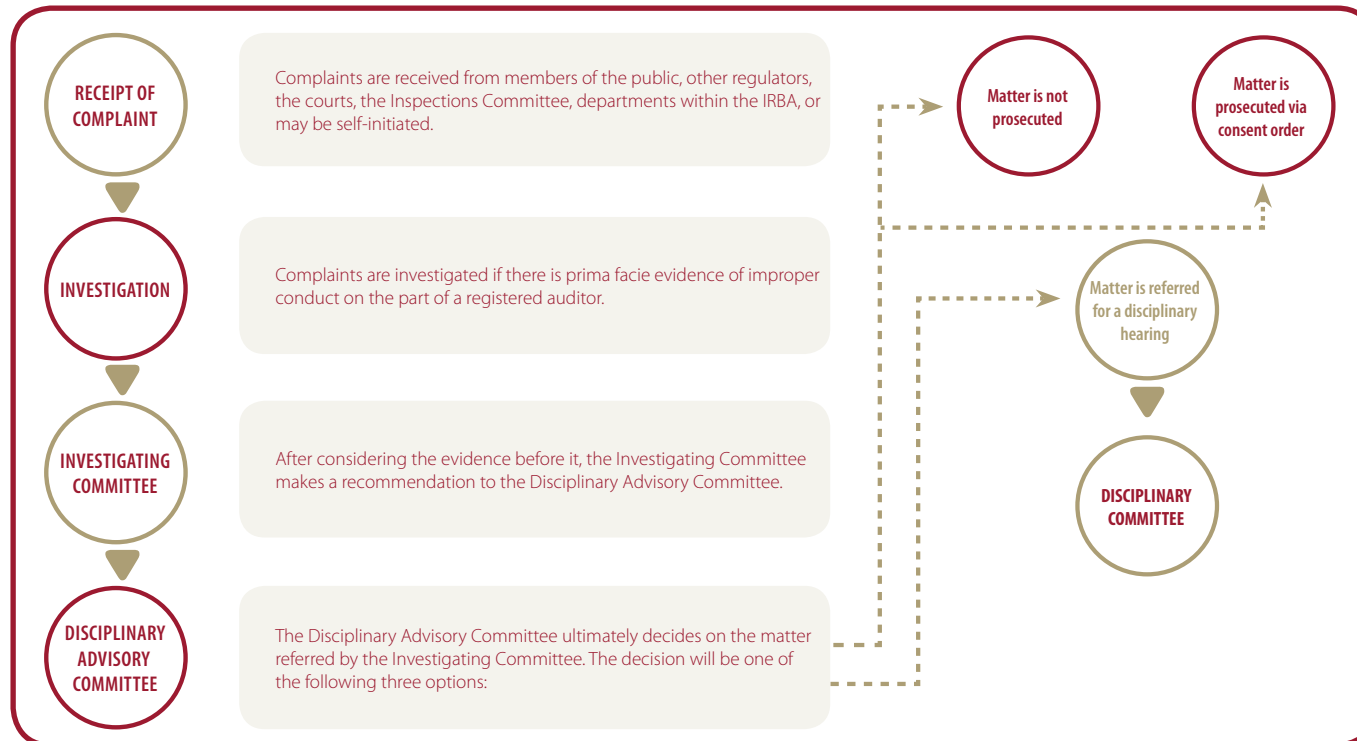
**Q&A WITH JILLIAN BAILEY,  
DIRECTOR INVESTIGATIONS**

**Q&A WITH JANE O'CONNOR,  
DIRECTOR LEGAL**



### **Q: WHAT IS THE OBJECTIVE OF THIS STRATEGIC FOCUS AREA?**

**A:** To investigate and take appropriate action against registered auditors in respect of improper conduct. For insight into how we achieve this objective, we illustrate our process below.







Our investigating function was carried out by the Legal Department until 2015, when the department was split into Legal and Investigations. This was a decision taken by the Board in 2015, in response to ROSC, and its objective was to:

- Strengthen the investigation capacity and thereby ensure robust investigations.
- Allow the Legal Department to drive only the disciplinary processes and not the investigations processes as well; and also allow it to provide legal support, for which the demand continues to grow, to the IRBA as a whole.

## Q: HOW DID YOU PERFORM DURING THE YEARS UNDER REVIEW?

### A: INVESTIGATIONS

We investigate alleged improper conduct by registered auditors. We enable the IRBA to hold individuals to account, where this is necessary, in the financial interest of the public; and also contribute to the overall quality of corporate governance in South Africa. Our aim is to deal with matters in a timely and cost effective manner; and to complete 80% of the investigations within 18 months from the date the matter was received.

Our contribution to the achievement of the IRBA's objective of protecting the financial interests of the public who rely on the services of registered auditors is defined by us doing the following:

- Providing a robust system for investigating and, where appropriate, taking disciplinary action in matters of improper conduct;
- Imposing appropriate sanctions for improper conduct; and
- Seeking to deter future improper conduct.

INVESCO meets every eight weeks, but the Board does not meet frequently enough to consider recommendations from the committee after each of its meetings. Therefore, the Board has delegated this function to the DAC, which consists of three Board members. INVESCO makes recommendations to the DAC for appropriate action to be taken in accordance with the Disciplinary Rules. This includes non-prosecution, a consent order (fine) or referral to a full disciplinary hearing.

The DAC functions independently from INVESCO and the Disciplinary Committee, and it reports to the Board.

The DAC meets approximately five weeks after each INVESCO meeting and considers the matters on which INVESCO has made a recommendation.

### Matters concluded by the DAC

2015/2016	2016/2017
<b>MATTERS FINALISED</b> <ul style="list-style-type: none"> <li>• During the 12 months under review the DAC met six times (2015: 7) and finalised 91 matters (2015: 78).</li> </ul>	<b>MATTERS FINALISED</b> <ul style="list-style-type: none"> <li>• During the 12 months under review the DAC met six times (2016: 6) and finalised 96 (2016: 91) matters.</li> </ul>
<b>DECISIONS NOT TO CHARGE</b> <ul style="list-style-type: none"> <li>• 17 matters in terms of Disciplinary Rule 3.5.1.1 – the respondents were not guilty of improper conduct.</li> <li>• Two matters in terms of Disciplinary Rule 3.5.1.2 – there were reasonable explanations for the respondent's conduct.</li> <li>• Four matters in terms of Disciplinary Rule 3.5.1.3 – the conduct of which respondents may be guilty was of a negligible nature or consequence.</li> <li>• Nine matters in terms of Disciplinary Rule 3.5.1.4 – there were no reasonable prospects of succeeding with charges of improper conduct against the respondents.</li> <li>• Six matters in terms of Disciplinary Rule 3.5.1.5 – in all the circumstances it was not appropriate to charge the respondents with improper conduct.</li> </ul>	<b>DECISIONS NOT TO CHARGE</b> <ul style="list-style-type: none"> <li>• 16 matters in terms of Disciplinary Rule 3.5.1.1 – the respondents were not guilty of improper conduct.</li> <li>• Five matters in terms of Disciplinary Rule 3.5.1.2 – there were reasonable explanations for the respondent's conduct.</li> <li>• Two matters in terms of Disciplinary Rule 3.5.1.3 – the conduct of which respondents may be guilty were of a negligible nature or consequence.</li> <li>• Five matters in terms of Disciplinary Rule 3.5.1.4 – there were no reasonable prospects of succeeding with charges of improper conduct against the respondents.</li> <li>• Two matters in terms of Disciplinary Rule 3.5.1.5 – in all the circumstances it was not appropriate to charge the respondents with improper conduct.</li> </ul>
<b>Decisions to charge and matters finalised by consent order</b> <ul style="list-style-type: none"> <li>• 45 matters were finalised by consent orders, and the respondents were fined.</li> </ul>	<b>Decisions to charge and matters finalised by consent order</b> <ul style="list-style-type: none"> <li>• 64 matters were finalised by consent orders, and the respondents were fined.</li> </ul>
<b>Decisions to charge and matters referred for a disciplinary hearing</b> <ul style="list-style-type: none"> <li>• Eight matters were referred to the Disciplinary Committee for a full hearing.</li> </ul>	<b>Decisions to charge and matters referred for a disciplinary hearing</b> <ul style="list-style-type: none"> <li>• Two matters were referred to the Disciplinary Committee for a full hearing.</li> </ul>

## A: LEGAL

We drive the disciplinary processes, which also include cases that pertain to holding outs. We are also responsible for processing reportable irregularities, in addition to being responsible for Registry and providing legal support to the IRBA.

We are responsible for the secretariat function of the DISCOM. Where the DAC accepts an INVESCO recommendation for a referral for a disciplinary hearing, the matter is referred to the DISCOM. Outcomes of disciplinary hearings are published in IRBA News and the Annual Report.

### I. REPORTABLE IRREGULARITIES (RI)

The APA defines an RI as any unlawful act or omission committed by any person responsible for the management of an entity, which:

- (a) has caused or is likely to cause material financial loss to the entity or to any partner, member, shareholder, creditor or investor of the entity in respect of his, her or its dealings with the entity; or
- (b) is fraudulent or amounts to theft; or
- (c) represents a material breach of any fiduciary duty owed by such person to the entity or any partner, member, shareholder, creditor or investor of the entity under any law applying to the entity or the conduct or management thereof.

UNLAWFUL ACT OR OMISSION	REPORTING FREQUENCY %	REGULATOR(S) INFORMED
Not registered for UIF and/or SDL, UIF and/or SDL not declared and/or paid.	29.31%	Department of Labour (DOL), the South African Revenue Service (SARS), the Department of Basic Education, etc.
Non-compliance regarding financial statements and/or accounting records, i.e. financial statements not prepared within the allotted timeframe, accurate accounting records not kept, etc.	26.26%	The Companies and Intellectual Property Commission (CIPC), SARS, the Financial Services Board (FSB), etc.
Companies Act – Directors' conduct and breach of fiduciary duties.	13.18%	The CIPC
Other Companies Act contraventions – i.e. reckless trading, unauthorised financial assistance to directors, etc.	8.73%	The CIPC

UNLAWFUL ACT OR OMISSION	REPORTING FREQUENCY %	REGULATOR(S) INFORMED
Tax-related contraventions – i.e. non-submission of tax returns, failure to register for tax, non-payment of PAYE, etc.	6.38%	SARS
VAT-related contraventions.	3.37%	SARS
Other – i.e. contraventions of the FIC Act, contraventions of the Attorneys Act, contraventions of the Pension Funds Act, alleged fraud and corruption, etc.	12.76%	The Financial Intelligence Centre (FIC), the FSB, relevant provincial Law Societies, the Directorate for Priority Crime Investigation (DPCI), etc.

### II. HOLDING OUT

Only a registered auditor may engage in public practice or hold out as a registered auditor in public practice or use any of the registered auditor descriptions that include “public accountant”, “certified public accountant”, “registered accountant and auditor”, “accountant and auditor in public practice” or any other designation or description likely to create the impression of being a registered auditor in public practice.

The most obvious example of a holding out is when someone who is not authorised to do so signs a set of financial statements. Another is when people describe themselves (through services offered) as auditors. Holding outs are normally brought to our attention by practitioners, and evidence, such as a set of signed financial statements, is required for such cases.

We engage with the accused third party to ascertain whether they are simply ignorant or were at one stage registered and the registration had lapsed. Sometimes it is a difficult scenario as other legislation might allow an audit to be conducted by a non-RA, e.g. the Sectional Titles Act and the Schools Act. If the Legal Department believes that there was a mala fide, the matter is referred to the relevant prosecuting authority. We would then testify at such a trial.

### III. LEGAL INDABA

We hosted a Legal Indaba to discuss matters of concern in an open forum, take stock of our work and seek clarity on certain aspects of the disciplinary processes that are of concern to us, thereby enabling us to improve the way we execute our legislative mandate.





## IV. RESEARCH

We also take a proactive approach and initiate research into matters where there is a risk to the financial interests of the public. This information is, from time to time, provided to auditors with cautionary alerts regarding observed trends. During the periods under review the trends briefly discussed below were noted.

### 1. *Pyramid Schemes*

Auditors were cautioned to be careful of being associated with pyramid schemes. The Consumer Protection Act defines pyramid or Ponzi schemes as arrangements in which participants receive compensation derived primarily from their respective recruitment of other persons as participants, rather than from the sale of any goods or service. It is the responsibility of an auditor to flag any suspected pyramid scheme activities as reportable irregularities and to report this to the IRBA.

Cases of registered auditors who have been implicated in managing or auditing pyramid schemes do further damage to the profession's credibility, which has already been tainted by financial scandals that partly triggered the current global economic crisis.

### 2. *Increase in Tax Matters Referred for Investigation*

An increase in the number of tax matters referred for investigation was identified during the periods under review. These matters mainly related to late submissions, which resulted in interest and penalties being incurred by clients without their knowledge. In this regard, the attention of auditors was drawn to paragraph 130.4 of the Code of Professional Conduct, which states that: "Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis." Auditors were therefore advised to conduct their taxation services with caution, be mindful of SARS deadlines, and communicate sufficiently and timeously with clients who had incurred or who might incur interest and penalties.

### 3. *Registration with the CIPC as a Company Secretary*

In the Companies Act of 1973, Section 275(3) allowed auditors of private companies to perform secretarial duties, if all shareholders agreed to this in writing. As a result, numerous auditors of private companies went so far as to have their clients register the auditor/audit firm as the company secretary at the CIPC.

However, with the revised Companies Act of 2008, it was imperative that those auditors

ensure that their clients update their CIPC records and remove the name of the auditor/audit firm as the company secretary because this was now prohibited, among other things, by Section 90(2) of the Companies Act of 2008.

### 4. *Practice Related Matters*

Occasionally, practice related matters find their way to us. The body of our response to an enquiry that has arisen in this way is then shared in IRBA News for guidance.

## Q: CAN YOU PROVIDE A FEW EXAMPLES OF HOW YOUR DEPARTMENTS' WORK INTEGRATES WITH OTHER DEPARTMENTS AND OTHER LOCAL AND GLOBAL ORGANISATIONS?

### A: INVESTIGATIONS

The Investigations team receives referrals for investigation from various internal and external sources, such as the Inspections and Education and Transformation teams. SAICA, the Law Societies, the JSE, FSB and DTI also refer matters for investigation to the Investigations team. The team also works closely with Legal when referring matters in the public interest for disciplinary hearings by consulting and preparing for hearings. The Investigations team consults with the Standards team on technical issues and provides input on comment letters.

### A: LEGAL

The Legal team works with the Standards team if there is a technical cross-over, for example, when Standards are writing material on matters (NOCLAR would be an example) that impact RIs.

We also provide SAICA with input (in terms of their by-laws) for their disciplinary matters.

## Q: HOW DO YOUR STATUTORY COMMITTEE MEMBERS ADD VALUE TO THE IRBA?

### A: INVESCO

The committee comprises eight members who include CAs, attorneys, and members holding MBA qualifications. None of the members are in public practice. The members have diverse backgrounds, which include academia, commerce, law and ethics. Meaningful and comprehensive debates on recommendations to the DAC are held due to the diverse background and skill set of members.

**A: DISCOM**

The committee comprises 11 members. In terms of the APA, the committee must include RAs but they must not be in the majority, and it must be chaired by a retired judge or senior advocate. The composition is as follows: three senior advocates (one is the chairman and the other two are vice-chairmen), two RAs, four CAs, a more junior advocate and an attorney.

The RAs and CAs bring a strong technical focus to hearings that can be technically complex. The lawyers, on the other hand, bring a comprehensive knowledge of the law, which ensures that proceedings are conducted in strict accordance with the APA, the Administrative Justice Act (AJA) and the requirements of administrative law in general.

**Q: WHAT WILL BE YOUR FOCUS GOING FORWARD?**

**A:** The short to medium focus for this strategic objective is to work on continuously strengthening the investigations approach, methodology and efficiency and to honour our commitment to the highest quality.



## STRATEGIC FOCUS AREA 5: OPERATIONAL EFFECTIVENESS

***Q & A WITH WILLEMINA DE JAGER, DIRECTOR OPERATIONS***

### **Q: WHAT IS THE OBJECTIVE OF THIS STRATEGIC FOCUS AREA?**

**A:** To strengthen the IRBA's organisational capability, capacity and performance to deliver on its mandate in an economically, efficient and effective manner, in accordance with the relevant regulatory frameworks.

### **Q: HOW DID YOU PERFORM DURING THE YEARS UNDER REVIEW?**

#### **A: CLEAN AUDIT AWARDS**

During the periods under review, the IRBA received clean audit awards, with 2017 being the eighth year in a row that we have attained the accolade.

#### **INVESTIGATING ALTERNATIVE FUNDING MODELS**

In terms of Section 25 of the APA, the IRBA is funded through:

- The collection of prescribed fees and levies from registered auditors and firms;
- All other monies which may accrue to the Regulatory Board from any other legal source, including sanctions imposed by the Regulatory Board; and
- Monies appropriated for that purpose by Parliament.

However, some of the significant challenges with the current funding model are sustainability and independence of the regulator. In this context, sustainability refers to our limited control in obtaining the required funds from government, while independence refers to the IRBA's ability to remain independent of those it regulates. The South African economy has been and will, according to forecasts, continue to be stagnant in the foreseeable future. This will likely have a direct bearing on government revenue and how it will ultimately be distributed to public entities such as the IRBA.

As a result of the above, and in line with the Strategic Plan approved by the Board in 2015, management is researching alternative funding models.

#### **NEW IRBA WEBSITE LAUNCH**

In 2016 we launched a new-look website that boasts a "cleaner, fresh" look as well as more interactive functionality, making it easier for users to navigate. Although the look is less cluttered than the old website, there is more information that has been conveniently packaged for easy access.

For students who want to become registered auditors, a single click on the main menu takes them to a linked "IRBA Learner" page. From there they can access information that includes details about an RA qualification, discussion forums and a library.

Also, RAs are now able to update their information, lodge their annual renewal documents and make payments for their annual financial fees through the website.

## THE VALUE OF HUMAN CAPITAL

Our most important resource is human capital. Therefore, it is crucial to ensure that appointed staff members are of the right calibre. We follow a robust process in recruiting employees, and this is done within the prescribed human resource policies. In the past few years, we also improved the performance management systems in consultation with staff; and although this remains an area where there will always be scope for further changes, we are currently achieving the objectives of an incentive system.

Salaries are benchmarked against recognised surveys and a robust process is followed to approve all remuneration through the Board.

The staff complement, excluding contract workers, was 82 as at 31 March 2017. At year-end, nine positions were vacant due to staff turnover and scarcity of skills. The total staff expenditure was R73 million (2016: R60 million), representing 71% (2016: 63%) of our total expenses.

The Employment Equity Plan was revised, updated and approved by the Board for the five years from 2016-2020. We made every effort to achieve our employment equity targets for the period. This was addressed by incorporating the premium approach into the recruitment and selection policy. This method is being used in pursuance of establishing an equitable staff composition for the IRBA.

The total target for black employees is 63% against the actual of 66%. We therefore achieved our target, overall.

The Employment Equity Forum, consisting of eight staff members who represent all areas of employment equity, is also making every effort to become more involved in the recruitment process to ensure consistent compliance with the policy as well as fairness and transparency throughout all our recruitment drives.

## Q: CAN YOU PROVIDE A FEW EXAMPLES OF HOW YOUR DEPARTMENT'S WORK INTEGRATES WITH OTHER DEPARTMENTS AND OTHER LOCAL AND GLOBAL ORGANISATIONS?

**A:** The Operations main purpose is to create an infrastructure and support function for the line departments to enable them to deliver on the mandate of the IRBA. The support we offer includes the following:

- Allocating the required funds based on availability.
- Creating an IT and communications infrastructure and support thereof.
- Acquiring the necessary assets and services required to perform the work.
- Assisting with the recruitment of qualified staff and the administration of HR related processes.
- Maintaining the facilities and related services for the departments to create a safe and productive work environment.
- Considering the funding models of other jurisdictions as part of researching an alternative funding model.

# OUR ORGANISATIONAL FUTURE OUTLOOK

## *INSIGHTS FROM BERNARD AGULHAS, CHIEF EXECUTIVE OFFICER*

### **Q: WHAT IS THE FUTURE OUTLOOK OF THE IRBA?**

**A:** I am excited about the future of the IRBA and the profession as a whole. Technology is changing fast and the profession has to adapt in order to meet the needs of its clients. We should start asking ourselves questions such as: What skills will the future auditor need? What will the future auditor look like? How do we respond to these changes as the regulator?

The uncertainty in our operating environment and regulatory arena impacts our outlook and requires us to be dynamic and regularly revisit our focus areas to ensure that we execute our legislative mandate effectively. At the core of our mandate is to ensure sustainable high-quality audits. Therefore, creating an environment that supports high audit quality is important to us in achieving our mandate and ensuring the continuing relevance of the audit profession. In the short to medium term our focus will be on further strengthening our internal processes in terms of efficiency and sophistication by being cognisant of changing attitudes in the global arena (e.g. Brexit, new US regime), globalisation versus the tightening of borders, big data and data analytics, the structure of audit firms, offshoring, and outsourcing. This will entail incorporating a greater use of technology, for example, within our inspections processes.

We continue to participate in international forums and influence standards on various international platforms. Notably, we have IRBA staff representatives who are members of the IAASB, IAESB, the IFIAR Board as well as the IFIAR Inspections Workshop Working Group, Standards Coordination Working Group, the Investor and Other Stakeholders Working Group and Enforcement Working Group.

As the IRBA we need to ensure that the profession continues to deliver audit excellence, and have to address the challenge to remain relevant. We have started to create awareness of the work that we do, with specific focus on the registered auditor brand, to the public; and we still need to do more. We need to communicate more the value that we bring to the public and how we protect the public.

Our project on the independence of RAs and the resultant MAFR initiative have provided us with deeper insights into the challenges and risks facing RAs, audit committees and the public, including their evolving needs from a regulator. We will continue to develop our relationships with our stakeholders to understand these evolving needs and to assess how best our regulatory approach could meet them.

We have also received direction from the Board on the implementation of MAFR. The IRBA published

a rule to implement MAFR for all public interest entities, in line with other jurisdictions worldwide. Although the effective date of the rule is for financial years commencing on or after 1 April 2023, we are expecting early adoption as we have already seen various listed companies rotating their audit firms during 2016.

In recent years, we have worked hard to raise awareness of the RA brand and how the IRBA creates value and serves the interests of the investing public both locally and internationally. We will continue with these interactions with our stakeholders. In current times, we will also focus on working closely with other regulators and on extending our reach and influence to positively impact society. Furthermore, we have received support from our newly elected Minister of Finance, Malusi Gigaba, on our strategy, which will provide us with the ability to be instrumental and relevant in fulfilling our mandate.

In the medium to longer term, it is important that we reflect on our regulatory approach to be a proactive regulator that adds value to those we regulate, while supporting the efficient functioning of the economy. It is also necessary that we consider our regulatory approach in the context of one that drives appropriate behaviour in those we regulate rather than mere compliance.

One of the recommendations in the ROSC is that the accountancy profession legislation should encompass the regulation of both the accountancy and audit professions. The proposed legislation should provide the mandate to create a regulatory body that would be responsible for defining and categorising the education and training requirements for different accountancy services. We remain committed to supporting National Treasury and the Minister in responding to the ROSC recommendations.

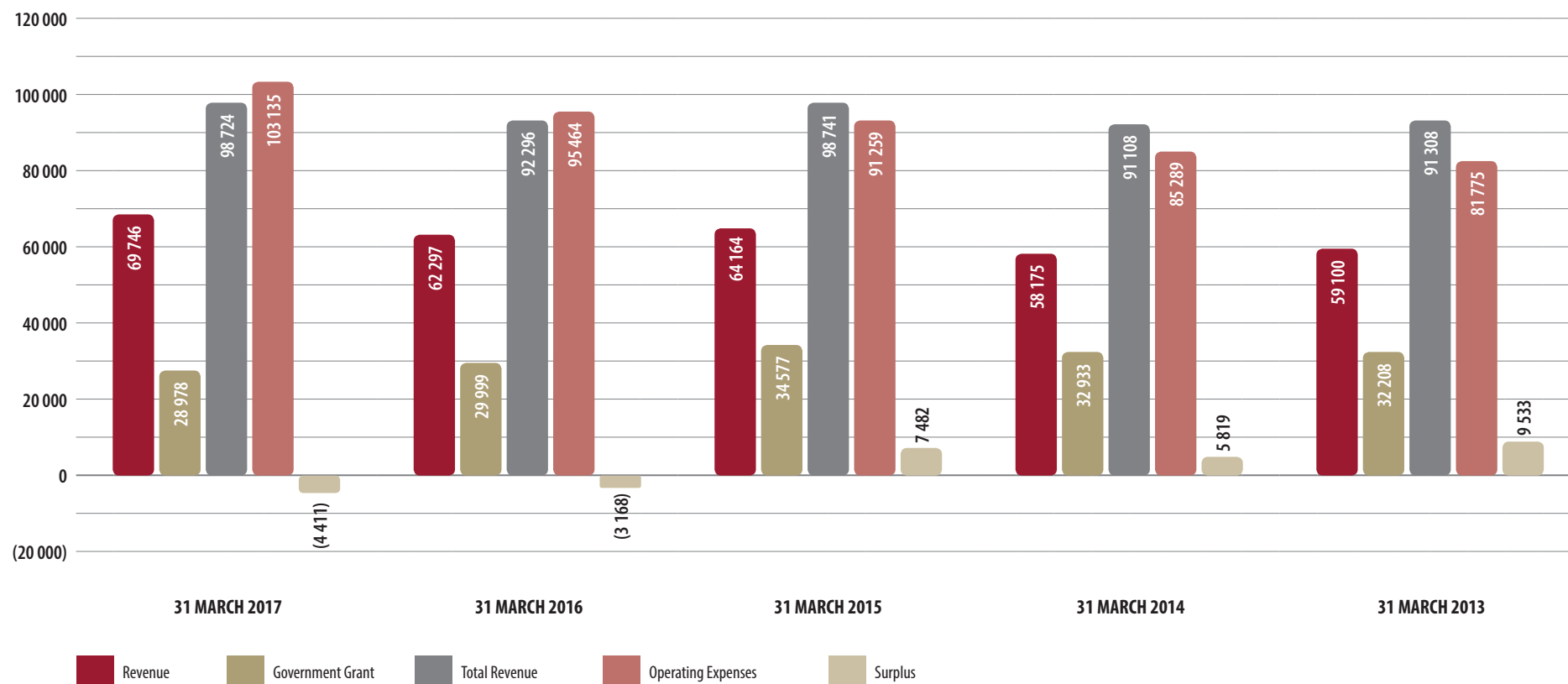
According to IFIAR core principles, for the audit regulator to execute its powers and responsibilities, it should have a stable source of funding that is secure and free from influence by auditors and audit firms. While the IRBA is charged in the APA with a wide range of responsibilities that are both labour and cost intensive, it has limited financial and human resource capacity. Therefore, as previously indicated, in the longer term we are researching alternative funding models that may be implemented.

We will also continue to drive our initiatives with other African regulators. While the extent of this work will be determined by the funding we receive from National Treasury, we will continue with the partnership initiatives we have initiated.

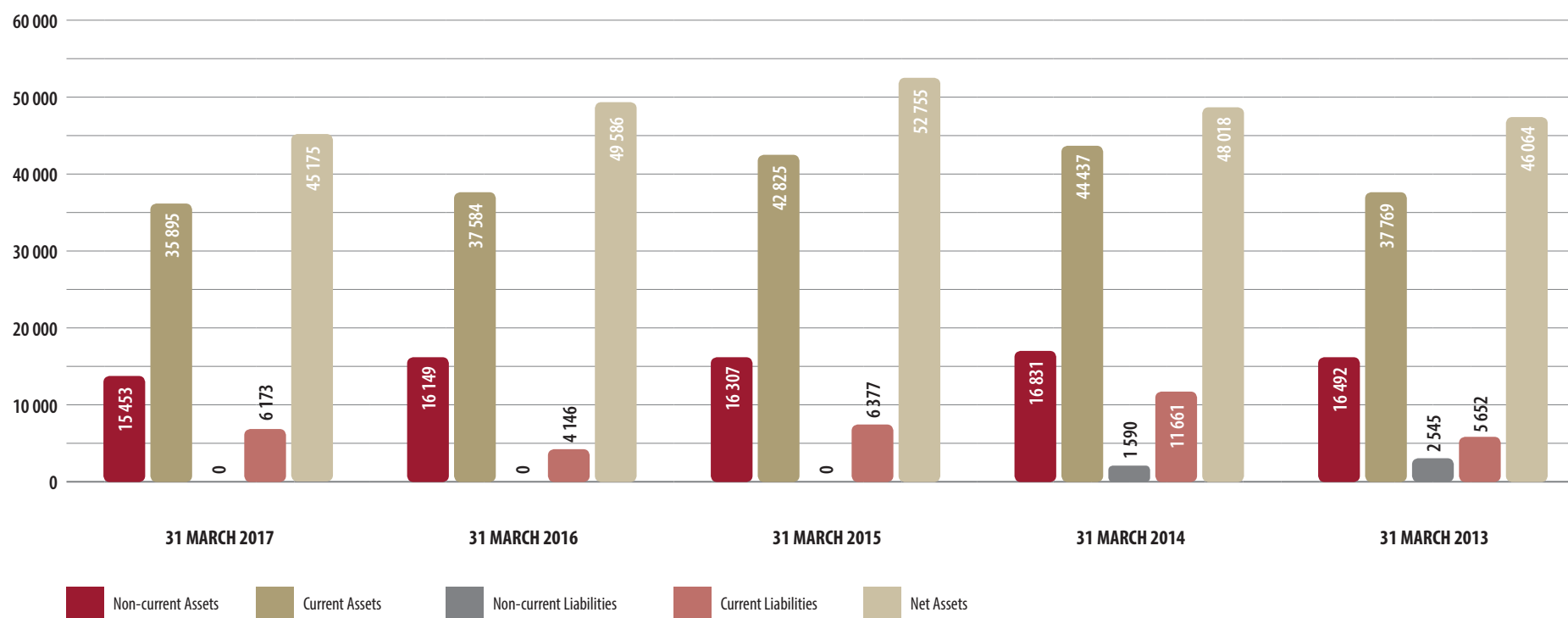
We remain committed to driving real economic transformation in the profession, and will continue to develop initiatives that will broaden economic participation and facilitate access to the audit market.

# FINANCIAL HIGHLIGHTS

## FINANCIAL PERFORMANCE

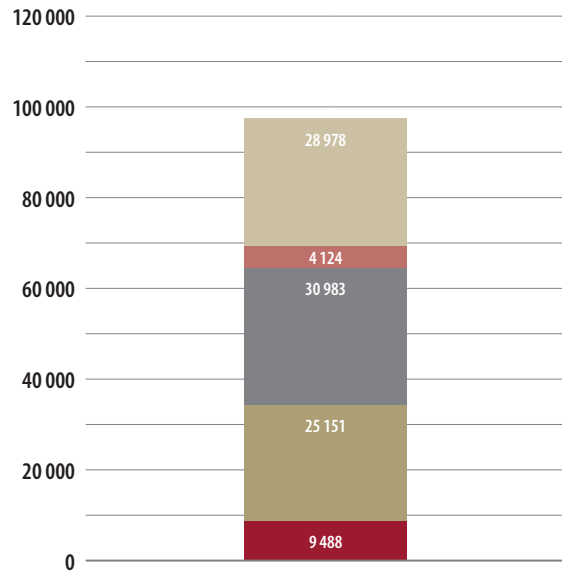


## FINANCIAL POSITION



## APPLICATION OF FUNDS

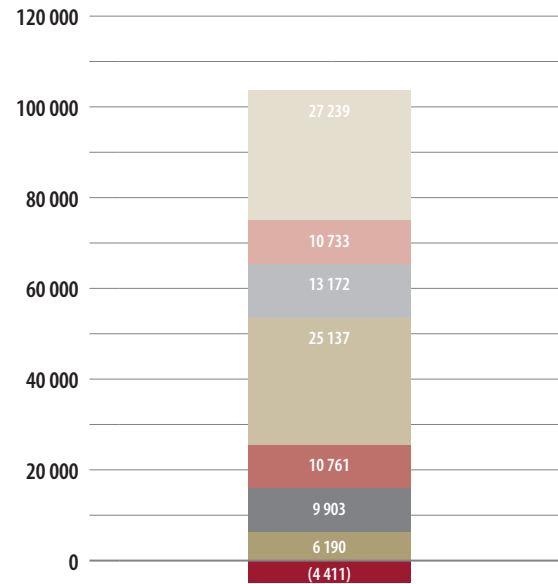
### INCOME SOURCE



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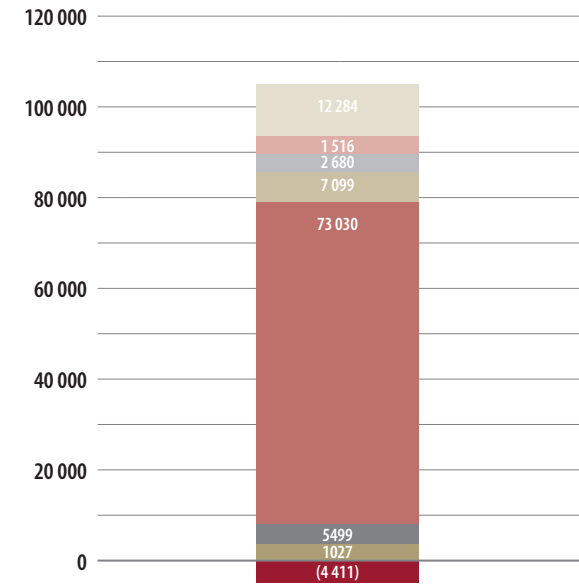
### FUNCTIONS



31 MARCH 2017



### ACTIVITIES



31 MARCH 2017





# ACRONYMS AND ABBREVIATIONS

<b>ADP</b>	Audit Development Programme	<b>ICT</b>	Information and Communication Technology
<b>AGSA</b>	Auditor-General South Africa	<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>APA</b>	Auditing Profession Act, 2005 (Act No. 26 of 2005)	<b>IFAC</b>	International Federation of Accountants
<b>AQI</b>	Audit Quality Indicators	<b>IIRC</b>	International Integrated Reporting Council
<b>ARMCO</b>	Audit and Risk Management Committee	<b>INSCOM</b>	Inspections Committee
<b>BAC</b>	B-BBEE Advisory Committee	<b>INVESCO</b>	Investigating Committee
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment	<b>IRBA</b>	Independent Regulatory Board for Auditors
<b>CA (SA)</b>	Chartered Accountant (South Africa)	<b>IRC (SA)</b>	Integrated Reporting Council (South Africa)
<b>CAG</b>	Consultative Advisory Group	<b>KING III &amp; IV</b>	King Report on Corporate Governance for South Africa
<b>CFAE</b>	Committee for Auditor Ethics	<b>MAFR</b>	Mandatory Audit Firm Rotation
<b>CFAS</b>	Committee for Auditing Standards	<b>OPSCOM</b>	Operations Committee
<b>CPD</b>	Continuing Professional Development	<b>PFMA</b>	Public Finance Management Act
<b>DAC</b>	Disciplinary Advisory Committee	<b>PPE</b>	Public Practice Examination
<b>DISCOM</b>	Disciplinary Committee	<b>PSSC</b>	Public Sector Standing Committee
<b>DTI</b>	Department of Trade and Industry	<b>RA</b>	Registered Auditor
<b>EDCOM</b>	Education and Transformation Committee	<b>RCA</b>	Registered Candidate Auditor
<b>ET</b>	Education and Training	<b>SAICA</b>	South African Institute of Chartered Accountants
<b>FASSET</b>	The SETA for finance, accounting, management consulting & other financial services	<b>SCWG</b>	Standards Coordination Working Group
<b>IAASB</b>	International Audit & Assurance Standards Board	<b>SSC</b>	Sustainability Standing Committee
<b>IAESB</b>	International Accounting Education Standards Board	<b>WEF</b>	World Economic Forum
<b>IFIAR</b>	International Forum of Independent Audit Regulators		

## NOTES



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RP: RP354/2017

ISBN: 978-0-621-45978-4

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