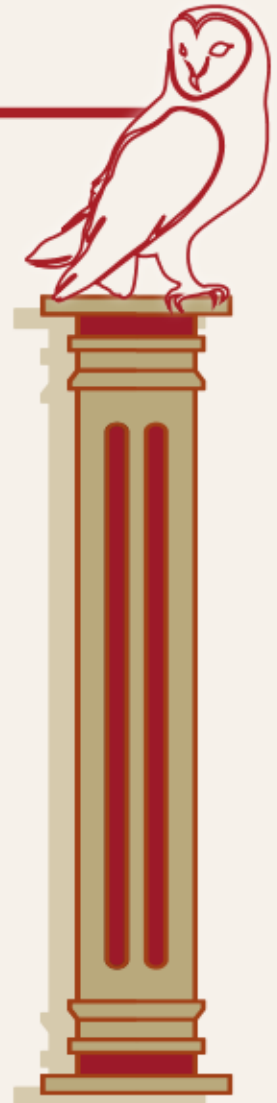
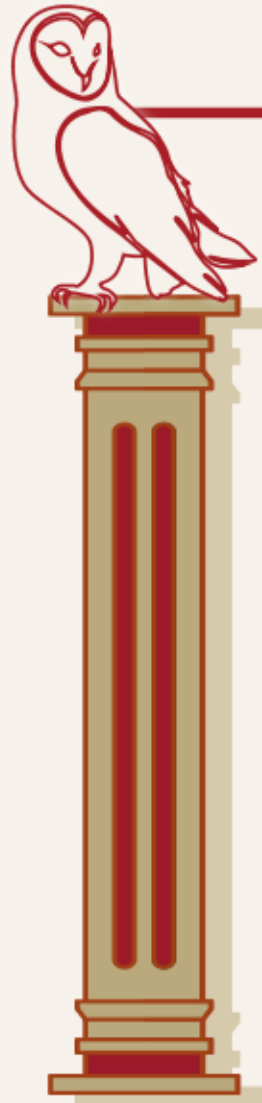




Integrated Report 2018

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WHO ARE WE?

MAJOR HIGHLIGHTS OVER THE PERIOD UNDER REVIEW

1.	We were provided with several opportunities to respond in Parliament to progress on current high-profile investigations and to demonstrate the role of audits and audit regulation in strengthening the credibility of the South African financial markets and macro-economy, attracting investment and protecting investors and the public. The invitations follow the audit and accounting failures in the profession and the loss of billions of rand to the economy.
2.	We, with National Treasury, commenced with drafting amendments to the Auditing Profession Act, Act 26 of 2005, to strengthen our oversight and ability to institute the required measures against errant auditors.
3.	The Minister of Finance announced that we have set down and gazetted a Mandatory Audit Firm Rotation (MAFR) rule to address concerns with auditor independence and excessively long tenures with audit clients. The rule, gazetted on 5 June 2017, prescribes that auditors of public interest entities in South Africa must comply with MAFR with effect from 1 April 2023.
4.	Following the independent research conducted on transformation in the profession and challenges faced by trainees and recently qualified CAs (SA), we conducted transformation workshops in Johannesburg, Pretoria, Durban and Cape Town to discuss the outcomes of the survey with the firms and to pursue potential strategies to improve transformation in the profession.
5.	We were elected as the deputy chairman of the African Forum of Independent Accounting and Audit Regulators (AFIAAR). The AFIAAR charter is signed on 2 March 2018 by 11 countries, including South Africa. The goals of AFIAAR are to assist regulators in Africa to align independence and regulation with the requirements of the International Forum of Independent Audit Regulators (IFIAR) and to improve financial reporting, governance and independent oversight on the continent.
6.	The disciplinary hearing against two audit partners regarding the audit of African Bank Investments Limited and African Bank Limited commenced in March 2018.

ABOUT THIS REPORT

OUR APPROACH TO INTEGRATED REPORTING

We are pleased to present our fifth Integrated Report, which aims to be a concise and balanced communication to all our stakeholders, locally and internationally, who are interested in our sustainability and ability to create value over time. Our Integrated Report presents our performance for the period between 1 April 2017 and 31 March 2018.

This report reflects how our strategy, governance, performance, prospects and ability to create value are affected by our resources, structure and stakeholders, as well as the internal and external environments in which we operate. The focus of our report is on the material issues that we have identified through robust dialogue with our Board, governance structures and key stakeholders. This process included taking into consideration our strategic objectives, risk assessments and interactions with our stakeholders. This report also aims to demonstrate our integration between the different strategic functions within the IRBA and the value we create through our interaction with our stakeholders.

The CEO and the Management Committee (MANCO) gave guidance to the IRBA team who prepared this Integrated Report, and also ensured that it is aligned with other reporting processes. The involvement of staff at all levels demonstrates vertical integration. The process followed to compile this report was also supported by the Audit and Risk Management Committee (ARMCO).

FRAMEWORK

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

REPORTING BOUNDARY

We are a statutory body established in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA), and is also classified as a Schedule 3A public entity in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). In the report, the principle of materiality has been applied in determining the content and extent of disclosure. For statutory disclosures, reference should be made to the IRBA's 2018 Annual Report, which can be found on our website (www.irba.co.za).

FUTURE OUTLOOK

The forward-looking statements that present our 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.

BOARD RESPONSIBILITY AND APPROVAL STATEMENT



Abel Dlamini (Chairman)

The Board, assisted by its ARMCO, 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 and is guided by the IIRC's integrated reporting framework in its presentation.

On 30 July 2018 the Board approved the report, taking into consideration the completeness of the material issues the report deals with and the reliability of data and information presented.

A handwritten signature in black ink, appearing to be 'AD', followed by a horizontal line.

Signed by the Chairman and duly authorised by the Board.

ASSURANCE OF THE REPORT

We have adopted a 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 through the coordination of:

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

The responsibility for the design, implementation and management of the combined assurance model ultimately rests with the Board, which delegates those obligations to the Board committees and management. The Board oversees that the combined assurance model is designed and implemented to effectively address our significant risks and material matters through a combination of the following assurance service providers and functions:

- Management that owns and manages risks;
- Internal auditors;
- External auditors (the Auditor-General);
- Statutory committees;
- The Board and its sub-committees (ARMCO, OPSCOM and DAC); and
- Other external service providers.

There is no specific external independent assurance of this report.

IRBA COMBINED ASSURANCE MODEL			
1st LINE OF DEFENCE: MANAGEMENT ASSURANCE	2nd LINE OF DEFENCE: OVERSIGHT ASSURANCE	3rd LINE OF DEFENCE: INDEPENDENT ASSURANCE	Combined Assurance for accountability to the Minister of Finance as the Executive Authority
MANCO <ul style="list-style-type: none"> • Policies and procedures • Internal controls • Risk management • Compliance management 	Board <ul style="list-style-type: none"> • Board sub-committees • Statutory committees • Internal auditors 	External auditors	

VISION AND MISSION

OUR VISION

Our vision is to remain an internationally recognised regulator of the auditing profession and evolve to be the regulator of other assurance and related services relevant to the South African environment.

OUR MISSION

Our mission is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of assurance conducted by registered assurance providers, in accordance with internationally recognised standards and processes.

CEO'S OVERVIEW OF THE PERIOD UNDER REVIEW

During the period under review we learnt that hard-won reputations can be quickly lost, and the power of media and social activism can destroy the reputation of a once trusted profession. Also, we quickly learnt that not everything is as it seems and that taking things at face value is no longer wise. The auditing profession was thrust into the spotlight – and not in a beguiling way. The once admired and trusted profession was criticised the most by the very public it was meant to protect.

Media headlines continued to suggest that the profession was complacent and part of a corrupt system that failed to protect the public. It has become evident that auditors need to take a hard and realistic look at themselves, if trust in the profession is to be rebuilt.

A few errant auditors have wreaked havoc on the auditing profession. It is time to draw a line in the sand so that the profession can start to rebuild trust and confidence. Everyone in the profession needs to start taking responsibility for restoring confidence in the profession. While the current crisis is because of the conduct of a few auditors and decisions some firms made, we concede that the crisis in the profession precipitated by the revelations of the better part of 2017 into early 2018 has been a test for the profession, including many audit firms that continue to serve their clients with integrity.

As a regulator we can only do so much within our mandate. So, when auditor conduct is under question, it is the auditors themselves who must counter the misperceptions. In the current socio-political climate, auditing is receiving far more media attention and when something goes wrong, the level of public interest is far higher than ever before. This is not going to change unless the auditors change their behaviour. We have seen in recent developments how actions by just a few auditors have caused significant impact and collateral damage to many other committed professionals. We have put in place measures to help restore the confidence in the profession, and this includes projects that we will be rolling out over the next two years. We believe that working together with the profession, we can bring back the glory to, and rebuild the trust in the auditing profession.

The Board has identified a number of initiatives to be rolled out to restore confidence in the profession. These initiatives include:

- A business process review of all functions within the IRBA to ensure effective operations that respond to the public expectation.
- Cooperation with other regulators within the financial sector to address fragmentation.
- The implementation of Mandatory Audit Firm Rotation (MAFR) to address independence and lack of professional scepticism.



Bernard Peter Agulhas (Chief Executive Officer)

- Ensuring that audit firms' business models address fee structures, capital requirements and services provided.
- Ensuring that audit firm governance addresses the firms' client acceptance processes and lack of transparency.
- Strengthening the work of audit committees through measures such as audit quality indicators.
- Addressing the lack of ethical behaviour by the auditors and the culture of complacency, which might lead to inappropriate behaviour.
- Ensuring that the audit product and audit quality address the expectation gap and the understanding of the audit product by the public.

The implementation of MAFR is five years away and it will not provide short-term reassurance to the market that auditors are independent and applying professional scepticism, especially in the current environment. We will consider other measures to demonstrate that as a profession we are taking firm and decisive action to strengthen auditor independence. We are encouraged by those companies that have adopted MAFR early and rotated their auditing firms. We continue to engage with the profession and various stakeholders to discuss and find practical solutions and interventions in preparation for the implementation of MAFR. We hope that, faced with the recent public outcry, shareholder activism and the increased expectation for the profession to perform its public protection role to the highest standard, we will have greater cooperation from auditors and their clients as we implement regulatory measures such as MAFR.

The latest Public Inspections Report showed continued decline in audit quality and recurring themes that require intervention. Following the risk-based approach, inspections focused on audits with a higher public interest exposure. This resulted in fewer inspections that took longer to complete due to a broader scope of inspection to address potential systemic risks. Even though the findings are in line with the global inspections survey results released by the International Forum of Independent Audit Regulators (IFIAR), we continue to be concerned. We encourage auditors to communicate with their clients and audit committees and to be transparent with their inspection results. Leadership must also take responsibility for audit quality and auditor independence in their firms.

Transformation in the profession remains one of the biggest challenges despite the efforts and work done by the profession as a whole. Following research commissioned by us, we hosted workshops around the country with auditors to share the outcomes. However, the debates and inputs from these workshops proved to us that as a profession we need to have a different conversation about transformation. We need to start to also look at gender transformation and diversity and not only focus on race as a key measure of transformation.

We have always maintained that transformation is not about numbers but about the opportunities afforded to black people and women within the firms. We need to give black accountants, auditors and women long-term prospects in the profession that are equivalent to those of their counterparts. This requires a cultural shift and a more inclusive approach that will provide black and female auditors with a positive experience at the firms, resulting in higher retention. Transformation is about financial inclusion, ownership and access to markets and opportunities.

On the continental front, we collaborated with other African countries to form the African Forum of Independent Accounting and Auditing Regulators (AFIAAR). The aim of the forum is to encourage cooperation and collaboration between regulators, and this includes the exchange and sharing of information that will enhance regulatory surveillance, risk assessment and enquiries into specific transactions. Eleven countries (Botswana, Ethiopia, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe) attended the inaugural meeting in Zimbabwe. The countries signed a charter to formally establish AFIAAR and elected office bearers. The Officers of the AFIAAR were elected as follows: Chairman – Zimbabwe; Deputy Chairman – South Africa; and Third Officer – Ethiopia. Through the forum we will employ our best endeavours to strengthen accounting and auditing regulation, financial reporting and governance on the continent.

Our work on the continent also saw us sign a memorandum of understanding with the Public Accountants' and Auditors' Board (PAAB) of Namibia to assist it with setting up and strengthening its regulatory function. We continue to engage with some of our African counterparts and have hosted members from Botswana, Lesotho, Namibia and Zimbabwe as observers on our committees. The Director Education and Transformation continues to serve on the Education Committee of PAAB Zimbabwe, while the Secretary of PAAB Zimbabwe is a member of our Investigating Committee.

CURRENT STRATEGIC PLAN

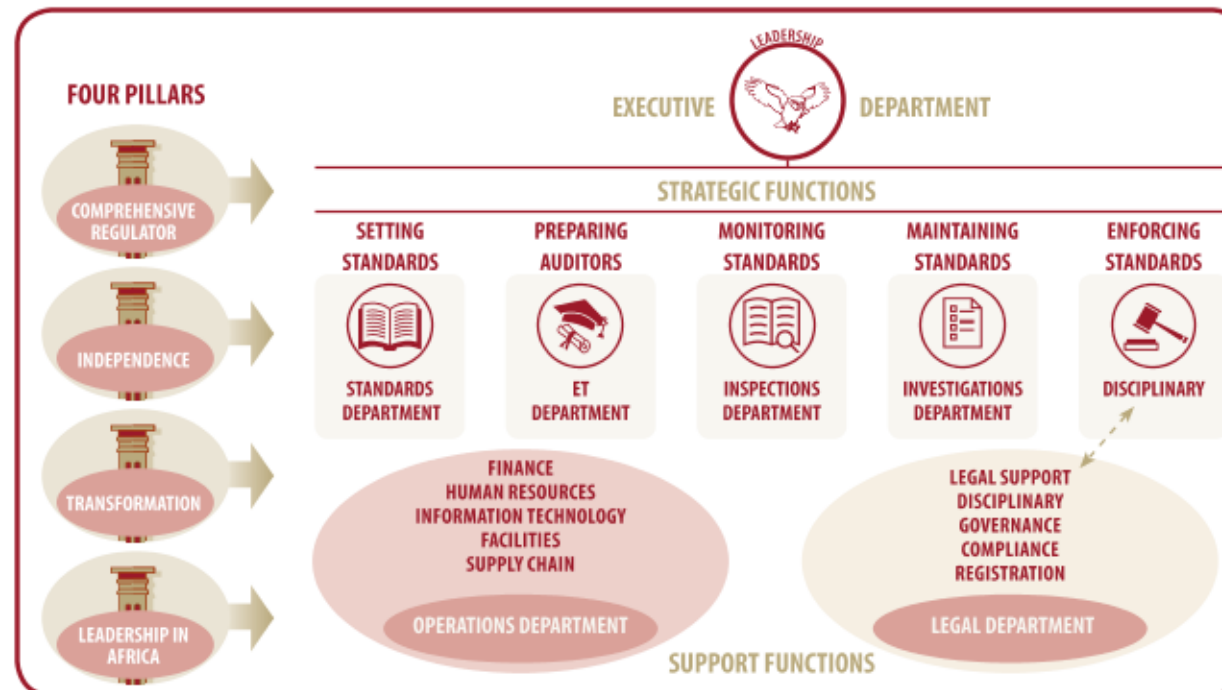
Our Strategic Plan for the period 2015/2016 to 2019/2020 was approved in March 2015.

Stakeholder relationships constitute an underlying principle that permeates everything we do. 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 ensured that everyone in the organisation was able to associate with and support the strategy.

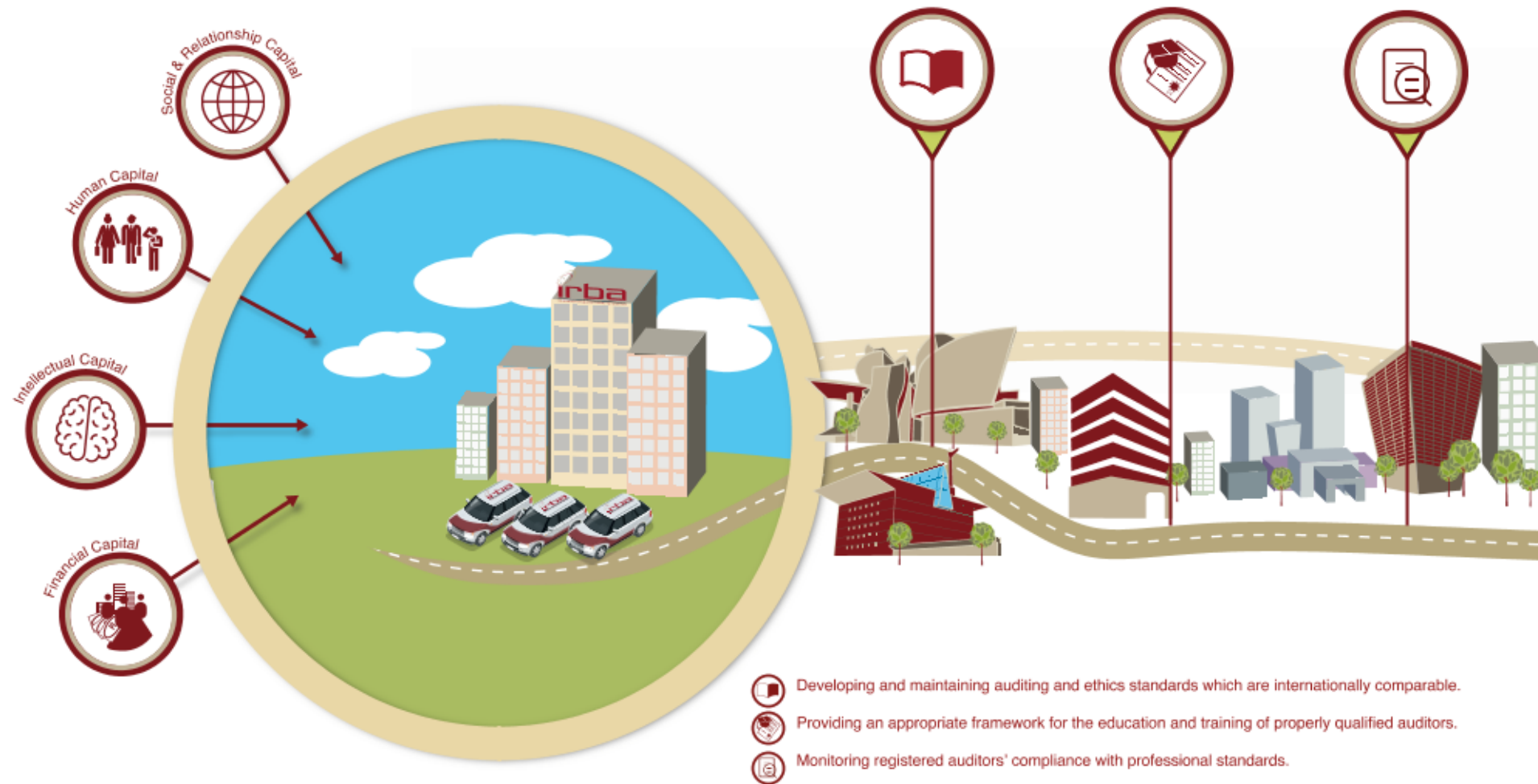
Although the Strategic Plan builds on our legislative mandate, it also includes strategic focus areas to strengthen our regulatory processes. However, these focus areas, which we

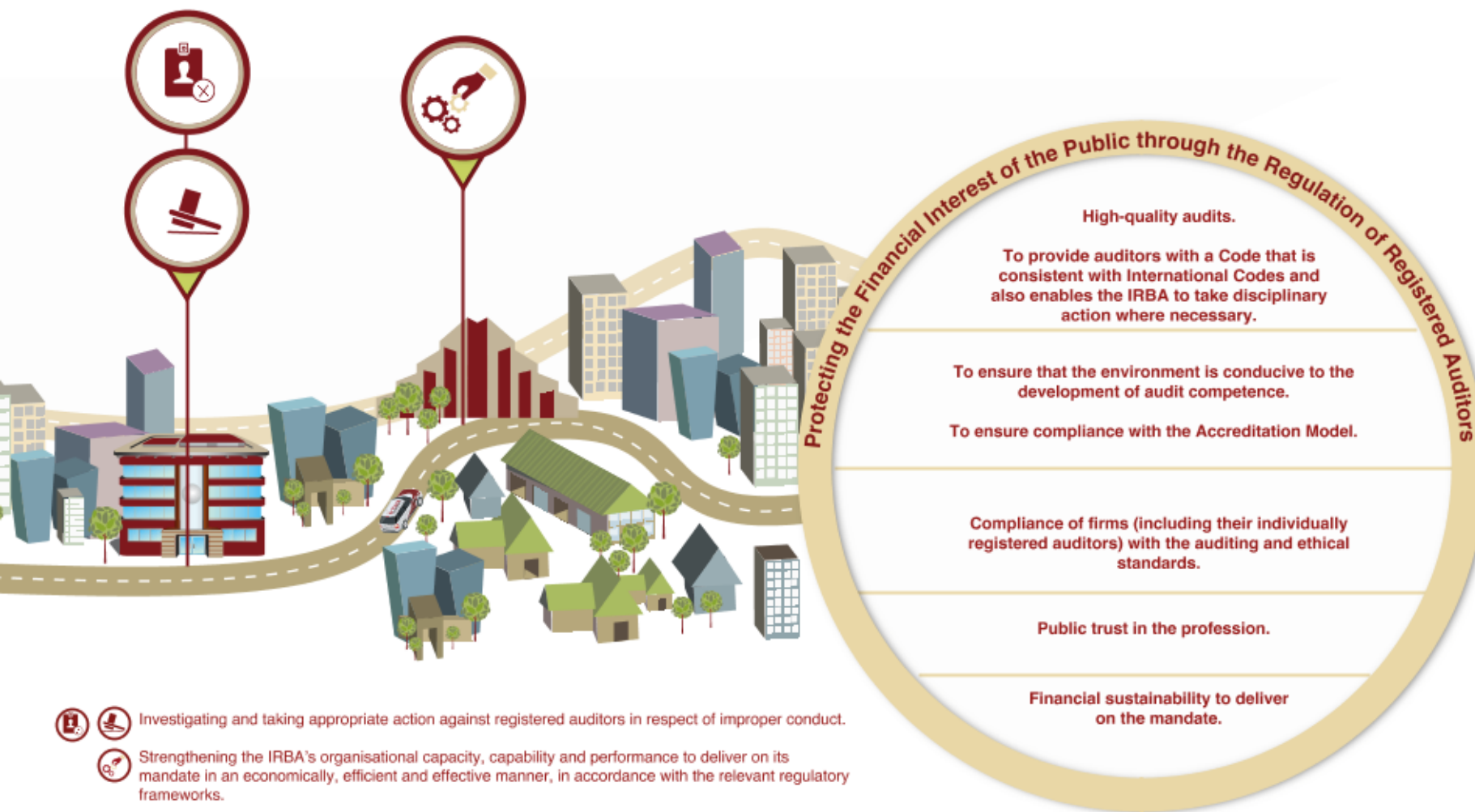
refer to as Programme 2 – The Four Pillar Strategy, might not arise from our founding legislation from which our Programme 1 strategic focus areas are drawn. Nevertheless, they support government's national priorities, which are in line with the World Bank's Report on the Observance of Standards and Codes (ROSC): Accounting and Auditing 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 registered auditors (RAs).

The Four Pillar Strategy, as discussed above, supports government's national priorities, which are in line with the ROSC recommendations.



BUSINESS MODEL





MATERIAL ISSUES

MATERIAL ISSUE	WHY ITS A MATTER 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 rate among engagement files and audit firms, which suggests that high-quality audits are not always delivered.	Loss of confidence in the profession.	<ul style="list-style-type: none"> • The Remedial Action Process is formally included in the Seventh Inspection Cycle process. • Inspections report tone reflects the recurring themes that require improvement. • Research into the revision of the CPD policy has commenced. A survey of a few RAs has been done. • Take steps to encourage transparency reporting by audit firms. • MAFR to strengthen the independence of auditors. • Audit quality indicators (AQIs) project to assist audit committees. • Continuous awareness raising and engagement with regulators and the public sector. • Revisions to quality control standards: ISQC 1, ISQC 2, ISA 220. • Developed a strategy to restore confidence in the profession. • Guidance on assurance of emerging forms of external reporting. • Guidance on assurance of sustainability reports. • Revision of ISA 315 on risk assessment. • Revision of ISA 540 on the auditing of estimates.
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 with regards to the value of the IRBA, the registered auditors (RAs) 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"> • Investigations are strengthened to ensure that action is taken against noncompliant auditors. The current fines structure and other measures have been amended. • The Accountant-General or a representative attends Board meetings and assists the IRBA in addressing issues with National Treasury when support is required. • The Stakeholder Engagement and Communication Plan includes promotion of the value of audit and awareness of the IRBA.

MATERIAL ISSUE	WHY ITS A MATTER ISSUE	RISK/OPPORTUNITY	RESPONSE
Regulatory approach and expanding our influence	Our regulatory approach in response to our operating environment requires regular reconsideration to ensure that we are meeting 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"> ● Remedial Action Process. ● Further enhancement of risk-based inspections. ● Seventh Cycle Strategy and Process implemented (with a focus on leadership responsibilities). ● Regularly communicate with RAs through communiques and the quarterly IRBA News and emails to make them aware of changes. ● Consult with professional bodies, including those not accredited, on changes in the IRBA's accreditation model. ● Effective and improved monitoring process as per the accreditation model. ● Well-researched monitoring standards and indicators. ● Oversight RAs (ORAs) orientation meetings held with all ORAs to afford firms the opportunity to comment on standards, indicators and monitoring processes. ● Robust investigations and disciplinary processes.
Loss of confidence in the profession	Auditors sell confidence; if trust is lost in the quality of audit opinions, the country's ability to attract investment is impaired.	<ul style="list-style-type: none"> ● Opportunity to improve audit profession and ensure that it meets investor expectations. ● Opportunity to address the expectation gap. 	<ul style="list-style-type: none"> ● Restoring confidence strategy which looks at projects to improve audit quality, auditor behaviour, and audit standards for firm quality. ● Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) amendment process to strengthen the oversight of the regulator. ● Engagement with stakeholders to understand expectations. ● Education of the public on the role of the auditor, value of audit and the role of the regulator.
Value of audit	If investors lose confidence in opinions, they will seek other forms of assurance and the continued relevance of audit may be questioned.	<ul style="list-style-type: none"> ● Risk from technology solutions such as blockchain and others that may change the assurance model. ● Opportunity to revisit the audit product and make improvements to meet user expectations. 	<ul style="list-style-type: none"> ● Review of audit standards. ● Implementation support to operationalise standards within firms and engagements. ● Review of disruptive technologies. ● Zero tolerance for poor audit quality. ● Proactive remedial action interventions. ● Real-time monitoring project which allows for faster remedial interventions. ● Audit committee education. ● Transparency Reports by audit firms. ● More specific Annual Inspections report based on the Seventh Cycle Inspections methodology.

MATERIAL ISSUE	WHY ITS A MATTER ISSUE	RISK/OPPORTUNITY	RESPONSE
Ethics/Independence	A lack of independence and weak ethics compromise auditor behaviour.	<ul style="list-style-type: none"> • Insufficient professional scepticism. • Auditors not comfortable to challenge clients. • Continuance of engagements where the client is unethical. • Poor audit quality. • Professionalism suffers due to commercial focus and motivation. 	<ul style="list-style-type: none"> • Changed sanctions approach at consent order level to introduce naming and shaming. • Applying other non-monetary sanctions to enhance behavioural change. • Stricter handling of matters relating to poor quality and repeat offenders. • Disciplinary process to be revised and simplified, with less focus on the legal process and more on audit. • Government funded support for the increased number of disciplinary hearings on public interest entity (PIE) matters. • Review of the Code of Professional Conduct and guidelines to the enhancements. • Requirements of reporting on non-compliance with laws and regulations (NOCLAR). • New provisions on threats and safeguards in the Code of Professional Conduct.
Capacity at the IRBA	Insufficient capacity could negatively affect the performance and results of the regulator.	<ul style="list-style-type: none"> • Risk that the regulator is perceived as ineffective and inefficient. • Results in lack of respect and limited responses from the firms to regulatory interventions and remediation. • Delays auditor behaviour change. • Consequently, regulatory response will have reduced impact on improving audit quality and trust in auditors. 	<ul style="list-style-type: none"> • Business process review underway to ensure processes are aligned to maximise efficiency and effectiveness and allow for more flexible use of resources. • Support from National Treasury and government funding of disciplinary hearings on PIE matters. • Support from National Treasury for additional capacity. • Act amendments process underway to strengthen the powers of the regulator. • Monetary sanctions limits will be changed to allow the Minister of Finance to determine the limit of fines.
Power of social media	Increased public interest in the work of auditors and the oversight role of the regulator has heightened social media focus on the profession.	<ul style="list-style-type: none"> • Reputational risk to firms and the regulator. • Opportunity to address misperceptions and educate the public. 	<ul style="list-style-type: none"> • Daily and weekly monitoring of social media in addition to regular media and publicity monitoring. • Monthly benchmarking of public sentiment. • Appropriate and timely media relations response to address misperceptions and share accurate information. • Respond proactively to media requests for information. • Spokesperson and media policy.

HOW OUR GOVERNANCE SUPPORTS OUR STRATEGY AND VISION

The Board members are all non-executive members appointed by the Minister of Finance, after following the nominations process in accordance with the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA). The Board members are appointed based on their skills and experience, while there is a focus on independence and public protection.

The Board governs the IRBA in accordance with the provisions of the APA and the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). We, in line with our policy to adhere to best practice, considers the King IV Report on Corporate Governance (King IV) as additional guidance. During the period under review, no material issues were identified to suggest flaws in governance.

BOARD RESPONSIBILITIES

The collective knowledge, expertise and experience that our Board members and management bring are some of the key factors that help us to effectively perform our regulatory responsibilities.

The Board, in discharging its responsibilities, is assisted by the following subcommittees:

- Audit and Risk Management Committee (ARMCO);
- Operations Committee (OPSCOM); and
- Disciplinary Advisory Committee (DAC).

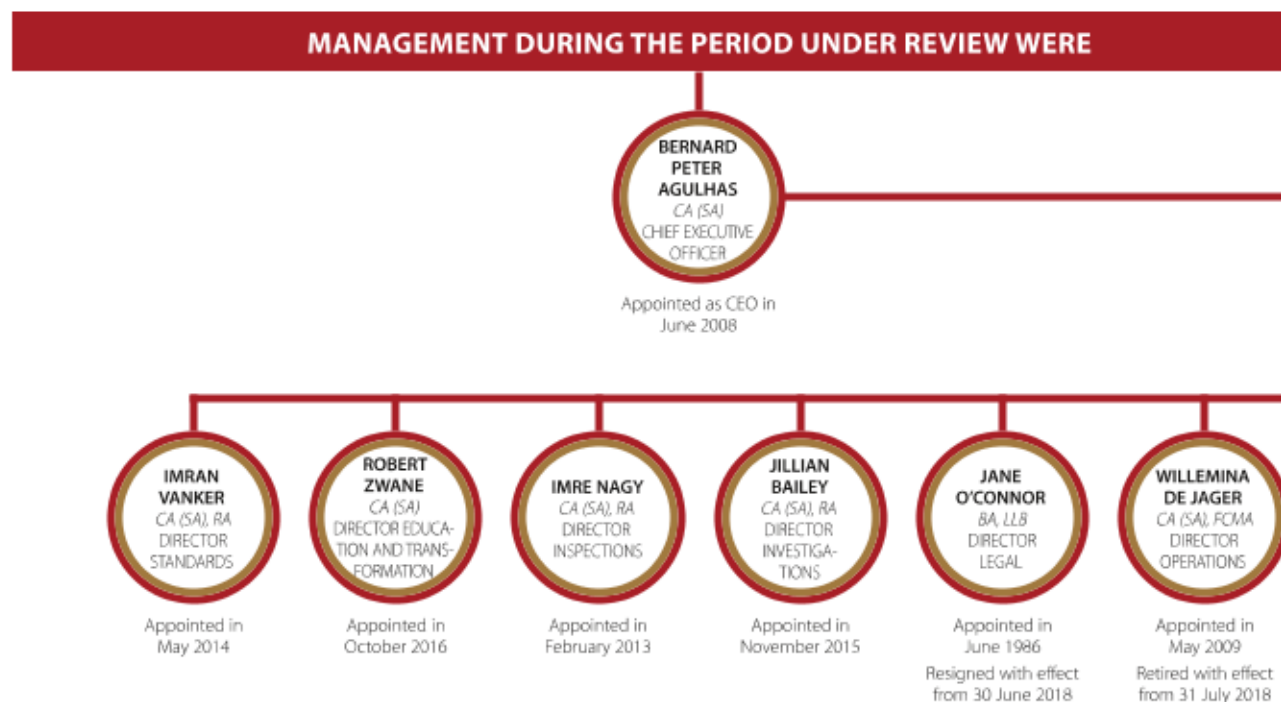
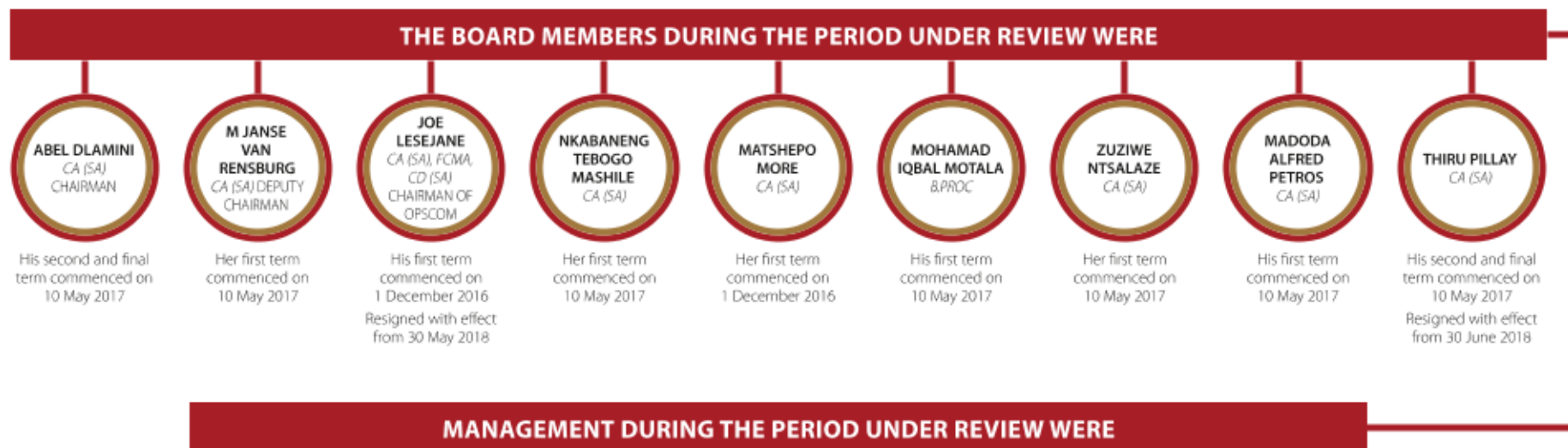
These subcommittees operate in accordance with the terms of reference approved by the Board.

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 the following statutory committees:

- Committee for Auditor Ethics (CFAE);
- Committee for Auditing Standards (CFAS);
- Education and Transformation Committee (EDCOM);
- Inspections Committee (INSCOM);
- Investigating Committee (INVESCO); and
- Disciplinary Committee (DISCOM).

The composition and responsibilities of these statutory committees, which consist of external parties, are prescribed in the various sections of the APA.





CORPORATE GOVERNANCE ENVIRONMENT IN RELATION TO THE KING IV REPORT ON CORPORATE GOVERNANCE

The consideration and application of the recommended practices are proportionally in line with the IRBA's size and resources, as well as the extent and complexity of its activities.

PRINCIPLE 1	EXPLANATION
LEADERSHIP The Board should set the tone and lead ethically and effectively.	The Board members hold one another accountable for decision-making and act in a way that displays the ethical characteristics stated in King IV. The chairman of the Board has been tasked to monitor this as part of his duties. Also, we have scheduled performance assessments of individual Board members, and these include peer evaluations of their ethical behaviour.
PRINCIPLE 2	EXPLANATION
ORGANISATIONAL ETHICS The Board should ensure that the organisation's ethics are managed effectively.	Our guiding values are independence, integrity and objectivity. Our code of conduct is applicable to employees and is also part of contractual arrangements with parties in the supply chain. Behavioural competency evaluations of employees also include an assessment of ethical conduct and a consequence management system is in place to address breaches.
PRINCIPLE 3	EXPLANATION
RESPONSIBLE CORPORATE CITIZENSHIP The Board should ensure that the organisation is a responsible corporate citizen.	We strive to integrate responsible corporate citizenship as part of the way we do things, and performance measures in respect thereof are shared across functions and the departments. The Board oversees and monitors (using agreed performance indicators and targets) our status as a good corporate citizen in areas such as compliance, stakeholder perceptions and employment equity in line with our Strategic Plan. Compliance is monitored by the compliance officer. Quarterly reports are submitted to management, ARMCO and the Board.
PRINCIPLE 4	EXPLANATION
STRATEGY AND PERFORMANCE The Board should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.	The Board steers and sets our direction, purpose and strategy. Management has been delegated with the formulation of the Strategic Plan. During the process, risks and opportunities, resources and relationships, among others, are considered. Through the Board and the relevant committees there is ongoing assessment and response to any negative consequences for the economy and public interest in general.
PRINCIPLE 5	EXPLANATION
REPORTING The Board should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.	This report and the annual report provide users with a holistic, clear, concise and understandable presentation of our performance in terms of sustainable value creation in the economic, social and environmental context within which we operate. To further refine our performance regarding this principle, we are actively soliciting input from key users of our reports so as to enhance our reporting.
PRINCIPLE 6	EXPLANATION
PRIMARY ROLES AND RESPONSIBILITIES OF THE BOARD The Board should serve as the focal point and custodian of corporate governance in the organisation.	These roles and responsibilities are documented in the Board charter, reflected in the work plan and executed through the duties and decision-making with which Board members are tasked.

PRINCIPLE 7	EXPLANATION
COMPOSITION OF THE BOARD <p>The Board should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.</p>	<p>During the period under review, the Board, with the OPSCOM, considered its composition in terms of balance of power, skills, experience, diversity, independence and knowledge, including whether all this enables it to effectively discharge its role and responsibilities. It did this when submitting the short-list of nominations for the new Board to the Minister for approval. As a result of this consideration, the Board identified that there was a need for more diversity to add depth to discussions. A Request for Nominations was published in the Government Gazette and national newspapers to ensure a variety of submissions. In January 2018, the Board approved a skills matrix for the Board and Statutory Committees.</p>
PRINCIPLE 8	EXPLANATION
COMMITTEES OF THE BOARD <p>The Board should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.</p>	<p>Membership of the committees is as recommended in King IV. The composition of the committees and the distribution of authority between the respective chairs and other individuals lead to neither the chairs nor any other individual(s) being able to dominate decision-making or cause undue dependency on such individual(s).</p>
PRINCIPLE 9	EXPLANATION
EVALUATION OF THE PERFORMANCE OF THE BOARD <p>The Board should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.</p>	<p>Discussions by the Board on its performance and that of its committees, its chair and its members is scheduled for July 2018, a period under review after its appointment. This appraisal is conducted once during the two-year term of the Board. The first external performance evaluation of the Board is scheduled for September 2018. A detailed delegation of authority is in place. The CEO does not have work commitments outside the organisation. Refer to page 18 for the executive structure, including the role and relevant qualifications of each executive member. We appointed a Board Secretary with the requisite knowledge and experience. The Board Secretary's performance is assessed by the CEO every period under review. The CEO is satisfied that the Board Secretary and the functions that she oversees are performing well.</p>
PRINCIPLE 10	EXPLANATION
APPOINTMENT AND DELEGATION TO MANAGEMENT <p>The Board should ensure that the performance evaluations of the Board, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness.</p>	<p>Assessments of the performance of the CEO, management and the Board Secretary, are conducted annually. It is the opinion of the Board that it, and its structures, should function in an integrated manner. The Board, with the assistance of the Board Secretary, continues to take a holistic view of its charter.</p>
PRINCIPLE 11	EXPLANATION
RISK GOVERNANCE <p>The Board should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.</p>	<p>The Board sets the approach for risk governance within the IRBA. ARMCO has been tasked to assist the Board with the governance of risk and has approved the risk management policy. As risk management permeates all aspects of the operations of the organisation, risk is overseen at executive level and continuously assessed by the accounting authority.</p>

PRINCIPLE 12	EXPLANATION
TECHNOLOGY AND INFORMATION GOVERNANCE The Board should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.	The Board assumes responsibility for the governance of technology and information by setting the direction for how technology and information should be approached and addressed in the organisation to achieve its strategic objectives. Information governance documents and policies for technology and information are in place and approved by ARMCO, which has been delegated with the responsibility over information technology governance.
PRINCIPLE 13	EXPLANATION
COMPLIANCE GOVERNANCE The Board should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.	Compliance with all applicable laws is governed by the Board in a way that allows us to achieve our strategic objectives and also allows us to be an ethical and good corporate citizen. There were no regulatory penalties, sanctions or fines for contraventions of, or noncompliance with, statutory obligations.
PRINCIPLE 14	EXPLANATION
REMUNERATION GOVERNANCE The Board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.	The Board ensures that we remunerate fairly, responsibly and transparently so as to promote the achievement of our strategic objectives and positive outcomes in the short, medium and long terms.
PRINCIPLE 15	EXPLANATION
ASSURANCE The Board should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.	This report gives detailed information on assurance provided. The disclosure by the ARMCO on internal financial and reporting controls is also included in this report. A Combined Assurance Plan was approved by the Board in May 2018.
PRINCIPLE 16	EXPLANATION
STAKEHOLDERS As part of its decision-making in the best interests of the organisation, the Board should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.	We have identified key stakeholder groupings as well as their legitimate and reasonable needs, interests and expectations. Stakeholder relationship programmes have been developed to ensure continual engagement. Also, strict requirements and processes have been developed for the dissemination of content to our stakeholders.

HOW DO WE ADD VALUE?



STAKEHOLDER ENGAGEMENT AND MEDIA RELATIONS

STAKEHOLDER ENGAGEMENT

We regard ongoing engagement with stakeholders as an integral part of our business and a crucial ingredient in building collaborative and constructive relationships that can benefit all stakeholders. We continue to engage with all our stakeholders and have identified others that we need to build relationships with in order to create more awareness on our role as an audit regulator and protector of the financial interests of the public.

We rely on stakeholders to implement our legislative mandate and our Four Pillar Strategy. Our role as the independent audit regulator and standard setter is central to the various stakeholders on whom our respective functions have an impact. These include government, Parliament, National Treasury, the Minister of Finance, registered auditors (RAs), investors, regulators, international bodies, professional accountancy bodies, universities, the media, the public and staff.

Our role within the financial value chain is to protect the financial interests of the South African public through the effective regulation of registered auditors. This value chain extends from the universities that educate accountancy graduates, the audit firms that train these graduates and other regulators that have oversight in the financial sector, such as the Johannesburg Stock Exchange, all of whom work towards a common goal of protecting the financial interests of investors and the South African public.

We, through our activities and regulation of the auditing profession, have an impact on the reliability and sustainability of the South African economy, which, in turn, promotes investment and job creation.

The table below reflects the broad range of stakeholders with whom we engage, the nature of those relationships, the risks being addressed and the issues dealt with.



STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	FREQUENCY OF ENGAGEMENTS
Legislative Authority Parliament Minister of Finance National Treasury	<ul style="list-style-type: none"> ● Oversight of our mandate. 	<ul style="list-style-type: none"> ● Implement mandate. ● Economic stimulation. ● Build investor confidence. ● Restore confidence in the auditing profession. 	<ul style="list-style-type: none"> ● Lack of understanding of our mandate. ● Inadequate funding. ● Inability to deliver on mandate and perceived to be ineffective. ● Independence perceived as compromised. 	<ul style="list-style-type: none"> ● Strengthening the IRBA with resources and legislative mandate to enable effective implementation of the mandate. 	<ul style="list-style-type: none"> ● Public consultation process for Mandatory Audit Firm Rotation. Proposed amendments to the APA, with a focus on strengthening sanctions and a review of resource allocation by National Treasury. 	<ul style="list-style-type: none"> ● We appeared before parliament six times during the period under review. ● We engaged with the Minister of Finance seven times during the period under review. ● We engaged with National Treasury more than 10 times during the period under review.
Registered Auditors and Audit Firms	<ul style="list-style-type: none"> ● Ensure an ethical, competent and globally respected profession. 	<ul style="list-style-type: none"> ● Requirements for registration. ● High-quality audit and ethics pronouncements. ● Improved audit quality. ● Monitor compliance. ● Investigations and sanctions to maintain independence and the credibility of the profession. ● Support in restoring confidence and trust in the profession. 	<ul style="list-style-type: none"> ● Unregulated profession. ● Credibility of the profession compromised. ● Profession perceived to be part of a corrupt system. ● Inadequate audit product – users not happy with audit products. 	<ul style="list-style-type: none"> ● Decline in audit quality, as shown in the Inspections Report. ● Profession affected by scandals and its reputation coming under the spotlight. Concerns on slow transformation (race and gender) in the profession. 	<ul style="list-style-type: none"> ● Seventh cycle inspection focus on leadership responsibility. ● The Board approved a strategy to restore the confidence and trust in the profession. ● We conducted transformation survey to get a better understanding of the transformation challenges. 	<ul style="list-style-type: none"> ● We engaged with audit firm leadership on more than 15 occasions during the period under review. This excludes the firm engagements conducted by directors and other staff members of the IRBA focusing on specific operational matters. ● We conducted four transformation workshops in four of the major cities Johannesburg, Pretoria, Durban and Cape Town.

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	FREQUENCY OF ENGAGEMENTS
Auditor-General South Africa	<ul style="list-style-type: none"> Contribute to quality audits in the public sector. 	<ul style="list-style-type: none"> Collaboration on technical audit and assurance issues. Public protection and guidance issued to RAs conducting audits on behalf of the Auditor General 	<ul style="list-style-type: none"> Risk of audit failures in public sector engagements performed by RAs. Reputation of the audit profession negatively affected. Quality of audit product by RAs not acceptable to the AG. 	<ul style="list-style-type: none"> Public protection and guidance issued to RAs. 	<ul style="list-style-type: none"> Collaboration in restoring the confidence and trust in the auditing and accountancy profession. Support provided by our Inspections Department to the AGSA's quality function. Cooperation in the public sector standard-setting activities. 	<ul style="list-style-type: none"> We had more than 10 engagements with the Auditor-General and the deputy auditor general.
International Standards Setting Bodies (IAASB, IESBA, IAESB, IASB)	<ul style="list-style-type: none"> Influence the development of international standards. 	<ul style="list-style-type: none"> Expertise in technical areas. Submission of comments on exposure drafts and discussion papers. Facilitate adoption, implementation and monitoring of new standards issued. Lessons learnt on how South Africa is managing the current crisis faced by the profession. 	<ul style="list-style-type: none"> Quality of pronouncements issued may be inappropriate for our jurisdiction. Local implementation guidance may be required. 	<ul style="list-style-type: none"> Our expertise in standard setting has been acknowledged and recognised globally. 	<ul style="list-style-type: none"> Our staff members serve on various standard-setting boards and influence international standards-setting processes through their expertise and technical knowledge. Local guidance issued to support implementation of standards. 	<ul style="list-style-type: none"> We attended all meetings of the International Standard Setting Bodies.
International Audit Regulators (IFIAR)	<ul style="list-style-type: none"> Share knowledge, benchmark and collaborate. 	<ul style="list-style-type: none"> Shared expertise. Participation in international meetings and workshops on audit regulation. Views on developments in global auditing standards. Lessons learnt on how South Africa is managing the current crisis in the profession. 	<ul style="list-style-type: none"> Ineffective inspection processes and compliance monitoring. Decline in audit quality and continued regress on inspection results. Proactive response not achieved. 	<ul style="list-style-type: none"> Our expertise in regulation recognised. Concerns on global trends of declining audit quality. Impact of regulators in sustaining confidence in regulatory functions 	<ul style="list-style-type: none"> IFIAR Board has set up various task teams to look at effectiveness of regulation and trust in the auditing profession. 	<ul style="list-style-type: none"> We attended all board meetings including participating in sub-group teleconferences and plenary sessions.

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	FREQUENCY OF ENGAGEMENTS
Accredited Professional Bodies (SAICA)	<ul style="list-style-type: none"> Source of the pipeline of registered auditors. Setting competency requirements. Monitoring accreditation compliance. 	<ul style="list-style-type: none"> Accreditation and monitoring. Technical knowledge and advice. Influencing and issuing of Education, Ethics and Assurance Standards. Compliance training for standards. 	<ul style="list-style-type: none"> Knowledge, skills and competencies inappropriate for RAs. Transformation in the auditing profession remains a challenge. Lack of oversight over CAs (SA) proving to be a challenge in the market. 	<ul style="list-style-type: none"> The auditing and accountancy profession came under the spotlight with the emergence of the scandals involving CAs. 	<ul style="list-style-type: none"> We have strengthened our monitoring of SAICA and continue to engage with SAICA on its disciplinary processes. We participate in SAICA committees that serve to improve the quality of work delivered by SAICA members. 	<ul style="list-style-type: none"> We had more than 10 engagements with SAICA to discuss various matters affecting the profession and the pipeline of registered RAs.
Students Universities Audit Firms	<ul style="list-style-type: none"> 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"> Encouragement and support. Partnership on audit programmes. Research on the future of the profession. 	<ul style="list-style-type: none"> Stagnant growth in the profession. Lack of transformation. Lack of interest in pursuing a career as an auditor due to challenges faced by the profession. 	<ul style="list-style-type: none"> The regulator needs to do more to protect the reputation of the profession and to make the profession attractive to young people. Curriculum review to enhance competence of future auditors. 	<ul style="list-style-type: none"> We participated in career days and presented lectures at various universities on the importance of auditing and regulation. 	<ul style="list-style-type: none"> We engaged 28 times with universities through career days and speaking opportunities.
Professional Bodies Driving Transformation (ABASA, AWCA)	<ul style="list-style-type: none"> Drive transformation of the profession. 	<ul style="list-style-type: none"> Transformation of the accounting and auditing profession. Developments and initiatives – ADP. 	<ul style="list-style-type: none"> Slow pace of transformation of auditing profession. Negative perceptions of the risks associated with auditing. CA charter limitations to transformation targets. 	<ul style="list-style-type: none"> Discrimination faced by black and female CAs in the work environment is the cause of lack of transformation. 	<ul style="list-style-type: none"> We conducted an independent transformation survey to understand the root causes of lack of transformation. These were followed by workshops in major centres to discuss the outcomes of the survey with the firms. 	<ul style="list-style-type: none"> We engaged seven times with professional advocating for transformation of the profession.
Other Local Regulators and Enforcement Agencies	<ul style="list-style-type: none"> Share knowledge, benchmark and collaborate on mandates and enforcement. 	<ul style="list-style-type: none"> Expertise and guidance. Awareness of investigations and disciplinary actions. Communication of reportable irregularities (RIs) reported. 	<ul style="list-style-type: none"> Ineffective monitoring. Regulations that are difficult to implement or enforce. Enforcement not achieved. RIs not reported timeously. 	<ul style="list-style-type: none"> Co-operation and sharing of information to achieve their different mandates of protecting the investing public. 	<ul style="list-style-type: none"> We have entered into Memoranda of Understanding with other regulators for the sharing of information and co-operation. 	<ul style="list-style-type: none"> We engage on a quarterly basis with different regulators.

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	FREQUENCY OF ENGAGEMENTS
Government Various Departments and Ministries	<ul style="list-style-type: none"> ● Obtain support for our mandate and initiatives. ● Monitor regulatory developments affecting RAs. ● Communicate RIs. 	<ul style="list-style-type: none"> ● Expertise and guidance. ● Comments on draft legislation. ● Agreement on audit and reporting requirements for RAs. 	<ul style="list-style-type: none"> ● Legislative non-compliance. ● Ineffective regulations. ● Absence of government support. ● Lack of understanding of our mandate. 	<ul style="list-style-type: none"> ● Clear guidance on our role and sharing of information. 	<ul style="list-style-type: none"> ● Sharing information, within the confines of the legislated mandate. ● Cooperation on the processing of RIs, where relevant. 	<ul style="list-style-type: none"> ● We engaged on a quarterly basis with government departments on the RI process.
Investors and the Public	<ul style="list-style-type: none"> ● Create awareness of our role and value in the financial markets. 	<ul style="list-style-type: none"> ● Expertise and guidance. ● Hold RAs accountable for the quality of the audit product. ● Enforcement of our mandate – especially regarding investigations and disciplinary proceedings. 	<ul style="list-style-type: none"> ● Failing to meet the expectations of the market, thereby increasing the expectation gap. ● Lack of understanding of the audit function and what it is. ● We are perceived to be ineffective. ● RAs perceived to be part of a corrupt system. ● Lack of trust in the profession 	<ul style="list-style-type: none"> ● Ineffective regulator and expectations gap on the role of auditors and us. 	<ul style="list-style-type: none"> ● Educating and creating awareness on our role and our legislative mandate. ● Proactive communication and messaging on matters affecting the public. ● Improve public perception and address the expectation gap on the role of the auditors and what the public expects the auditor to do. 	<ul style="list-style-type: none"> ● We engaged with investor representatives through the CFO Forum, ASISA, the Audit Committee Forum and individual company directors.
Media (Local and International)	<ul style="list-style-type: none"> ● Inform and create awareness of our mandate and branding. ● Address public concerns regarding the auditing profession. 	<ul style="list-style-type: none"> ● Credible and timeous information. ● Create awareness on our work and the profession. 	<ul style="list-style-type: none"> ● Inaccurate media reports. ● Brand reputation. ● Ill-informed public and undue expectations of the profession. ● Negative public perception of the profession. 	<ul style="list-style-type: none"> ● We are deemed ineffective and not transparent by the media due to lack of awareness of our role. 	<ul style="list-style-type: none"> ● Educating and creating awareness on our role and our legislative mandate. ● Proactive communication and messaging on matters affecting the public. ● Improve public perception and engagement with the media. 	<ul style="list-style-type: none"> ● Refer to media relations section

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	FREQUENCY OF ENGAGEMENTS
Staff	<ul style="list-style-type: none"> ● Informed staff. ● Consistent and professional service orientation. 	<ul style="list-style-type: none"> ● Ongoing communication and consultation. ● Ability to raise concerns and address expectations. ● Equity in remuneration and training opportunities. 	<ul style="list-style-type: none"> ● Low productivity. ● Lack of commitment to the mandate. ● Ill-informed staff. 	<ul style="list-style-type: none"> ● Lack of information and commitment to the values and mandate of the IRBA. 	<ul style="list-style-type: none"> ● Actively engage staff on our role and our mandate and keep them informed at all times. 	<ul style="list-style-type: none"> ● Monthly staff meetings, staff wellness programmes and quarterly newsletter used to engage staff.
Regional Partners	<ul style="list-style-type: none"> ● Good governance on the continent. ● Encourage independent audit regulation. 	<ul style="list-style-type: none"> ● Share expertise in standard setting and regulation. ● Assistance with the process of establishing independent audit regulators. ● Form a regulators' body to align regulation on the continent. 	<ul style="list-style-type: none"> ● Non-aligned profession on the continent. ● Delays in implementing audit regulation. 	<ul style="list-style-type: none"> ● Cooperation among different countries on matters related to independent audit regulations and good corporate governance practices on the continent. 	<ul style="list-style-type: none"> ● Strengthening corporate governance on the continent and promoting independent regulation. 	<ul style="list-style-type: none"> ● We are the founding member of the African Forum of Independent Audit and Accounting Regulators and has signed an MOU with Namibia Public Accountant and Auditors Board. We continue to support several African countries through hosting study tours and engagements with their boards.
Financial Reporting Standards Council (FRSC) and the Financial Reporting Technical Committee (FRTC)	<ul style="list-style-type: none"> ● To facilitate the adoption and implementation of International Financial Reporting Standards (IFRS). ● To further facilitate the development of guidance and accounting standards for South African specific circumstances. 	<ul style="list-style-type: none"> ● To provide a secretariat function to the FRSC and the FRTC. 	<ul style="list-style-type: none"> ● Reputation risk to the accounting profession as well as lack of sound and consistent accounting practices. 	<ul style="list-style-type: none"> ● Lack of capacity within the department to perform a secretariat function for the FRSC and the FRTC due to the technical nature of the council and the committee. 	<ul style="list-style-type: none"> ● We provide a secretariat function to the FRSC and the FRTC. 	<ul style="list-style-type: none"> ● Engagements as per set meeting schedule.

MEDIA RELATIONS

The media relations and communication functions were initially focused on the outcomes of the consultation process around the draft rule to strengthen auditor independence through MAFR.

The rule was announced on 2 June 2017 by then Minister of Finance, Hon Malusi Gigaba. Coverage of the announcement was significant, generating a new record media value.

With this being the first significant link of an auditor to allegations of state capture, and because of greater awareness around us and our role, we handled numerous media enquiries on the responsibility of auditors. From July to October 2017 every opportunity was used to educate the public on our role and the role of auditors in protecting the financial interests of the public through the regulation of registered auditors (RAs), and also to address any misperceptions that arose.

For the first time, social network mention of us increased dramatically. Where interest in audit and auditors had been largely in the financial space, the profession became part of the national conversation. Social activity exceeded in volume beyond what could be generated in editorial or broadcast interviews.

Monitoring the tone and quality of online discussions and ensuring the positive news generated by editorial reporting translated into social media discussions became a focus. This was closely managed and editorial coverage remained largely neutral, fair and accurate in reference to us. This helped to mitigate any negative conversations on social platforms.

While media activity slowed in November 2017 as interest in KPMG waned, early in December 2017 Steinhoff collapsed, wiping out billions of value for investors in the stock exchange. The crisis of confidence in auditors reached a new low. By the middle of December 2017, we initiated an investigation into Deloitte South Africa after Steinhoff indicated that the preceding years' annual financial results would be restated.

The Board had anticipated the criticism and loss of confidence and had requested that a strategic plan be drafted in November 2017 to address public perceptions, shape a new conversation around auditing and to help the profession adapt to the changed landscape.

For the first few months of 2018, we worked on the above strategic plan to restore confidence in the public interest role of us and auditors. Many of the activities included in the strategic plan, which management and the Board regarded as integral to restoring confidence in the profession, were already projects that were underway at the IRBA. These projects were all reviewed, with consideration for the Board's directive to focus on those key activities that would help us to meet the expectations of the public.

Critical projects were fast-tracked and others were prioritised. Fast-tracked projects included Audit Quality Indicators and Audit Firm Transparency Reports, both of which were expected to be released in the following financial period under review. The Auditing Profession Act Amendment Bill was fast-tracked and was with the Minister of Finance at the end of the period under review awaiting submission to cabinet. A review of the disciplinary rules and processes was also another project undertaken during this time.

We recognise that going forward, this is not the time to try to restore the status quo but to adapt and transform to address the questions and challenges the market is presenting. Part of this is listening to the market not only on what was expected from auditors but also from the audit product. Closing the expectation gap will rely on understanding what needs to change, a topic that is also a talking point among global audit regulators. We have a stakeholder approach to responding to the market and recognises that continuous improvement is part of this philosophy.

At the core of restoring the reputation of the profession is the auditors' ability to instil confidence in investors and the public again.

SETTING WORLD-CLASS STANDARDS



Imran Vanker (Director: Standards)

With effect from 1 January 2005, we adopted the entire suite of auditing standards issued by the International Auditing and Assurance Standards Board (IAASB). In 2010 we also adopted the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants and published it as the IRBA Code of Professional Conduct for Registered Auditors (RAs), with additional requirements for registered auditor (RA) 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.

The statutory committees, the Committee for Auditor Ethics (CFAE) and the Committee for Auditing Standards (CFAS), assist with carrying out this objective.

The CFAE does this by:

- Advocating for the implementation of the IRBA Code;
- Monitoring international developments and their effect on the South African environment;
- Risk identification and emerging issues; and
- Strengthening the membership of the CFAE.

For more on the auditing standards refer to <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-ras>

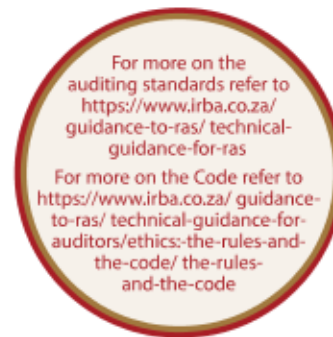
For more on the Code refer to <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/ethics-the-rules-and-the-code/the-rules-and-the-code>

For more on CFAE refer to <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/ethics-the-rules-and-the-code/committee-for-auditor-ethics>

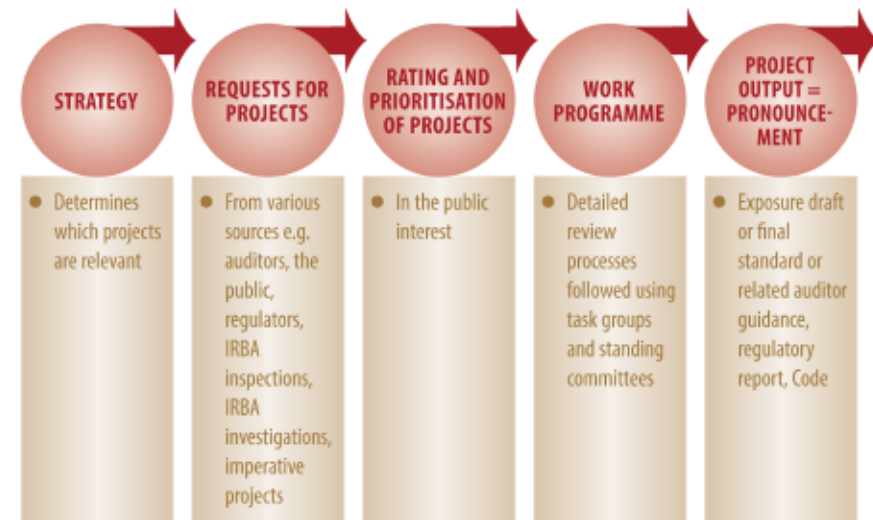


The CFAS does this by:

- 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.



A 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 that include auditing standards, practice statements, guides and the Code.



For 2016/2017, 18 projects of varying sizes were planned and completed, compared to seven for 2017/2018. Though they were fewer, the 2017/2018 projects were bigger in terms of time, resources and effort required.

The following projects and outreach activities were undertaken during the period under review:

INTERNATIONAL DEVELOPMENTS IN AUDITING PRONOUNCEMENTS

Comment letter on the proposed revised International Standard on Auditing (ISA) 540, Auditing Accounting Estimates and Related Disclosures.

HIGH-QUALITY LOCAL AUDITING PRONOUNCEMENTS

- Issue on exposure of the new South African Assurance Engagements Practice Statement (SAAEPS) 1, Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria. We regard this project as breaking new ground as it provides guidance on the application of International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, to assurance engagements on sustainability reports – a first in the world.
- Issue of revised South African Auditing Practice Statement (SAAPS) 2 (Revised 2018), Financial Reporting Frameworks and the Auditor's Report.
- Issue on exposure of the revised Guide on Access to Working Papers.
- Issue of a non-authoritative IRBA Staff Audit Practice Alert: Determining Other Information as Defined in ISA 720 (Revised) in the South African Context.

Ian Mtegha, a Professional Manager in the Standards Department, published an article titled "A Bird's Eye View of 'Other Information'" in the Accountancy SA magazine in March 2018. The article is available here: <https://www.accountancysa.org.za/a-birds-eye-view-of-other-information/>

REGULATORY AUDITING GUIDES AND REPORTS

- Illustrative ISAE 3420 report on Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, for the Johannesburg Stock Exchange (JSE).
- Repository on our website, as a central source of all guidance or other information currently available, issued by various organisations, regarding assurance on integrated reports.

INTERNATIONAL DEVELOPMENTS IN ETHICS STANDARDS

Comment letters have been submitted on all exposure drafts that the IESBA has issued, which are:

- Proposed Revisions Pertaining to the Offering and Accepting of Inducements.
- Seeking of Views on the Level of Fees Charged by Audit Firms.
- Proposed Guidance for Professional Scepticism and Professional Judgement.
- Strategic Review Survey.
- Exposure Draft on Proposed Changes Relating to the Use of Safeguards in the Code – Phase 2.
- Exposure Draft on Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2.

ETHICS STANDARDS AWARENESS-RAISING

Saadiya Adam, the Professional Manager: Ethics, published an article titled "6 Mythbusters on NOCLAR" in the Accountancy SA magazine in February 2018. The article is available here: <https://www.accountancysa.org.za/analysis-6-mythbusters-on-noclar/>

ETHICS STANDARDS AWARENESS – RAISING

CLARIFICATION, INTERPRETATIONS AND GUIDANCE REGARDING ETHICS STANDARDS

We issued Frequently Asked Questions on Non-Compliance with Laws and Regulations (NOCLAR) to support auditors in applying the IRBA Code amendments relating to NOCLAR, which became effective on 15 July 2017.

ETHICS STANDARDS UPDATES

- Final Amendments to the IRBA Code Addressing Long Association of Personnel with an Audit or Assurance Client.
- Final Amendments to the IRBA Code of Professional Conduct for Registered Auditors Relating to the Custody of Client Assets.

INTERACTION WITH SAICA

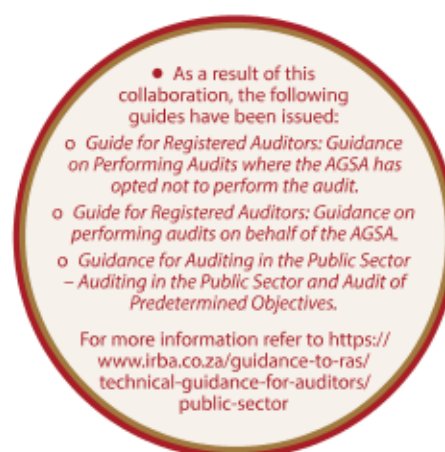
Our professional managers represents us on many of SAICA's industry project groups, as well as on its Assurance Guidance Committee. This sharing of knowledge assists in disseminating information through various channels. We have also collaborated with South African Institute of Chartered Accountants (SAICA) on the following projects:

- Representatives of the IAASB presented an information session on the most recent developments at the IAASB at SAICA on 5 May 2017. The information session focused on the IAASB's work around enhancing audit quality, and quality control.
- SAICA hosted a "2018 Feedback on the IAASB's quality control projects" information session on 22 February 2018. Imran Vanker and Nicolette Bester provided feedback on the quality control projects with regards to International Standard on Quality Control (ISQC) 1, ISQC 2 and ISA 220 in their capacities as IAASB member and technical advisor to the member respectively.

INTERACTION WITH THE PUBLIC SECTOR

The Auditor-General South Africa (AGSA) is our external auditor. 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 guidance to be provided to private sector auditors auditing in the public sector.



COLLABORATION WITH OTHER DEPARTMENTS

Our Standards Department consulted and was part of joint projects with the Inspections Department (such as the project on Audit Quality Indicators (AQIs)), all other departments (such as on the project on Comprehensive Regulation) and also collaborate with them and SAICA on addressing inspection findings.

We began a project in 2017 to develop a minimum set of AQIs for both internal use by us, specifically for risk analysis and business intelligence; and for external use as a tool for audit committees to assist in their oversight responsibilities of the external audit function. The project team consists of members from the Inspections and Standards departments. Consultations have taken place with a wide range of stakeholders, including audit firms, other regulatory bodies and audit committee members.

The next phase of the project involves further consultation with audit firms to refine the set of AQIs and the development of a vessel to report such AQIs. Further outreach will be made to relevant regulatory bodies with the aim to develop specific AQIs, for example, management and audit committee measures, which can be introduced into the financial reporting supply chain to improve overall audit quality.

EXTERNAL PARTICIPATION

Our involvement with other organisations locally and globally includes:

- Financial Reporting Standards Council (FRSC)/Financial Reporting Technical Committee (FRTC) – Secretariat to the FRSC and FRTC.
- Companies and Intellectual Property Commission (CIPC) – regarding interpretation issues in the Companies Act, 2008 (Act No. 71 of 2008).
- Meeting with heads of audit of audit firms regarding technical updates.
- Meeting with the heads of some of the new securities exchanges regarding the aligning of regulation and standard-setting awareness raising.

- Ad-hoc support for the Pan African Federation of Accountants (PAFA) Technical and Standard Setters Forum Steering Group. This provides a useful link to various institutions from countries in the rest of Africa, assisting with fulfilling our "Leadership in Africa" strategic pillar.
- Audit regulators and standard-setters from other African countries are invited to attend the CFAS meetings. This initiative has been well received.

VALUE-ADD FROM COMMITTEE MEMBERS

On the CFAS, five of the members are RAs and they are mainly from 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 they provide unique perspectives from their organisations to the committee, with a focus on the public interest. Two of the members are academics, lecturing in accounting and auditing.

On the CFAE, three of the members are RAs. Two represent different sized audit firms, 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, who represents 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.

Both the CFAS and the CFAE will be revisiting their strategies during the coming period under review, with the intention of responding appropriately in their work programmes to environmental factors in South Africa, and any relevant outcomes of our other regulatory functions.



TRANSFORMING AND MONITORING THE EDUCATION OF FUTURE REGISTERED AUDITORS

AUDIT DEVELOPMENT PROGRAMME

We have, as part of our mandate, the responsibility for ensuring that all registered auditors (RAs) are competent at entry to the profession and remain so throughout their professional lives. With the profession coming under scrutiny during the period under review, there have been calls to review the competency requirements for RAs. In this regard, the Audit Development Programme (ADP), played an important role. The ADP focuses on two aspects:

- The competencies of RAs; and
- The RA firms' quality control environment.

The competence assessment of an RA is through the evaluation of the registered candidate auditor's (RCA) portfolio of evidence. This means that the RCA is assessed on their experiential learning rather than through a written examination. This ensures that the RCA sees the practical issues involved in audit. The RCAs take more senior roles in the firms, ensuring that by the time they register as RAs they would have obtained audit experience at a more senior position. Also, they would have been involved in more complex audit matters and in how to deal with a team. With 134 candidates having registered for the ADP during the period under review, we see this as a move towards restoring the public's confidence in the profession. Numbers of candidates being signed-off from the ADP have also started to increase, with nine RCAs successfully completing the ADP during the period under review.

Of far more importance, however, is the developmental nature of the ADP. Firms that have RAs on the ADP are subjected to the IRBA's ADP monitoring activities through which firms are encouraged to improve their quality control structures. During the period under review 45 firms were monitored. The main finding at some of these firms was non-adherence to quality control and human resource policies. Based on the IRBA reports, firms with such findings are requested to submit action plans that detail their improvement plans. We have already seen some improvements in the quality structures of those firms that have already implemented their action plans.



Robert Zwane (Director: Education and Transformation)

COLLABORATION WITH NEIGHBOURING COUNTRIES

The ADP has also presented an opportunity to form close working relationships with our neighbouring countries, two of which have recently adopted the programme. During the period under review We hosted several ADP workshops in these countries. We continue to avail itself to meet with its counterparts in these countries for implementation discussions.

COMPETENCIES OF FUTURE RAS

In a period of rapid changes and where there is a widening gap on the expectations of the public regarding the role of RAs, we have to constantly review our RA competencies to ensure that RAs meet the demands of the ever-changing business environment. These changes include the growing use of technology, regular advances in technology and societal expectations around the role of the auditor. In this regard, we commissioned the University of Pretoria to conduct research into competencies required for RAs of the future. This is a joint project between us and the South African Institute of Chartered Accountants (SAICA). The output of this project will be a proposal of a competency framework that will be aimed at ensuring that RAs of the future continue to have the skills and competencies necessary to perform high-quality audits, while also serving the public's interests and the needs of the economy. Already, this research has raised the importance of, among others, the following:

- Data analytics;
- Ethical and professional behaviour;
- Analytical thinking;
- Citizenship; and
- Professional scepticism.

This research is scheduled to be completed at the beginning of 2019.

MONITORING OF ACCREDITED PROFESSIONAL BODIES

To ensure that those professional accountants who enter the ADP are competent at entry to the programme, We accredit and monitor professional bodies, in line with our

accreditation model. Currently, only SAICA is accredited by the IRBA. For the period under review, monitoring activities were completed for the continued assessment of SAICA's accreditation. In this regard, we monitored, through SAICA's monitoring activities, a number of accredited universities and training offices.

AUDIT EDUCATORS' WORKSHOP

Educators are perhaps the most important part in the development of RAs of the future. In this regard, we host a workshop with audit educators every two years. The objectives of the workshop are to raise awareness, share innovative ideas about teaching and learning models used in auditing and discuss the role of education in an ever-changing accountancy profession. On 15 March 2018 we hosted the workshop under the following theme: "How can education contribute towards rebuilding confidence in the profession?"

The workshop was attended by 44 delegates, representing most of the accredited universities and SAICA's training offices. At this workshop, our CEO addressed the delegates on the status of the profession and how the delegates could contribute to restoring the public's confidence in the profession. As a member of the International Accounting Education Standards Board (IAESB). He also presented on his project on Behavioural Competence. As part of the workshop agenda, the following delegates presented on the following topics:

- Prof Karen Barac (University of Pretoria): The Future Accountants and the Future Auditor.
- Patience Semanya (ACCA South Africa): The Accountant – The Future.
- Vanessa Van Dyk and Marelize Malan (University of Johannesburg): Pervasive Skills.
- Mandi Olivier (SAICA): Report from the GAA Education Directors Forum and the CA2025.
- Jason Bruhin (a successful RCA who recently completed the ADP): Is the ADP producing the RA of the Future?
- Izal van Loggerenberg (Deloitte), Alicia van der Walt (BDO) and Ms Khosi Hlongwane (EY): The Ethicality of CAs (SA) Serving on Boards. The three presenters are currently completing their second period under review of articles and they co-wrote an article that was published in the March 2018 issue of Accountancy SA as part of their academic work for 2017.

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

During the period under review, we continued with our initiatives aimed at raising awareness of the audit profession. These initiatives are important as they are also aimed at empowering learners and students in making informed career decisions. Our three-pronged approach in raising awareness is as follows:

- Raising awareness of the auditing profession among learners;
- Recruiting students to follow the audit and assurance training elective for their training programme; and
- Encouraging the retention of trainees in the auditing profession.

During the period under review we were involved in the following events, among others:

- Participated in four events aimed at learners.
- Attended 20 career fairs at different universities around the country.
- Delivered six talks at different universities around the country.
- Delivered 11 talks at different RA firms around the country.

We host workshops and round-table discussions around the country to promote the ADP. The following events were held:

- 27 ADP introductory visits at different RA firms.
- ADP workshops in all provinces.

As part of these activities, we also collaborate with other stakeholders such as SAICA and firms.

TRANSFORMATION

Transformation of the auditing profession remains critical to us. Although we rely on collaboration with other stakeholders, such as the audit firms, we developed a strategy that addresses areas where we could influence the advancement of transformation in the profession. It is, therefore, crucial that we remain solutions-focused to change the landscape of the profession. During the period under review we conducted workshops across the country with key stakeholders to discuss approaches in which transformation challenges can be addressed.



MONITORING REGISTERED AUDITORS' COMPLIANCE WITH PROFESSIONAL STANDARDS



Imre Nagy (Director: Inspections)

PRE-PLANNING

- Firm's Annual Declaration
- Annual Performance Plan
- Business intelligence (BI) risk analysis and report and risk-based selections (Firm/File)
- Financial Reporting inspection and report

PLANNING EXECUTION

- Scheduling of Firm and Engagement Inspections
- Complete information submitted to the IRBA
- Performing inspections
- Preliminary findings and discussion of findings with Engagement Partners
- Engagement Partners respond to preliminary findings
- Rigid internal Quality Review process
- Anonymous evaluation of inspection

REPORTING AND SUBMISSION TO INSCOM

- Anonymous reports submitted to INSCOM
- INSCOM determines final results
 - Satisfactory
 - Unsatisfactory – Reinspection
 - Unsatisfactory – Investigation
 - Conditional result
- Report INSCOM decision to Engagement Partners/Firm
- Reconsideration process available

REMEDIAL ACTION PROCESS (RAP)

- Remedial Action Plan required
- IRBA reviews Root Cause Analysis and Action Plan (RCAAP) and engages where necessary
- Follow-up inspections scheduled after 12-18 months of result
- Enhanced communication channels with firm Leadership/Engagement Partners
- Publish common findings in the Annual Inspections Report
- Feedback to stakeholders

The period under review marked the end of the sixth cycle of inspections that are undertaken by the Inspections Department.

	2018	2017	2016
Inspection stats ● Engagement inspections ● Firm inspections	188 11	197 23	237 20
Top three inspection findings on: ● Engagement inspections ● Firm inspections	To be reported on in the 2018 Public Inspections Report.	Firm <ul style="list-style-type: none"> ● Leadership responsibilities for quality within the firm ● Relevant ethical responsibilities ● Engagement performance and internal quality reviews ● Monitoring Engagements <ul style="list-style-type: none"> ● Revenue ● Significant estimates and judgements ● Auditing principles 	Firm <ul style="list-style-type: none"> ● Ethical responsibilities ● Engagement performance ● Monitoring Engagement <ul style="list-style-type: none"> ● PPE/Investment Property ● Revenue ● Auditing principles

Our latest Public Inspections Report is available on the IRBA website and highlights common firm and engagement file inspections themes as well as feedback on the remediation process.

EXTERNAL ENVIRONMENT

The period under review was a challenging time for the profession as well as for us, with trust in the profession at an all-time low. The external environment required the Inspections team to continue to be dynamic in its risk-based selection approach and select inspection engagements that represented risk that the registered auditor had not complied with relevant professional standards in providing assurance. We focused our resources on inspecting larger entities and public interest entities where there is public exposure and concentrated public interest.

Objective of inspections

- Firm inspections: to inspect the design and implementation of an audit firm's system of quality control.
- Engagement inspections: monitor registered auditors' (RAs) compliance with the relevant professional standards, pronouncements and codes in the performance of the assurance function.
- Inspections process: not designed to detect fraud but limited to what is documented on the audit file. The Inspections team does not have access to clients of the auditors.
- Focus of inspections: on firm leadership and remediation to achieve consistent and sustainable high audit quality.

The challenging environment also demanded, from the Inspections Department, enhanced professional scepticism and an absolute commitment to the quality and depth of inspections.

We continued to apply a risk-based approach to inspections. This approach is consistent with the International Forum of Independent Audit Regulators' (IFIAR) Core Principles, which state that audit regulators should ensure that a risk-based inspections programme is in place. Our risk process continues to be consistently refined in response to a rapidly changing environment.

During the period under review, we again benchmarked our process against those of other regulators within the IFIAR. The purpose of the exercise is to ensure that our inspections process aligns with the best practices internationally. No significant discrepancies were noted from the most recent benchmarking exercise performed.

VALUE ADDED BY THE INSPECTIONS TEAM

Inspections is a crucial regulatory function that gives effect to the IRBA's mandate and strategy to protect the public interest by influencing auditors and relevant stakeholders in pursuing consistent, sustainable high audit quality that adheres to the highest standards, while maintaining good professional relationships. This is achieved by, among others, employing adequately competent staff and deploying available resources, tools and technology effectively to perform high-quality independent inspections.

2017 INSPECTIONS FINDINGS SURVEY

SURVEYED IFIAR MEMBERS REPORTED:

- 40% of issuer audit engagements inspected had at least one finding, compared to 42% in the 2016 survey.
- 40% is significantly lower than in South Africa.
- A lot more work needs to be done to improve audit quality and restore confidence in the auditing profession.

REMEDIAL ACTION PROCESS

We continue to focus on our remedial action process. During the period under review we hosted a session with SAICA members on the remedial action process. The key message at the session was to clarify misunderstandings regarding root cause analysis, including our objective in implementing a remedial action process, the importance of a root cause analysis and how to effectively perform one. Identifying the true root cause to findings is critical in achieving sustainable improvement in audit quality.

WORKING WITH STAKEHOLDERS

SAICA

During the period under review we continued to focus on improving audit quality by engaging regularly with SAICA and its structures on common inspection issues identified.

We worked with SAICA in issuing Frequently Asked Questions (FAQs) on the following issues: risk assessment at assertion level, the presumption of risk of fraud in revenue recognition, substantive procedures for each material class of transactions, account balance and disclosure (i.e. for each material financial statement item), testing of journal entries and other adjustments, and the audit work on opening balances on recurring engagements.

CIPC, JSE, FRSC AND FRTC

We liaised with the Companies and Intellectual Property Commission (CIPC) and the Johannesburg Stock Exchange (JSE) on accounting matters. We also have a representative on the FRTC and serves as secretariat to the Financial Reporting Standards Council as well as the Financial Reporting Technical Committee. This supports our focus on financial reporting during the inspections process.

These were areas on which the Inspections team had raised numerous findings in prior years. The FAQs may be found on the SAICA website at <https://www.saica.co.za/Portals/0/Technical/assurance/AssuranceFAQs.pdf>.

JSE AMENDED LISTING REQUIREMENTS

The JSE recently released its amended JSE Listings Requirements and Debt Listings Requirements, which include substantial changes in relation to the accreditation of auditors. These requirements have an effective date of 15 October 2017.

Auditors are reminded of the new requirement to provide to the audit committees of all issuers who are their clients, and to any prospective new issuer clients, the required IRBA inspection decision letters, findings reports and the proposed root cause analysis and

remedial action plans to address the findings, both at the audit firm and the individual auditor levels.

Firms are encouraged to keep a proper record of all the firm and individual inspection result letters and formal reports, which are also required or might be required in future, for JSE accreditation purposes and sharing with audit committees.

AUDIT QUALITY INDICATORS

We launched a project in 2017 to develop a minimum set of Audit Quality Indicators (AQI). As already indicated under the earlier section on Setting World-Class Standards, the Inspections Department is working with the Standards Department on the project.



FUTURE OUTLOOK

In light of the recent developments in the profession that require a regulator that is dynamic, efficient, effective and proactive, our future focus will be on further improving the capacity and sophistication of the inspections process to enhance efficiency. To this end, the Seventh Inspection Cycle, which commenced on 1 April 2018, will increasingly focus on firm leadership, which is ultimately responsible for promoting a culture of quality that ensures consistent, sustainable high quality for all audits within the firm. This includes ensuring that any reported quality control review or inspection findings are promptly evaluated, internally communicated and remediated as part of the firm's ongoing quality improvement process. There will also be significant changes in the manner in which inspection deficiencies will be rated, communicated and reported, with a strong focus on the actions required to help improve audit quality. In addition, there will be a specific focus on ethics, including the integrity and independence of auditors, as well as areas of public interest.

The Seventh Cycle
Strategy and Process
can be accessed on
the IRBA website.

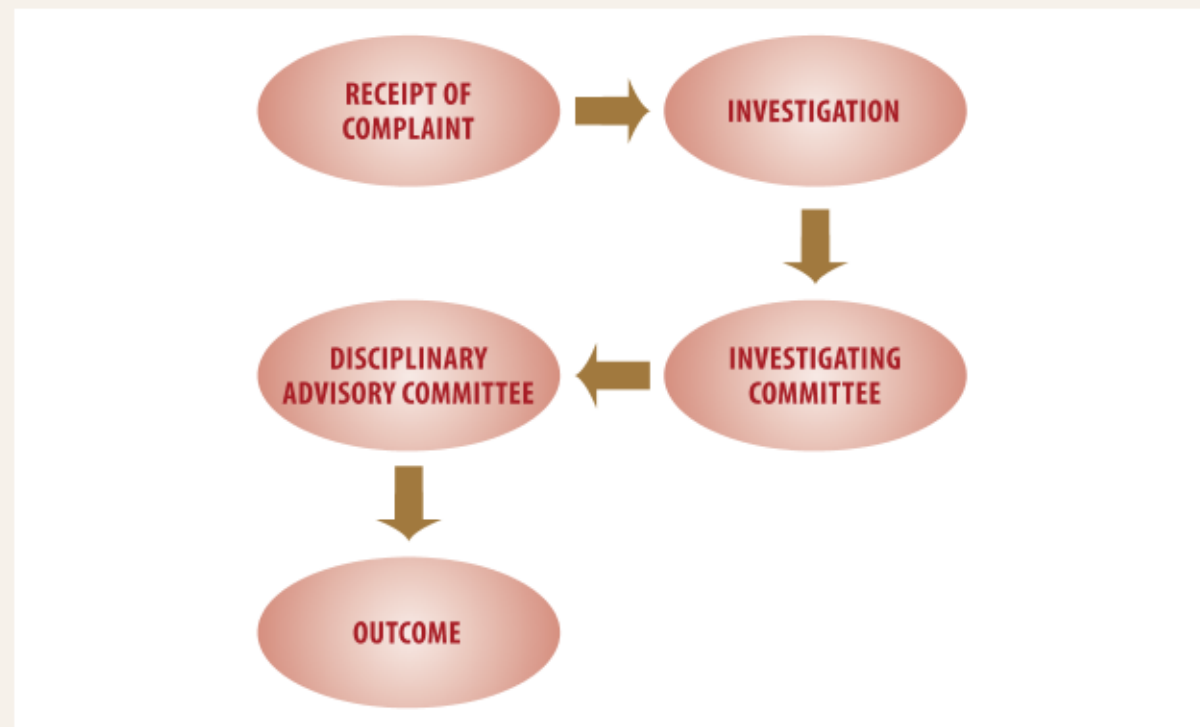
INVESTIGATION OF COMPLAINTS AND NONCOMPLIANCE



Jillian Bailey (Director: Investigations)

STRATEGIC FOCUS AREA

The Investigations Department's objective is to investigate and take appropriate actions against registered auditors (RAs) in respect of improper conduct. The process is illustrated in the graphic below:



The performance target for the department is to complete 80% of complaints within 18 months of receipt of the complaint.

PERFORMANCE DURING THE PERIOD UNDER REVIEW

During the period under review, 112 (2017: 97) new investigations were initiated. The increase in matters reported during the period under review, together with the complexity of matters reported, resulted in increased pressure on the capacity of the department.

High-profile, public interest matters require significant amounts of time and resources to conclude. As a result of the increased complexity of the matters, fewer matters were finalised during the period under review compared to the previous years. Although the department is prioritising public interest matters, they aspire to complete all matters within 18 months in accordance with due process.

The Investigating Committee (INSCOM) met five times during the period under review and the Disciplinary Advisory Committee (DAC) met six times. The table below provides details regarding the matters finalised through the DAC and the outcomes of these matters.

	2017/2018	2016/2017
Matters finalised	DAC met six (6) times and finalised 60 matters	DAC met six (6) times and finalised 96 matters
Outcomes		
Decisions not to charge in terms of disciplinary rule 3.5.1	27%	31%
Decisions to charge and matters finalised by consent order	65%	67%
Decisions to charge and matters referred for a disciplinary hearing	8%	2%

CURRENT CLIMATE

There have been too many recent examples of improper conduct by auditors to continue to believe that it is "business as usual". The matters reported are also of a much more serious nature, which is evident in the increase of matters referred for disciplinary hearings by the DAC.

We acknowledge that in order for confidence in the broader profession to be maintained, the level of the sanctions for improper conduct must be better aligned to the nature of the noncompliance.

We are liaising with National Treasury regarding amendments to the Auditing Profession Act (APA) (26 of 2005) and, in particular, removing the link of monetary fines to the Adjustment of Fines Act.

RESTORING CONFIDENCE IN THE PROFESSION

We enforce compliance with the professional standards and code of conduct through administering sanctions that are aimed at acting as a deterrent to future improper conduct. We also believe that appropriate sanctions will promote public confidence in the regulation of the audit profession and the way in which we deal with auditors who fail to deliver audit quality.

There is a growing interest to see how South Africa will respond to the current crises we face in our accounting and auditing environment. We have tasked our investigating and disciplinary committees with the immediate implementation of an enhanced approach on available sanctions.

In addition to the amendments to the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA), we implemented a new strategy on available sanctions in 2017. This will bring our sanctions in line with local and international regulators.

Sanctions that were enforced by us with immediate effect are:

- Specific publication of findings and names of auditors where the matter settled by consent order relates to a public interest entity;
- Specific publication of findings and names of auditors in matters where the auditor is a repeat offender;
- Specific publication of findings and names of auditors in all matters that go to disciplinary hearings; and
- Imposing non-monetary sanctions such as training.

FUTURE OUTLOOK

Overall, we expect that the matters to be reported to us will increase in the coming months. We are in the process of strengthening the Investigations Department by increasing the department's capacity. We will continue to prioritise public interest audit investigations in the next period under review. We are also continuously strengthening the Investigations approach, methodology and efficiency.

ENFORCEMENT OF STANDARDS, THE CODE AND LEGISLATION



Jane O'Connor (Director: Legal)

The objectives of the Legal Department are multi-faceted and include:

LEGAL

REGISTRY

- Co-ordinate the registration of professionals admitted to our registers and accurately maintain such registers which at all reasonable times must be open to inspection by any member of the public.
- Liaise with the Education and Transformation Department in applying the prescribed legal provisions and established policies under the Auditing Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) in co-ordinating the registrations process.

REPORTABLE IRREGULARITIES

- Register and report reportable irregularities (RIs). The APA defines an RI as "any unlawful act or omission committed by any person responsible for the management of an entity, which:
 - 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
 - is fraudulent or amounts to theft; or
 - 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.

DISCIPLINARY

- Drive the disciplinary process in cases of improper conduct by registered auditors through one of the IRBA's statutory committees, the Disciplinary Committee (DISCOM).
- Matters that culminate in disciplinary hearings and which are referred to the DISCOM by Disciplinary Advisory Committee (DAC) include:
 - Complaints where in the view of the DAC the improper conduct of the registered auditor (RA) warrants more than a monetary sanction.
 - Complaints where the RA did not agree to a consent order.

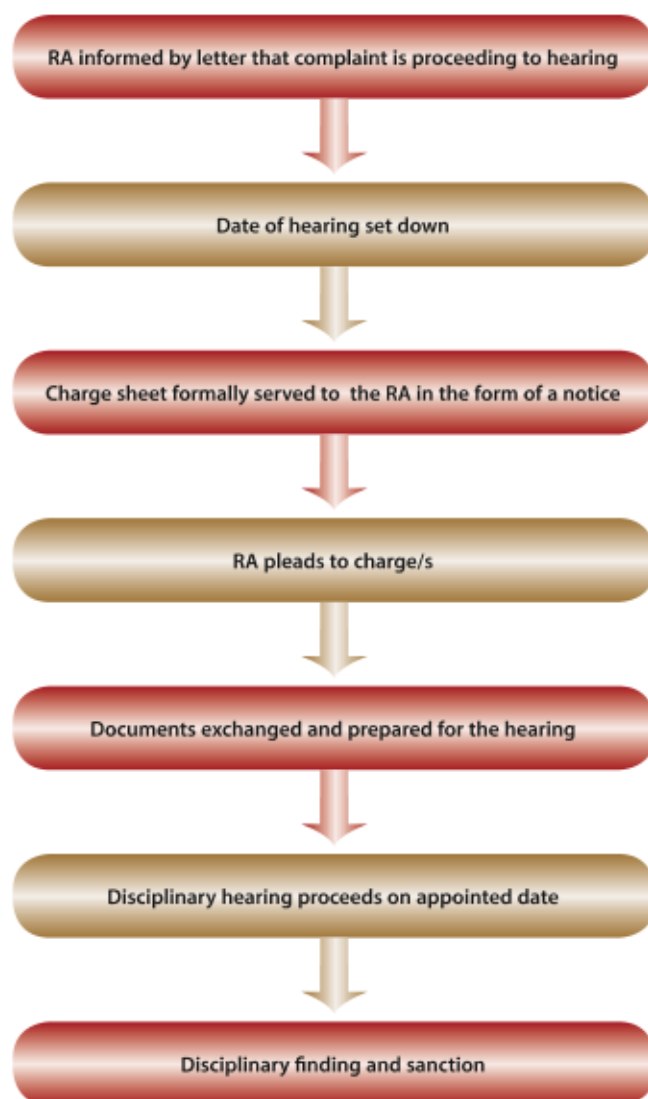
HOLDING OUT

- Report purported contraventions of Section 41 of the APA to the prosecutions authority (holding out as a RA) so that prosecutions against offenders ensue.

LEGAL SUPPORT

- Provide legal support to the IRBA on various issues.

Disciplinary hearing proceedings typically follow the stages set out below:



PERFORMANCE DURING THE PERIOD UNDER REVIEW

REGISTRY

During the period under review the IRBA recorded the following fluctuations in registrations at year-end:

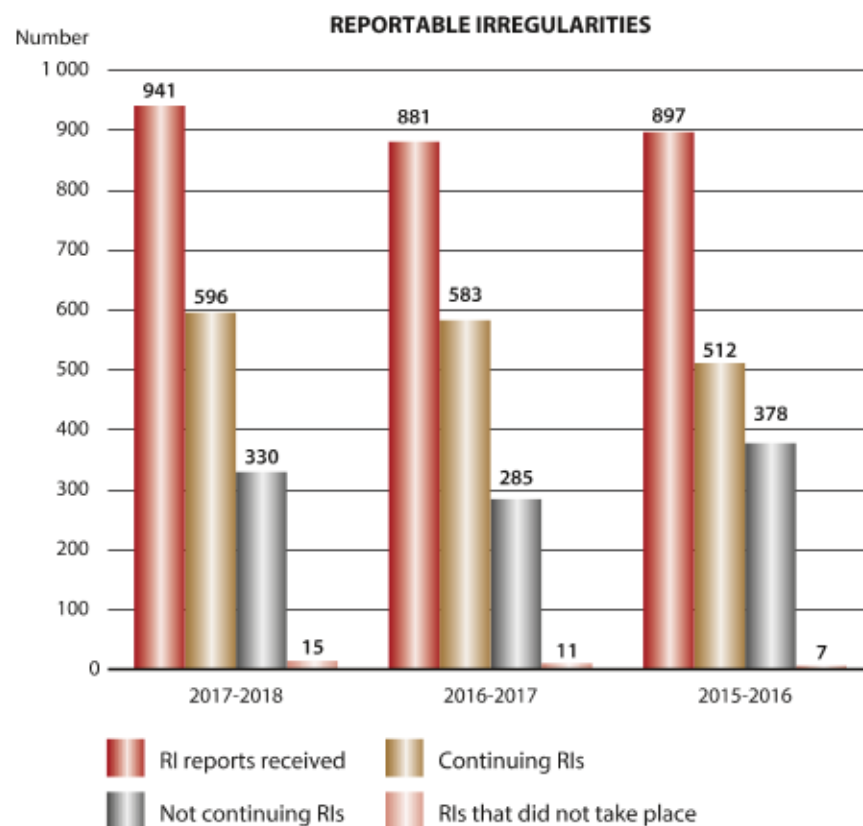
	2017/2018	2016/2017	2015/2016
Number of new registrations	140	191	209
Number of re-registrations	18	25	42
Number of terminations of registrations	247	289	205
Total number of registered auditors	4 152	4 259	4 359

REPORTABLE IRREGULARITIES

The APA imposes a statutory duty on an individual RA of an entity to report, in a prescribed manner, an RI to us. The APA consequently imposes a duty on us to notify any of the appropriate regulators as soon as possible after receiving a report that a RI is continuing.

Our responsibility in the reporting of RIs is limited to providing the appropriate regulator with the details in writing of any continuing RIs. In terms of the provisions of the APA, there is no mandate for the investigation of RIs by us. This concept is centred on our essential mandate to effectively and appropriately regulate the auditing profession, whereas the duty to investigate continuing RIs falls within the ambit of the appropriate industry regulator.

The figures for RIs received during 2017/2018 in relation to previous years are as follows:



The analysis of the continuing RIs in terms of the percentage occurrence and the regulators to whom these were sent is as follows:

Contravention Category	Percentage	Appropriate Regulator
Noncompliance regarding financial statements and/or accounting records, i.e. financial statements not prepared within the allotted timeframe, accurate accounting records not kept, etc.	32.95%	The Companies and Intellectual Property Commission (CIPC), the South African Revenue Service (SARS), the Financial Sector Conduct Authority (FSCA), etc.
Not registered for UIF and/or SDL, UIF and/or SDL not declared and/or paid.	21.04%	The Department of Labour, SARS.
Other Companies Act contraventions, i.e. reckless trading, unauthorised financial assistance to directors, etc.	18.29%	CIPC
Tax and VAT-related contraventions, i.e. non-submission of tax returns, failure to register for VAT, non-payment of PAYE, etc.	14.51%	SARS
Contraventions of the Estate Agency Affairs Act, i.e. agents trading without valid Fidelity Fund Certificates, trust creditors exceeding trust moneys, etc.	3.19%	The Estate Agency Affairs Board
Contraventions of the Pension Funds Act, i.e. statutory valuations not performed, noncompliance with fund rules, etc.	1.31%	FSCA
Other, i.e. contraventions of the Financial Intelligence Centre Act, the Attorneys Act and of the Law Society Rules, PRECCA, the Sectional Title Schemes Management Act, etc.	8.71%	The Financial Intelligence Centre, various Law Societies, the Directorate for Priority Crime Investigation, the Community Schemes Ombud Service, etc.
	100.00%	

DISCIPLINARY MATTERS

During the period under review the DISCOM dealt with three matters, one of which was finalised within the period under review. Among the matters dealt with was a prominent case pertaining to the audit of a bank that was placed under curatorship in 2014.

Number of Disciplinary Committee Hearings		
2017/2018	2016/2017	2015/2016
3	4	6

The Legal Department, has proposed the following amendments to the APA with a view to enhance the efficacy of the IRBA in achieving its mandate.

- Changing the wording of the relevant section of the APA to delink the maximum monetary penalty from the Adjustment of Fines Act to an amount to be determined by us.
- Changes to particular processes of the Investigating Committee, including the ability of the committee to subpoena information, for the committee to better discharge its functions under the APA.
- Changes to the available sanctions against registered auditors who are found guilty of improper conduct.
- Lengthening the term of office of Board members from two to three years in order to allow for greater continuity and better understanding of our affairs.
- A re-constitution of the DISCOM to accommodate a "pool and panel" scenario in order to address the increasing number and complexity of cases being referred for disciplinary hearings.

CURRENT CLIMATE

The high level of attention given to prominent cases of improper conduct by RAs has placed an added burden on our disciplinary processes. Research has been proposed into how other jurisdictions conduct their disciplinary processes in order to review how we can conduct our processes better and more speedily.

The statistics on the numbers of RAs entering and leaving the profession, as seen in the above section, shows a steady decline in the number of new and returning professionals over the recent years.

The high degree of public awareness and public interest in RIs has had an impact on the number of RIs reported. The reporting of Non-Compliance with Laws and Regulations (NOCLAR) has also made RIs more noticeable in the industry because not only does it apply to RAs but to all accountants as well.

FUTURE OUTLOOK

Our responsibility to restore confidence in the profession continues to drive our introspection of existing processes and procedures, particularly with regards to remedial action against registered auditors who fall foul of their legal and ethical obligations to the public.

Through more strategic and robust engagement with our stakeholders, we hope that our role will take the shape of being a more a proactive regulator rather than a reactive one.

OPERATIONAL EFFECTIVENESS



Willemina de Jager (Director: Operations)

A STRATEGIC OVERVIEW

The strategic objective linked to ensuring operational effectiveness within the IRBA is the responsibility of the Operations Department. The statement that encapsulates our objective is the following: "To strengthen the IRBA's capability, capacity and performance to deliver on its mandate in an economically efficient and effective manner, in accordance with the relevant regulatory frameworks."

The department has key functions that are critical to how its allocated role can be effectively and efficiently achieved. These functions include responsibility for finance, human resources, supply chain management and information technology processes. The smooth running of these functions is not only vital in reinforcing our proficiency in managing its internal processes, but also in ensuring that the right technical systems are in place for effective information flow between us, as the regulator, and our stakeholders.

While the measurable objective used to gauge our operational effectiveness is based on our reports from the internal and external audits, the measurable indicator is a clean audit report regarding financial statements, compliance and performance information. This output is based on the systems, policies and processes that ensure compliance, accountability and sound management of revenue, expenditure, assets and liabilities. The overarching result of all this has to be financial sustainability to deliver on the mandate.

CHALLENGES

LOSS OF CONFIDENCE IN THE PROFESSION

The period under review has been very challenging for not only us but also the profession at large. Additionally, there has been a rise in the number of investigations and disciplinary cases that we have had to handle. To efficiently handle the increased workload and research needed to address these cases has, for instance, partly meant having to stretch the limited financial and human resources at our disposal.

There has been a need to ensure that we actively engage, as far as possible, with the stakeholders and the investing public as issues in the auditing sector arise.

To some degree, this has slightly shifted the focus towards ensuring that these external demands are responded to with as much urgency and accuracy as possible. This scenario has obviously meant the Board and management have had to spend more time and focus looking at how to actively respond to the scandals that have plagued the profession.

This need to divert focus to more pressing external issues has, to some degree, had an effect on how much spare capacity is available for the Board to fully engage in supporting the department with more extensive guidance. However, it helps that systems put in place in the past within the department are strong enough to ensure that the value creation for our stakeholders is not compromised during this transitional period of uncertainty in the profession.

ALTERNATIVE SOURCES OF FUNDING

In the previous report we mentioned that we have been investigating alternative funding models. Currently, our funding – in terms of Section 25 of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) – is through the collection of prescribed fees and levies from registered auditors and firms; a government grant that is appropriated for that purpose by Parliament; and funds that may accrue to us from any other legal source, including sanctions that are imposed by us.

However, the changing economic environment and challenges in the profession have put a strain on these sources of funding, meaning we need to look at alternatives to supplement this current stream of funding. In addition, sustainability and independence have been identified as major issues with our current funding model. So, through research we also aim to address that concern.

While funding has always been an identified risk, the rise in the costs that relate to the latest increasing number of investigations has now made funding one of the top priorities we need to urgently address. To this end, we are actively pursuing various options that we hope will open up our pool of financial resources without compromising our independence. In the meantime, we have made some headway and identified possible opportunities that National Treasury has to offer and we are investigating ways in which we could tap into those sources for specific projects.

INTERNAL AUDIT AND INDEPENDENCE REQUIREMENTS

Our appointment of internal auditors is highly guided by the principle of independence. This is not just one of our foundational values, but a standard that we advocate for in the profession and one that we constantly monitor among our registered auditors (RAs) and firms. Interestingly, this application of independence, or lack thereof, has made it difficult for us to find and appoint qualifying internal auditors.

While our qualification criteria to appoint an internal audit function might seem stringent and limiting, it is designed to ensure that we not only lead by example but also adhere to the standards that guide auditing.

CONNECTIVITY

Disruptions in connectivity pose a major risk in ensuring operational effectiveness. As such, addressing this risk has been one of the top agenda items in the past period under review. To mitigate these challenges, we budgeted for the installation of a more reliable fibre network, a project that has now been completed.

This new network has ensured that connectivity internally is kept at its optimum. We also now have an improved disaster recovery system to ensure that staff can work without interruption even when there are disruptions. We have also optimised our FlowCentric system so we can offer effective support to the various departments and also help them to streamline and coordinate the information flow for and with registered auditors. So, this has enhanced our value-add processes in as far as ensuring that interruptions in the information flow between us and our stakeholders are kept to a minimum, if not eliminated at all.

HUMAN RESOURCES

With a staff complement of 85, we have put in place various frameworks that are aimed at not only retaining talent, but also ensuring that employees see us as an employer of choice. We have a Performance Management Framework as well as an employee reward programme. The latter is aimed at competing for talent, retaining competent employees, motivating individual and team performance, achieving the most effective returns and ensuring sufficient equity levels.

Regarding equity, our target is to have 70% black employees, and we are currently at 68%. With the assistance of the Employment Equity Forum, which consists of staff members representing various areas of employment equity, this set target should be achieved soon.

OVERVIEW OF EMPLOYEE STATISTICS

TOTAL	MALE	FEMALE	AFRICAN	COLOURED	INDIAN	WHITE	NON-SA	DISABLED
85	36	49	39	6	13	26	1	4
100%	42%	58%	46%	7%	15%	31%	1%	5%

PERFORMANCE

In the period under review the Operations Department has once again managed to ensure that we efficiently and effectively deliver on our mandate. As a department that exists for the purpose of creating infrastructure and support functions for the line departments, all processes and systems need to be effective. Acknowledgment that we had once again managed to navigate whatever challenges we faced and delivered on our mandate, was an achievement of a clean audit, which again qualified us for a Clean Audit Award from the Auditor General South Africa (AGSA).

FUTURE OUTLOOK

While it might be difficult to predict how the current reputational challenges facing the profession will affect auditing in the long term, there already are some repercussions that the profession is dealing with in the short term. We expect some of these to reflect negatively, one way or another, in the number of RAs and firms we have on our books. If that happens, the direct effect will be a contraction in one of our main sources of funding – the collection of prescribed fees and levies from RAs and firms. This makes the development of an alternative funding model a priority.



ORGANISATIONAL OUTLOOK

Our operating environment has experienced challenges due to dramatic changes, low economic growth, difficult business conditions, political instability, and the crisis with higher education fees, corruption and poor governance at public entities. We, however, hope that our response and that of the auditors to these challenges will induce a stronger commitment towards sustainable high audit quality.

Moreover, the recent debacles in the auditing profession have highlighted some of the gaps within our auditing legislative framework. Fortunately, Parliament has pledged its support to provide us with more regulatory powers. This will reinforce our approach of being a proactive regulator that adds value to those we regulate, while contributing to the efficient functioning of the economy, and protection of the public.

On the other hand, our relevance and the sustainability of the profession have been under severe scrutiny, and rightfully so. This was mainly precipitated by the issues that surfaced at KPMG, Steinhoff and Nkonki. As a result, the profession has been adversely impacted and the sense is that the public has lost confidence not only in these firms but in us as well. The Board identified possible root causes for the reputation crisis and developed measures and a strategy to address this. The measures to be implemented include, but are not limited to:

- Transparency reporting for audit firms;
- Amendments to the APA to strengthen our enforcement powers and penalties;
- Strengthening governance structures;
- Developing Audit Quality Indicators; and
- Refocusing our investigations efforts on public interest cases only.

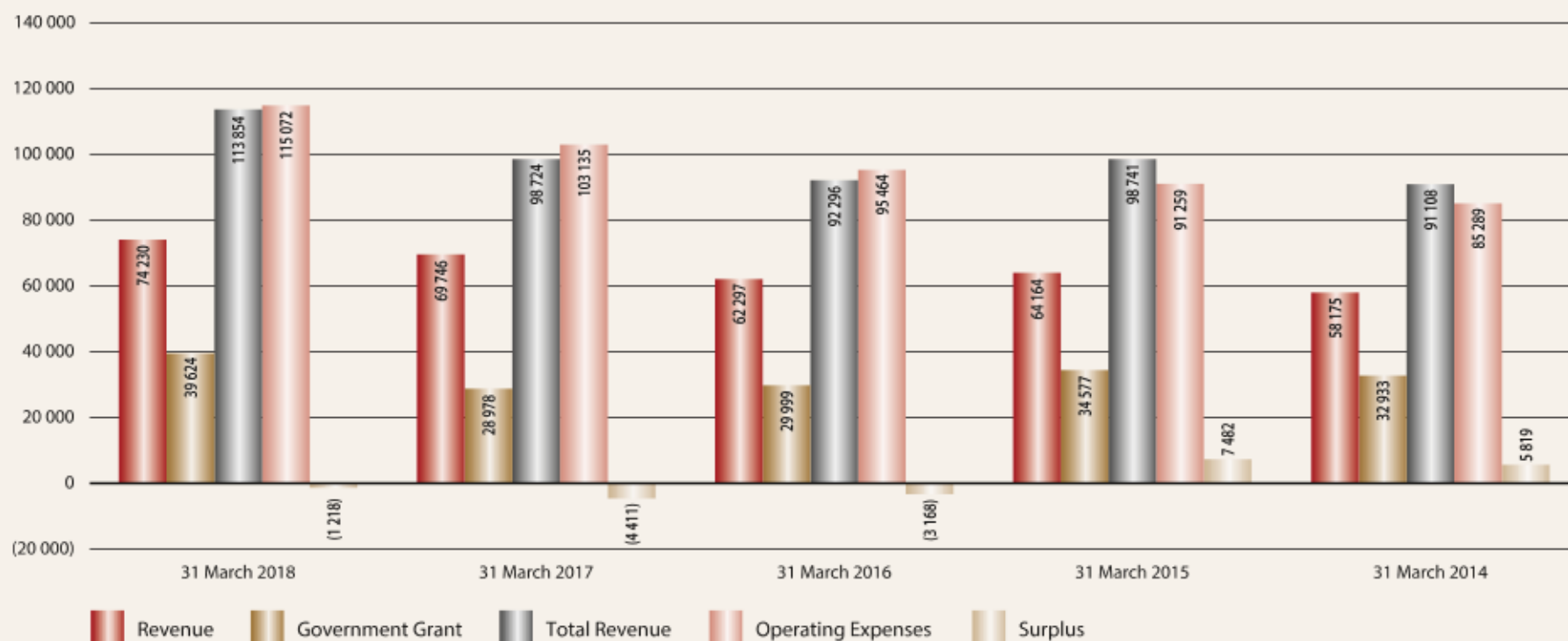
Restoring confidence in the profession will require decisive actions from us and this will certainly require additional funding. The Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) requires us to fulfil a wide range of responsibilities that are both labour and cost intensive with limited financial and human resource capacity. While we are still researching alternative funding models, we have in the short term approached National Treasury for additional funding, particularly to capacitate our Investigations Department. The public, Parliament and the implicated firms require us to expedite our investigations outcomes in order to start dealing with the consequences as soon as possible.

One of the recommendations in the World Bank's Reports on the Obeservation of Standards and Codes (ROSC): Accounting and Auditing recommendations is that the accountancy profession legislation should encompass the regulation of both the accountancy and audit professions. The revelations of accounting irregularities by certain professionals in various major corporations have reinforced the urgency for this recommendation to be implemented.

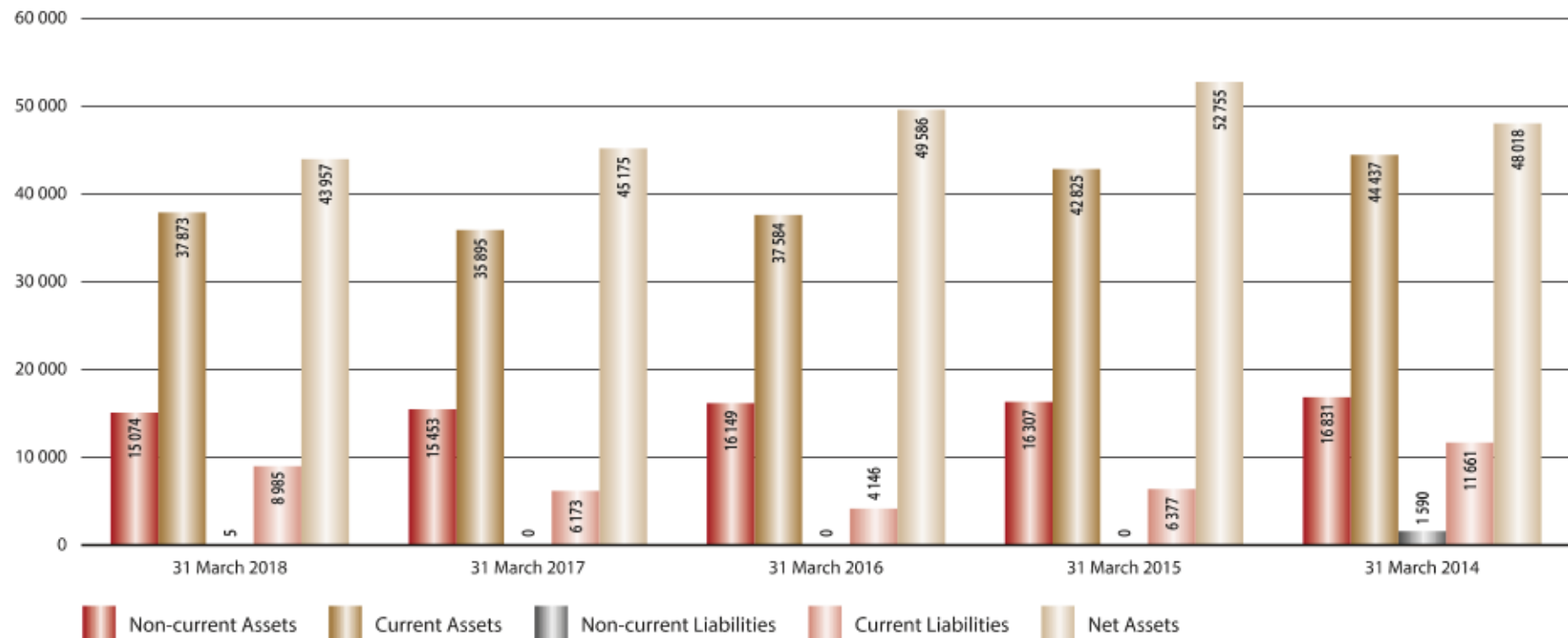
The reaffirmation of support for Mandatory Audit Firm Rotation (MAFR) by the former Minister of Finance during his budget speech in February 2018 was a clear indication that this reform will go a long way in terms of ensuring the independence of the auditors and restoring confidence in the profession. However, the recent challenges faced by major audit firms in the country require us to intensify our continued engagement with the stakeholders to ensure a seamless implementation of the reform in April 2023.

FINANCIAL HIGHLIGHTS

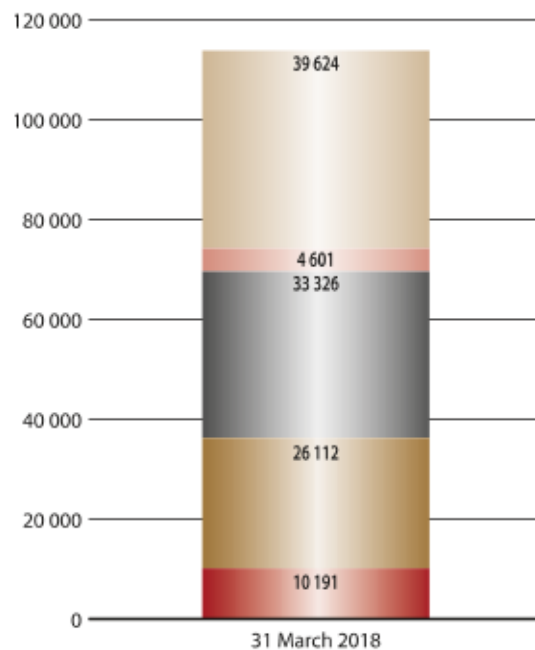
FINANCIAL PERFORMANCE



FINANCIAL POSITION

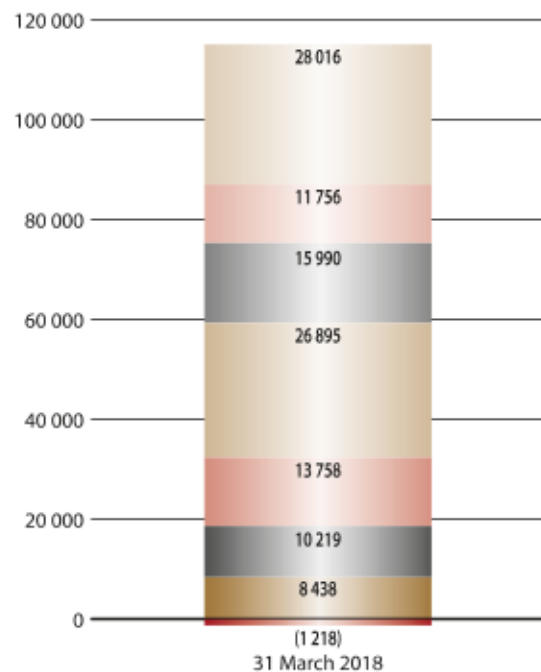


INCOME SOURCE

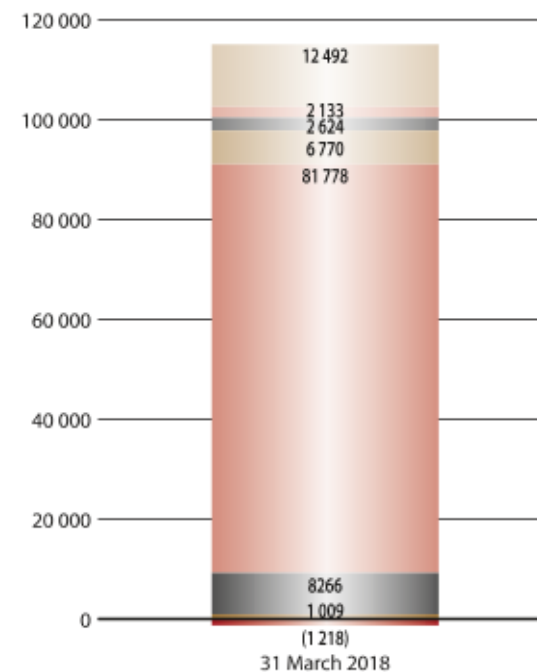


APPLICATION OF FUNDS

FUNCTION



ACTIVITIES



ACRONYMS AND ABBREVIATIONS

ADP	Audit Development Programme
AFIAAR	African Forum of Independent Accounting and Auditing Regulators
AGSA	Auditor-General South Africa
APA	Auditing Profession Act, 2005 (Act No. 26 of 2005)
APC	Assessment of Professional Competence
ARMCO	Audit and Risk Management Committee
BAC	Broad-Based Black Economic Empowerment Advisory Committee
B-BBEE	Broad-Based Black Economic Empowerment
CA (SA)	Chartered Accountant (South Africa)
CAG	Consultative Advisory Group
CFAE	Committee for Auditor Ethics
CFAS	Committee for Auditing Standards
CPD	Continuing Professional Development
CSR	Corporate Social Responsibility
DAC	Disciplinary Advisory Committee
DISCOM	Disciplinary Committee
DTI	Department of Trade and Industry
EDCOM	Education and Transformation Committee
GRAP	Generally Recognised Accounting Practice
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
ICT	Information and Communication Technology

IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
INSCOM	Inspections Committee
INVESCO	Investigating Committee
<IR>	Integrated Report
IIRC	International Integrated Reporting Council
IRBA	Independent Regulatory Board for Auditors
NOCLAR	Non-compliance with Laws and Regulations
NT	National Treasury
PAO	Professional Accountancy Organisation
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PIE	Public Interest Entity
PSSC	Public Sector Standing Committee
RA	Registered Auditor
RCA	Registered Candidate Auditor
RI	Reportable Irregularity
RIRSC	Regulated Industries and Reports Standing Committee
ROSC	Report on the Observance of Standards and Codes
SAICA	South African Institute of Chartered Accountants
SCWG	Standards Coordination Working Group
SSC	Sustainability Standing Committee

NOTES

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