

Independence and Transformation

Vital keys in achieving high-quality audits

Investors need a fresh set of eyes to scrutinise financial statements, while there's also a need to aim for more than just de-racialisation for the profession to get transformed

Notes to the Annual Financial Statements

for the year ended 31 March 2016

Figures in Rand	2016	2015
8. Receivables from non-exchange transactions		
Fines, penalties and legal cost recoveries outstanding	4 715 516	2 151 001
Inspection fees debtors	1 065 100	1 774 599
Less: Impairment provision	(3 567 289)	(1 221 150)
	2 246 527	2 704 450

Receivables from non-exchange transactions are secured as security

Trade and other receivables are not pledged as security

Receivables from non-exchange transactions past due but not impaired

The ageing of receivables past due but not impaired is as follows:

1 month or less

Reconciliation of provision for impairment

transactions:

Opening balance

Provision for impairment

The creation and release of provision for impairment is in line with the requirements of financial performance.

The maximum exposure to credit risk at the reporting date is the carrying amount of the receivables mentioned above.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand

Bank balances

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(As published in the Financial Mail)

FROM THE CEO'S DESK

As part of its work into the investigation of the Masterbond collapse, the Nel Commission conducted a consultation process by inviting comments from interested parties on a consultation paper titled "The Role of the Auditor – The Elimination of the Expectation Gap and the Appointment of Auditors by all Significant Interest Groups".

The content of the consultation paper outlined the reasons why the Commission believed that the contents of financial statements, the audits of these statements and the resulting auditors' reports were inadequate for the needs of users and why a "structural shift towards transparency is regarded as a necessity".

Nel mooted the need for shareholder interest groups to be allowed to appoint their own auditors to review the work of the main external auditor and give those special interest shareholders an assurance that what was presented was correct. Essentially, this is advocating for a second set of independent eyes.

The Nel Commission had been established to investigate the failure of the Masterbond Group and how the systems designed to protect investors in South Africa had failed to protect thousands of small investors, many of whom were pensioners left destitute after losing their life savings. Losses ran into hundreds of millions of rand. Through the 1990s South Africa continued to experience several corporate failures, putting the role of auditors under the spotlight.

Various spectacular corporate collapses and business failures include Unifer, LeisureNet, Saambou, Fidentia, Sharemax, Randgold, First Strut (FirstTech Group) and African Bank. Many of these failures are not yet resolved and creditors and investors have still not been recompensed. In all these failures, the investors are the ones who lost the most.

The IRBA's first responsibility is to protect the ordinary public from material adverse events that could be avoided, as these investors take preference over CFOs and auditors. Our role is to protect the investing public, the ones who frequently don't realise they need protection, such as the pensioners who invested life savings in Masterbond and Sharemax and who through mandated investments make up about 37% of the JSE shareholdings in the Top 100.

Mandatory Audit Firm Rotation (MAFR) will give investors a fresh pair of eyes to look at the contents of financial statements without compromising quality and independence. Fresh eyes will also put a spotlight on previously unreported reportable irregularities. Auditor independence refers to the independence of the auditor from parties that may have a financial or other interest in the business being audited. Independence requires integrity and an objective approach to the audit process, professional scepticism and no bias.

For the past seven years, South Africa has been ranked number one for the strength of its auditing and reporting standards by the World Economic Forum's Global Competitiveness Survey. Audit quality, on the other hand, has been a concern for the IRBA for several years. The public inspections report has over the past couple of years shown a decline in audit quality and the need to strengthen auditor independence. The 2016 report shows a 27% increase on unsatisfactory inspections year-on-year for large firm inspections.

Transformation of the profession has also been brought into the spotlight in recent months and has been further elevated by the parliamentary hearings into MAFR that took place in February and March. The IRBA as an organ of state and a regulator is compelled to drive transformation and ensure that the auditing profession is transformed in a fair, equitable and competitive manner. So, we agree with the Standing Committee on Finance that transformation in the auditing profession requires a closer examination.

The harsh reality is that of the 4,283 registered auditors in South Africa, 74.8% are white and only 10.5% are black Africans. We believe that, while some initiatives have been implemented, more must be done. It is not just about increasing the number of black trainee accountants; it is about giving black accountants and auditors long-term prospects in the profession – prospects that are equivalent to those of their counterparts. This requires a cultural shift and a more inclusive approach that will provide black accountants with a positive experience at the firms, resulting in higher retention.

More focus should be given to long-term career prospects, including equity partnerships as well as senior management and executive responsibility. Transformation is not about the

FROM THE CEO'S DESK cont.

de-racialisation of the overall profession; it is about financial inclusion, ownership and access to markets and opportunities.

It is time to move beyond the numbers and focus on real empowerment. It is time for the profession to take stock not only regarding transformation, but to also focus on more than just the de-racialisation and de-concentration of the market for it to contribute meaningfully to the growth of the economy and the empowerment of its people.



Bernard Peter Agulhas
Chief Executive Officer

STANDARDS

The following topics are discussed in this issue:

- Reminder regarding effective dates of recently issued pronouncements;
- Sectional titles and auditor reporting;
- Adoption of the IAASB's 2016/2017 handbooks;
- ISA 250 (Revised), Consideration of Laws and Regulations in an Audit of Financial Statements;
- IAASB's discussion paper on exploring the demand for agreed-upon procedures engagements and other services;
- Withdrawal of SASAE 3502 (Revised), Assurance Engagements on Broad-Based Black Economic Empowerment Verification Certificates;
- New Auditor's Report Questions and Answers;
- Resources which can be used for applying Professional Skepticism;
- Revised Guide for Registered Auditors: Engagements on Attorneys' Trust Accounts;
- Revision of the IRBA Guide on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements;
- Sustainability Standing Committee project on the assurance concepts of rational purpose, subject matter and criteria;
- The IAASB's Data Analytics project;
- The IAASB's Assurance on Emerging Forms of External Reporting project;
- Frequently Asked Questions on Public Interest Entities in the IRBA Code of Professional Conduct; and
- IESBA Releases Exposure Drafts on the Structure of the Code – Phase 2 and Revisions to Safeguards – Phase 2.

REMINDER: Effective Dates of Recent Amendments to the Auditing Standards, IRBA Code of Professional Conduct and Auditor Reports

Registered auditors and others are reminded that the following amendments to the Auditing Standards, IRBA Code of Professional Conduct and Auditor Reports were issued in 2016 and are already effective or will soon be effective:

Auditing Standards	Effective Date
IAASB's new and revised Auditor Reporting Standards and related conforming amendments. These standards include the following: <ul style="list-style-type: none"> • ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; • ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report; • ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report; • ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report; • ISA 570 (Revised), Going Concern; • ISA 260 (Revised), Communication with Those Charged with Governance; and Related Conforming Amendments to other ISAs. 	<p>The new and revised Auditor Reporting Standards are effective for audits of financial statements for periods ending on or after 15 December 2016.</p> <p>A comprehensive list of resources to assist auditors with the implementation is available on the IRBA and IAASB websites and the respective links are:</p> <p>http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards.</p> <p>http://www.iaasb.org/new-auditors-report.</p>
ISA 810 (Revised), Engagements to Report on Summary Financial Statements	Effective for engagements to report on summary financial statements for periods ending on or after 15 December 2016.
Revised ISAs – Addressing Disclosures in the Audit of Financial Statements and Related Conforming Amendments	The revised ISAs are effective for audits of financial statements for periods ending on or after 15 December 2016.

Amendments to the IRBA Code of Professional Conduct	Effective Date
Final Amendments to the IRBA Code of Professional Conduct for Registered Auditors Responding to Non-Compliance with Laws and Regulations	The changes will be effective as of 15 July 2017. Early adoption is permitted.

STANDARDS cont.

Final Amendments to the IRBA Code of Professional Conduct for Registered Auditors Relating to the Definition of Public Interest Entities	Effective on or after 1 July 2016, in other words, for financial years ending after 30 June 2016. The intention is not for the amendment to be applied retrospectively to earlier financial periods. However, it should be noted that paragraph 290.25 has been effective from 1 January 2011 and should be adhered to.
Final Amendments to the IRBA Code of Professional Conduct for Registered Auditors Relating to the Provision of Non-Assurance Services	Effective on or after 15 April 2016.

New and Revised Auditor Reports	Effective Date
Revised Illustrative South African Reserve Bank (SARB) Banks Act Regulatory Auditor's Reports A-H	Effective for financial periods ending on or after 15 December 2016.
Revised Illustrative Reports Used by Registered Auditors When Reporting in Terms of the Financial Markets Act, No. 19 of 2012, and JSE Directive DG 1.7	Effective for audits of stockbrokers with year-ends on or after 31 December 2016.
Illustrative South African Reserve Bank Macro-Prudential Foreign Exposure Limit Return Assurance Reports	Effective for audits of authorised dealers with year-ends on or after 31 December 2016.
Prescribed Auditor Reports for Medical Schemes	Effective for medical schemes with year-ends on and after 31 December 2016.
Revised Illustrative Engagement Letter, Representation Letter and Auditor's Reports for Engagements on Attorneys' Trust Accounts	Effective for reports issued on or after 15 June 2016 when reporting on attorneys' trust accounts for the 2016 financial period end. <i>Please see further news regarding the Revised Guide for Registered Auditors: Engagements on Attorneys' Trust Accounts hereunder.</i>

Sectional Titles and Auditor Reporting

The South African Institute of Chartered Accountants (SAICA) issued a Communication on 22 March 2017 regarding audit engagements on sectional titles schemes.

The Management Rules for a sectional titles scheme (or body corporate), as contained in The Sectional Titles Schemes Management Regulations, 2016, have introduced some new and revised requirements relating to, among other matters, the financial records, budgets, annual financial statements and audits of a sectional titles scheme. Some requirements have posed challenges in their interpretation and application.

Representatives from the IRBA, SAICA and the Community Schemes Ombud Service (CSOS) have considered these challenges. With the assistance of the stakeholders, SAICA has prepared a Communication, Auditor Opinions required in terms of Management Rule 26(5)(c) of the Sectional Titles Schemes Management Regulations, 2016, to assist body corporates and their auditors in understanding and complying with the requirements.

The CSOS has issued Chief Ombud's Circular No. 1 of 2017 that provides clarity around transitional provisions, financial reporting frameworks and their auditing requirements. SAICA has also issued FAQs to further assist in clarifying some of the requirements for sectional titles schemes and, more broadly, community schemes.

The CSOS's Chief Ombud's Circular is available on the [CSOS website](#).

SAICA's Communication is available on the [SAICA website](#).

SAICA's FAQs are available on the [SAICA website](#).

STANDARDS cont.

Adoption of the International Auditing and Assurance Standards Board's 2016-2017 Handbooks of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements

Board Notice No. 17 of 2017 (Government Gazette 40660) titled *The Adoption of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements in terms of the Auditing Profession Act, 26 of 2005 (the Act)* was published on 3 March 2017.

The IRBA has adopted, issued and prescribed the IAASB's *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2016-2017 Edition Volumes I, II and III* (the Handbooks).

In these new publications references to the IESBA *Code of Ethics for Professional Accountants* must be read in conjunction with the IRBA *Code of Professional Conduct for Registered Auditors* (Revised 2014) (the Code) - which was issued in March 2014 and became effective from 1 April 2014 - including subsequent amendments to the Code that have been issued separately. The Code has additional requirements for registered auditors in South Africa.

The Handbooks are available on the IRBA [website](#). The Code and subsequent amendments are also available on the IRBA [website](#).

The IRBA auditing pronouncements are also published by SAICA in the *2016/2017 Student Handbook – International Auditing Standards*.

The IRBA Board adopts the IAASB's Revised International Standard on Auditing (ISA) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* and Related Conforming Amendments

The IRBA Board approved for adoption, issue and prescription by registered auditors in South Africa ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* and related conforming amendments to other ISAs.

These revised ISAs are effective for audits of financial statements for periods beginning on or after 15 December

2017. Early adoption is permitted.

The communique and revised ISAs are available on the [IRBA website](#).

IAASB's Discussion Paper on *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*

The IAASB's Agreed-Upon Procedures (AUP) Working Group released the Discussion Paper in November 2016.

The Discussion Paper sets out the key features of an AUP engagement and explores how AUP engagements are undertaken, including the extent to which practitioners find existing requirements and guidance helpful or challenging. In addition, the IAASB is seeking an understanding of how reports on factual findings are used to determine the needs of users of these reports.

The Discussion Paper also explores the demand for engagements that combine reasonable assurance, limited assurance and non-assurance engagements, and whether the IAASB's existing International Standards are appropriate.

A CFAS task group submitted a comment letter to the IAASB, with comments due by 29 March 2017. The Discussion Paper as well as the comment letters submitted are available on the [IAASB website](#).

Withdrawal of SASAE 3502 (Revised), *Assurance Engagements on Broad-Based Black Economic Empowerment Verification Certificates*

The IRBA has been regulating B-BBEE approved registered auditors (BARs), in relation to their provision of B-BBEE assurance services, since its mandate to do so was defined in Statement 005, *Broad-Based Black Economic Empowerment Verification*, which came into effect on 1 October 2011.

To this end, SASAE 3502, *Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification Certificates*, was issued to provide BARs with guidance on these engagements. SASAE 3502 was effective for B-BBEE Verification Certificates issued on or after 31 December 2012. SASAE 3502 was revised in 2016 and was effective for

STANDARDS cont.

B-BBEE Verification Certificates issued on or after 1 June 2016.

The DTI and the IRBA entered into discussions for the IRBA to discontinue regulating the industry. A decision for the IRBA to withdraw on 30 September 2016 from the regulation of the B-BBEE verification industry was subsequently made. This decision was confirmed by the DTI in a [letter](#) to the IRBA CEO, dated 26 July 2016, announcing that:

As per the communique dated 04 March 2016 addressed to the Members of the IRBA, as of 30 September 2016, the IRBA will no longer be the 'Approved Regulatory Body' as per Code Series 000, Statement 005 of the Codes of Good Practice ...

As a consequence, no new BARs were registered as from 1 April 2016.

The IRBA communique issued on 2 August 2016, [Update on the Independent Regulatory Board for Auditors' \(IRBA\) withdrawal from the Regulation of the Broad-Based Black Economic Empowerment \(B-BBEE\) verification industry](#), added that, with respect to assurance engagements that have been entered into prior to 30 September 2016, a transitional period of three (3) months (to 31 December 2016) would be allowed for the sign-off of the verification certificates for these engagements.

As the objective, scope, work effort and reporting of an engagement performed under SANAS/DTI verification procedures are significantly different from the requirements of the IRBA's SASAE 3502 (Revised), SASAE 3502 (Revised) has been withdrawn. The effective date of withdrawal was 31 December 2016 for assurance engagements that had been entered into prior to 30 September 2016, while a transitional period of three (3) months (to 31 December 2016) had been allowed for the [sign-off of the verification certificates](#) for those engagements.

For the time being, SASAE 3502 (Revised) will remain on the IRBA website, for the purpose of inspections and investigations. A health warning will be prominently included to make it clear that SASAE 3502 (Revised) is no longer effective.

SASAE 3502 (Revised), together with related communiques

issued by the IRBA, is available [here](#).

New Auditor's Report Questions and Answers

This IAASB publication provides guidance to address areas where there are common differences in interpreting the IAASB's new and revised Auditor Reporting Standards and ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, which are effective for periods ending on or after 15 December 2016.

This publication does not constitute an authoritative pronouncement of either the IRBA or the IAASB, nor does it amend or override the ISAs. Further, this publication is not meant to be exhaustive and reading this publication is not a substitute for reading the ISAs.

The publication is available on the IAASB [website](#) and on the comprehensive list of new auditor's report resources page on the IRBA [website](#).

Resources that can be used for applying Professional Skepticism

A [webpage](#) listing resources available to auditors regarding professional skepticism has been created. Auditors may find this summary of resources of use in applying professional skepticism in the course of their engagements.

The page includes a schedule of references to the term "professional scepticism" in the IAASB Handbooks. In addition, a list of links to resources on the IAASB's website is provided.

Committee for Auditing Standards (CFAS)

Revised Guide for Registered Auditors: Engagements on Attorneys' Trust Accounts

The CFAS has approved for issue the *Revised Guide for Registered Auditors: Engagements on Attorneys' Trust Accounts* (this Revised Attorneys Guide) in March 2017. This Revised Attorneys Guide replaces the previous IRBA Guide, *Guidance for Registered Auditors: Engagements on Attorneys' Trust Accounts*, which has been withdrawn. This Revised Attorneys Guide is effective for financial periods commencing on or after 1 March 2016.

STANDARDS cont.

This Revised Attorneys Guide provides guidance to the registered auditor when performing a reasonable assurance engagement on whether an attorney's trust accounts comply with sections 78(1), 78(2)(a) and (b), 78(2A), 78(3), 78(4) and 78(6) of the Attorneys' Act, No. 53 of 1979 (the Act), and the Uniform Rules of the Attorneys' Profession.

This Revised Guide has been updated for:

- International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information; and
- The Rules for the Attorneys' Profession as published in the Government Gazette No. 39740 on 26 February 2016 (effective from 1 March 2016), known as the Uniform Rules.

This Revised Attorneys Guide and the related communicate are available on the [IRBA website](#).

Revised IRBA Guide for Registered Auditors: Reporting on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements

The CFAS has approved the issue of the *Revised Guide for Registered Auditors: Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports Required by the JSE Listings Requirements* (this Revised IRBA Guide) for use by JSE accredited auditors. This Revised IRBA Guide is effective for an auditor's report on an issuer's interim, preliminary, provisional and abridged report issued on or after 31 March 2017.

The purpose of this Revised IRBA Guide is to provide guidance to a JSE accredited auditor on the implementation of International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*, and International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, when reporting on an issuer's interim, preliminary, provisional and abridged report as required by the JSE Listings Requirements.

This Revised IRBA Guide has been updated to be aligned to ISA 810 (Revised), which is effective for financial periods ending on or after 15 December 2016 and for recent amendments to the JSE Listings Requirements, with an effective date of 24 October 2016. The related communicate and this Revised IRBA Guide are on the [IRBA website](#).

CFAS Sustainability Standing Committee (SSC)

Assurance Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria in a Sustainability Assurance Reporting Environment

The SSC has established a task group to develop guidance for registered auditors in evaluating the rational purpose, the appropriateness of the underlying subject matter and the suitability of criteria in a sustainability assurance reporting environment.

IAASB Projects

IAASB's Data Analytics Project

The IAASB's Data Analytics Working Group released a *Request for Input, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*, in September 2016 for comment by 15 February 2017. The IRBA submitted comments, which are available together with other submissions and the Request for Input on the [IAASB website](#).

IAASB's Assurance on Emerging Forms of External Reporting Project

The IAASB's Integrated Reporting Working Group released a Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*, in August 2016 for comment by 3 February 2017. The IRBA submitted comments, which are available together with other submissions and the Discussion Paper on the [IAASB website](#).

IAASB's projects in progress

The IAASB's projects in progress are:

- Accounting estimates (ISA 540).
- Quality Control (ISQC 1 and ISA 220).
- Group Audits (ISA 600).
- Professional skepticism.
- Auditor risk assessments (ISA 315 (Revised)).

More information on these projects is available on the [IAASB website](#).

ETHICS

Membership changes

We bid farewell to Steve Ball and Jacob Schoeman, who have been members of the Committee for Auditor Ethics (CFAE) for the past six years. We thank them for their support and commitment to the work of the committee.

We welcome Freddie Mitchell, head of Internal Audit at the South African Bureau of Standards (SABS), and Ahmed Bulbulia, audit partner at KPMG, to the committee, effective from 1 April 2017.

Committee for Auditor Ethics

Frequently Asked Questions on Public Interest Entities in the IRBA Code of Professional Conduct

There have been some queries regarding the March 2016 amendment relating to Public Interest Entities (PIEs) in the IRBA Code of Professional Conduct for Registered Auditors (IRBA Code). To provide clarity, a communique and FAQs were issued on 12 December 2016 and can be downloaded from the [IRBA website](#).

IESBA Releases Exposure Drafts on the Structure of the Code – Phase 2 and Revisions to Safeguards – Phase 2

There are significant global developments that will have an impact on the IRBA Code. As the IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Professional Accountants (IESBA Code), these proposed changes, which will affect all registered auditors, will be considered by the IRBA's CFAE for possible amendments to the IRBA Code.

During 2016, the IESBA embarked on a strategic project to review the structure and drafting of the IESBA Code to enhance its understandability and usability, effective implementation, consistent application and enforcement.

The IESBA announced on 25 January 2017 the completion of the first phase of this comprehensive project, with the close-off documents available on the [IESBA website](#). In addition, the IESBA also released, for public comment, two exposure drafts that will enhance and complete the fully restructured IESBA Code. They are:

1. Improving the Structure of the Code of Ethics for

Professional Accountants – Phase 2 (commonly referred to as the IESBA Structure – Phase 2 ED). The highlights of Phase 2 include:

- Restructuring of the remainder of the IESBA Code;
 - Recently finalised provisions addressing a professional accountant's response to non-compliance with laws and regulations (NOCLAR); and
 - Long association of audit firm personnel with audit and other assurance clients.
2. Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments (commonly referred to as the IESBA Safeguards – Phase 2 ED). The highlights of Phase 2 include:
- Addressing safeguards-related provisions in the independence sections of the IESBA Code pertaining to non-assurance services provided to audit and other assurance clients.
 - Explaining the rationale for the revisions to the non-assurance services section of the extant Code (Proposed Section 600, Provision of Non-assurance Services to an Audit Client, and Section 950, Provision of Non-assurance Services to an Assurance Client); and
 - Conforming amendments arising from the Safeguards Project as these relate to the text of Phase 1 of the IESBA Structure – Phase 1 of the Code Project.

In accordance with the provisions of Section 10(1)(a) of the Auditing Profession Act, Act No. 26 of 2005 (the Act), the IRBA may, by notice in the Government Gazette and pursuant to the provisions of Section 4(1)(c) of the Act, publish – for public information and comment – an amendment to the IRBA Code. Accordingly, [Board Notice 18 of 2017](#), in Government Gazette No. 40660 of 3 March 2017, was published for public comment for a minimum period of 30 days.

How to comment

Registered auditors and others were invited to submit comments regarding the proposed changes to the IRBA for consideration as we prepared our response to the IESBA. Comments on the IESBA Safeguards Phase 2 ED were due to the IRBA by 11 April 2017 while those on the IESBA Proposed Structure – Phase 2 ED are due by 11 May 2017.

Alternatively, comments may be submitted directly to the IESBA through the www.ifac.org website, which has a "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Comments to the IESBA close on 25 April 2017

ETHICS cont.

for the Safeguards Phase 2 ED and on 25 May 2017 for the Proposed Structure – Phase 2 ED.

The proposed changes to the IESBA Code of Ethics are available in PDF and may be downloaded from the [IRBA website](#).

IRBA COMMUNICATIONS

Please advise Lebogang Manganye (lmanganye@irba.co.za) if you would like to receive IRBA communications, or if you are aware of a non-auditor who would like to receive these.



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INVESTIGATIONS

INVESTIGATING COMMITTEE

The Investigating Committee met once during this period and referred 22 matters to the Disciplinary Advisory Committee with recommendations.

DISCIPLINARY ADVISORY COMMITTEE

The Disciplinary Advisory Committee met twice during this period and concluded on 40 matters.

Decisions not to charge

Nine matters in terms of Disciplinary Rule 3.5.1.1 – the respondent was not guilty of improper conduct.

Five matters in terms of Disciplinary Rule 3.5.1.2 – there is a reasonable explanation for the respondent's conduct.

Five matters in terms of Disciplinary Rule 3.5.1.4 – there are no reasonable prospects of succeeding with a charge of improper conduct against the respondent.

Decisions to charge and matters finalised by consent order

Twenty matters were finalised by consent order.

Matter 1

The respondent failed to appropriately disclose in the annual financial statements interest adjustments relating to loan accounts and to respond within a reasonable time to queries received from the client on the loan accounts.

The respondent was sentenced to a fine of R50,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, with payment of the full amount being postponed until such time that the respondent re-registers with the IRBA, no costs order and publication by the IRBA in general terms.

Matter 2

The respondent failed to document sufficient appropriate evidence that the financial statements were validly approved,

as per the Companies Act requirements, prior to the respondent signing and distributing the audit opinion. The client failed to prepare consolidated financial statements over multiple financial years. The respondent failed to report this reportable irregularity to the IRBA.

The respondent was sentenced to a fine of R60,000, of which R30,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, a cost order of R10,000 and publication by the IRBA in general terms.

Matter 3

The client failed to prepare consolidated financial statements over multiple financial years. The respondent failed to report this reportable irregularity to the IRBA.

The respondent was sentenced to a fine of R50,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, a cost order of R10,000 and publication by the IRBA in general terms.

Matter 4

The respondent issued a B-BBEE verification certificate prior to being registered as a B-BBEE approved registered auditor.

The respondent was sentenced to a fine of R50,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 5

The respondent failed to prepare financial reports timeously, which resulted in a fine payable by the client.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

INVESTIGATIONS cont.

Matter 6

On an attorney's trust audit, the respondent did not perform adequate procedures to confirm that the trust ledger reconciled to the bank statements throughout the financial year. In addition, the audit documentation identified certain non-compliance with the Law Society Rules, but the respondent issued an unmodified assurance report.

The respondent was sentenced to a fine of R100,000, of which R30,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 7

The matter arose from a referral by the Inspections Department. The respondent prepared annual financial statements for an audit client and in doing so contravened S90 (2) of the Companies Act.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 8

The respondent was appointed as a trustee of a Trust and as the auditor of a business that was fully owned by the Trust. As a result, the respondent breached the independence rules, as set out in the IRBA Code of Conduct.

The respondent was sentenced to a fine of R80,000, of which R30,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 9

The respondent was approached by the CEO of the audit client on how to regularise an unauthorised loan. The respondent failed to report this matter as a reportable irregularity to the IRBA and also failed to report this matter to

those charged with governance of the entity.

The respondent was sentenced to a fine of R120,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 10

The respondent failed to retain audit documentation to support the opinion expressed as required by the relevant professional standards.

The respondent was sentenced to a fine of R60,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 11

The respondent issued an unmodified audit opinion despite being aware of non-routine property transactions by the client which were not disclosed in the annual financial statements. The respondent also failed to properly plan the audit.

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 12

The respondent did not document considerations on why an adjustment to the financial statements was accepted as a correction of a prior period error and not a change in estimate. Furthermore, the respondent did not identify that the accounting treatment adopted by the company on the adjustment was incorrect, and the respondent issued an inappropriate audit opinion.

The respondent was sentenced to a fine of R150,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct

INVESTIGATIONS cont.

committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 13

The respondent's audit procedures failed to identify that the client's accounting policy on linked unit debentures did not comply with IAS 39, and that the split of the equity and liability portion per linked unit was not in accordance with IAS 32. The financial statements were materially misstated with no modification to the audit opinion.

The respondent was sentenced to a fine of R150,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 14

The respondent's audit procedures failed to identify a calculation error in inventory overhead allocation costs, as well as a calculation error in depreciation. The financial statements were materially misstated with no modification to the audit opinion.

The respondent was sentenced to a fine of R100,000, of which R50,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 15

The respondent's audit procedures failed to identify that a related party debtor was not recorded at fair value. The financial statements were materially misstated with no modification to the audit opinion.

The respondent was sentenced to a fine of R100,000, of which R30,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 16

The respondent was appointed as executor of a deceased estate. Despite the client making numerous requests for various copies of documentation, the respondent failed to provide the client with the documentation.

The respondent was sentenced to a fine of R50,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 17

The respondent prepared financial statements but failed to include all disclosures required in terms of IFRS for SMEs.

The respondent was sentenced to a fine of R40,000, of which R20,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 18

A PAYE payment was deferred by a client. The respondent failed to report this matter as a reportable irregularity to the IRBA and also failed to report this matter to those charged with governance of the entity.

The respondent was sentenced to a fine of R50,000, of which R25,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 19

An audit team member was a beneficiary in a trust that held a significant interest in an audit client. The respondent failed to identify and respond to this independence threat for which no safeguards exist.

The respondent was sentenced to a fine of R80,000, of which R40,000 has been suspended for three years on condition that

INVESTIGATIONS cont.

the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.

Matter 20

The respondent acted as auditor and also carried out regular accounting work in relation to their spouse's attorney trust account. As a result, the respondent breached the independence rules, as set out in the IRBA Code of Conduct.

The respondent was sentenced to a fine of R100,000, with payment of the full amount being postponed until such time that the respondent re-registers with the IRBA, no costs order and publication by the IRBA in general terms.

Decisions to charge and matters referred for a disciplinary hearing

One matter was referred to the Legal Department for a disciplinary hearing.



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INSPECTIONS

INSPECTIONS REPORT SHOWS DECLINE IN AUDIT QUALITY

The *Public Inspections Report 2015/2016* recently released by the IRBA shows an overall regression in the inspection results. Compared to the previous year, unsatisfactory inspections results of audit firms have increased by 27% and unsatisfactory engagement inspection results by almost 50%, based on selected inspections performed.

The report reflects on key inspection findings recorded over the financial year ended 31 March 2016. It analyses a total of 20 audit firm and 237 audit inspections based on the formal decisions of the Board's independent Inspections Committee.

The findings are in line with the latest annual Inspection Findings Survey results recently issued by the International Forum of Independent Audit Regulators (IFIAR), of which South Africa is one of more than 50 members. The IFIAR survey shows a slight decline in inspection findings of six large global network firms. Also, it shows a lack of consistency in the execution of high-quality audits and points to the continued need to address firm-wide systems of quality control, including auditor independence.

Many of the selected inspections performed by the IRBA identified one or more significant findings with 15% (2015: 16%) of firms and 14% (2015: 6%) of engagement partners being referred to the Investigating Committee by the Inspections Committee. These referrals were as a result of fundamental or continued noncompliance with international auditing and financial reporting standards, the professional code or legislative requirements. The nature of these findings is also aligned to the IFIAR survey findings in the critical area of firm-wide quality control.

The IRBA has expanded its capacity and expertise to focus on audits of entities where there is a greater element of public interest and risk. The size and complexity of these audits demanded more time and resources than before, which resulted in fewer but more in-depth inspections being performed. Although fewer inspections were performed compared to the previous year, there was a 41% increase in the total number of significant findings raised on engagement inspections.

The auditing profession is one of the few professions that are inspected on a regular basis. Inspections and regulation are not only critical to ensure that the highest standards are maintained in a profession, but also provide the public and investors with the confidence that they can rely on the work of auditors. Confidence stimulates investment, and investment creates employment and growth.

The IRBA performs inspections on selected firms to evaluate the design and effectiveness of their quality control policies and procedures, including their performance on a selection of assurance engagements. The inspection process focuses on high-risk audit areas or areas where deficiencies could potentially create risks to the public if not identified or appropriately responded to by the auditor.

The key quality control areas focused on during firm inspections were leadership responsibilities; ethical requirements, including independence; engagement performance; and monitoring. In terms of the practices of firms, deficiency of alignment of firms' methodologies to the standards and observed lack of professional scepticism were two areas of concern.

In response to the 2013 World Bank recommendations in its Report on the Observance of Standards and Codes (ROSC) and concerns regarding inspection results, the IRBA has implemented increasingly robust measures that are aimed at prompting auditors to achieve consistent sustainable high audit quality and produce reliable audit reports on financial information. This has meant going a step further, without compromising its own independence, by implementing a new Remedial Action Process that is aimed at engaging more regularly with those firms and practitioners who have shown deficiencies in their firms' quality control policies and procedures or audit engagement files.

The IRBA has actively engaged with 72% of inspected auditors that received unsatisfactory inspection results during the year, especially where the root causes or remedial plans were found to be insufficient or inappropriate.

The Inspections Report can be downloaded at www.irba.co.za.

INSPECTIONS cont.

AN ALARMING INCREASE IN IMPROPER MODIFICATION OF AUDIT DOCUMENTATION

The IRBA has noted an alarming increase in incidences of improper addition to or modification of audit documentation after the final audit file assembly period. What is especially of concern is an increase in cases where audit documentation is created or changed close to, or in connection with, an IRBA inspection.

Examples of recent IRBA Inspection findings include:

- The audit firm and engagement team have failed to ensure the confidentiality, safe custody, integrity, accessibility and retrievability of the final audit files and/or audit documentation are maintained after the final audit file assembly period by establishing and maintaining policies and procedures, as per the requirements of the International Standard on Quality Control (ISQC) 1.
- The engagement team was found to be creating and/or adding audit documentation and/or working papers to the final audit file and/or modifying existing working papers between the audit report date and the final assembly of the final audit file without providing documented evidence, as per the requirements of International Standard on Auditing (ISA) 230.
- A number of final audit files selected for inspection were not archived (assembled) as required by the firm's methodology and were accessed and audit documentation created and changed after the final audit file assembly period of 60 days, without providing documented evidence, as per the requirements of International Standard on Auditing (ISA) 230.
- The engagement team was found to be creating and adding audit documentation and working papers to the final audit file after the 60-day file assembly period and close to (one day) before the IRBA inspection commenced.

The IRBA wishes to remind auditors of the guidance contained in ISQC 1 and the ISAs regarding the following:

a. Timely assembly of the final audit file

Audit firms and engagement teams need to ensure the timely assembly of the audit files as per ISQC 1 and ISA 230, after the audit reports are finalised. Such a time limit would ordinarily not be more than 60 days after the date of the auditor's report (reference ISQC 1, paragraphs 45 and A54-A55; ISA 230,

paragraphs 14 and A21-A22).

Regarding completed audits, the audit firm and engagement team need to establish policies and procedures to ensure that the confidentiality, safe custody, integrity, accessibility and retrievability of the final audit file are not compromised by designing and implementing controls to avoid unauthorised alterations or loss of documentation (reference ISQC 1, paragraphs 46 and A56-A59).

Examples of such controls include doing the following:

- Implement policies and procedures to ensure that all audit files are timely assembled and securely archived;
- Enable the determination of when and by whom audit documentation on an audit file was created, changed or reviewed;
- Protect the integrity and confidentiality of the audit file at all stages of the audit, especially when the information is shared within the engagement team or transmitted to other parties;
- Prevent unauthorised changes to the audit file and audit documentation; and
- Allow access to the audit documentation by the engagement team and other authorised parties as necessary to properly discharge their responsibilities.

b. Addition to or modification of audit files during the final audit file assembly period

Although audit firms and engagement teams are allowed to finalise the assembly of the final audit files after the audit reports have been issued, these are limited to administrative changes.

In the exceptional circumstances where the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, for example as a result of subsequent events, additional information is required to be documented on file, as per ISA 230, paragraph 13, A20.

c. Addition to or modification of audit files after the final audit file assembly period

After the final assembly period of the file, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period (ISA 230, paragraph 15, A23).

INSPECTIONS cont.

Where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, additional information is required to be documented on file, as per ISA 230 paragraph 16, A24, including the specific reasons for making them and when and by whom they were made and reviewed.

ISA 230, paragraph A24, includes an example of such a circumstance, when the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed to clarify existing audit documentation arising from comments received during monitoring inspections performed by internal or external parties. This does not mean that final audit files can be improved purely because they have or could be selected for inspection by the IRBA.

In summary, it is important to note that any improper addition, alteration, change or modification in any audit documentation or final audit file after the file assembly period – as defined in ISQC 1 and ISA 230 – in preparation for or close to an IRBA

inspection is not acceptable as it casts significant doubt on the integrity of the audit documentation/audit file, the engagement team and the firm. Not only does it undermine the effectiveness of the IRBA inspections, but it also poses a significant risk to the public due to the initial quality of the audit evidence being obscured.

These findings at audit file level may also result in firm level findings and disciplinary action might be instigated against the engagement partner and/or the firm as these actions are inconsistent with the ISAs and the auditor's professional duty to act with integrity and due care (IRBA Code of Professional Conduct).

The IRBA encourages the leadership of firms to reinforce the importance of compliance in this regard.



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DISCIPLINARY COMMITTEE

The Disciplinary Committee sat once during this period to hear two separate matters.

FIRST MATTER

On 9 March 2017, the committee heard the matter of Mr S, who was present and represented by senior counsel. The respondent pleaded guilty to, and was found guilty of, seven charges of improper conduct. The case related to the audits of a number of companies, which formed part of a property syndication group, for the financial year ended 28 February 2011.

Charge One – Entities 15-18

The respondent pleaded guilty to contravening rules 2.5, 2.6, 2.7 and 2.17 of the Rules Regarding Improper Conduct.

The essence of the charge was that the respondent had failed to document his consideration of the going concern assumption due to the numerous significant uncertainties that occurred after year-end but prior to him issuing his auditor's reports. Notwithstanding the fact that the respondent had qualified his audit opinions of the entities, he had failed to consider the impact of all the uncertainties facing the companies and the appropriateness of the audit opinions. Furthermore, the respondent had failed to apply an appropriate level of professional scepticism during the audits.

Charge Two – Entities 15-18

The respondent pleaded guilty to contravening rules 2.5, 2.6, 2.7 and 2.17 of the Rules Regarding Improper Conduct.

The charge related to the fact that the disclosures in the financial statements of the entities were severely deficient in that they did not include information regarding how the companies' solvency and liquidity would be restored; and how the companies could continue to operate in the absence of future financial support. Furthermore, the respondent had failed to document his verification of the classification of liabilities as current or non-current; his consideration of circumstances surrounding solvency and profitability; and his consideration as to whether the annual financial statements presented a fair presentation or contained material

misstatements due to the above factors affecting the going concern assumption. In addition, he had failed to apply an appropriate level of professional scepticism during the audits.

Charge Three – Entities 15-18

The respondent pleaded guilty to contravening rules 2.5, 2.6, 2.7 and 2.17 of the Rules Regarding Improper Conduct.

The charge related to the fact that the respondent had failed to document his evaluation of the companies' annual financial statements' compliance with IFRS in order for him to detect certain omissions and his consideration of modifying the opinions in accordance with ISA 705, Modifications of the audit opinion. These omissions were:

- There was no disclosure in the financial statements regarding both normal and deferred taxation, as required by IAS 12, *Income taxes*.
- There was no disclosure of the credit, liquidity and market risks as required by IFRS 7, *Financial instruments*.
- There was no disclosure of related party balances and transactions as required by IAS 24, *Related party disclosures*.
- There was inadequate disclosure with respect to lease income as required by IAS 17, *Leases*, and the lease income had not been straight-lined.
- There were no accounting policies in respect of taxation, leases and rental revenue as required by IAS 1, *Presentation of financial statements*.
- The information required by paragraphs 74-79 (Disclosure) of IAS 40, *Investment property*, was not disclosed.
- There was no disclosure of the significant judgements that management made in applying the accounting policies, such as the estimation of the fair value of investment properties, as required by IAS 1, *Presentation of financial statements*.
- The companies were public companies, but the company secretary had failed to insert a certificate in the financial statements as required by Section 268G(d) of the Companies Act 61 of 1973 (now repealed).

Furthermore, the respondent had failed to apply an appropriate level of professional scepticism during the audits.

Charge Four – Entities 19-22

The respondent pleaded guilty to contravening rules 2.5, 2.6,

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2.7 and 2.17 of the Rules Regarding Improper Conduct.

In respect of the charge, the respondent had failed to document his verification of the classification, recoverability and valuation of loans receivable, and his considerations to whether the annual financial statements achieved a fair presentation or contained material misstatements due to certain factors that affected the valuation of assets. Furthermore, the respondent had failed to apply an appropriate level of professional scepticism during the audits.

Charge Five – Entities 19-22

The respondent pleaded guilty to contravening rules 2.5, 2.6, 2.7 and 2.17 of the Rules Regarding Improper Conduct.

In respect of the charge, the respondent had failed to document his evaluation of the companies' annual financial statements compliance with IFRS in order to detect certain omissions and his consideration of modifying his audit opinions in accordance with ISA 705, Modifications of the audit opinions. Furthermore, the respondent had failed to apply an appropriate level of professional scepticism during the audits. These omissions were:

- There was no disclosure in the financial statements in respect of taxation, as required by IAS 12, *Income taxes*.
- There was no disclosure of the credit, liquidity and market risks as required by IFRS 7, *Financial instruments*.
- There was no disclosure of related party balances and transactions as required by IAS 24, *Related party disclosures*.
- There were no accounting policies with respect to taxation and impairment as required by IAS 1, *Presentation of financial statements*. Also, the accounting policy with regard to financial instruments was incomplete.
- There was no disclosure of the significant judgements that management made in applying the accounting policies, such as the consideration of possible impairment of financial assets as required by IAS 1, *Presentation of financial statements*.
- The directors' reports in the annual financial statements of 19 & 20 referred to the proposed sale of properties, but there were no properties disclosed in the financial statements.
- There was no disclosure of the rights and obligations of the shareholders as set out in the prospectuses.
- The companies were public companies, but the company

secretary had failed to insert a certificate in the annual financial statements as required by Section 268G(d) of the Companies Act 61 of 1973 (now repealed).

Furthermore, the respondent had failed to apply an appropriate level of professional scepticism during the audits.

Charge Six – Entities 19-22

The respondent pleaded guilty to contravening rules 2.5, 2.6, 2.7 and 2.17 of the Rules Regarding Improper Conduct.

In respect of the charge, the annual financial statements of the entities were severely deficient in that they did not include information regarding the following:

- The head-lease and buy-back arrangements, which were significant for a proper understanding of the financial affairs of the companies and to ensure fair presentation.
- The conditional sale agreement entered into by the companies subsequent to the year-end.
- A dispute that existed, which resulted in the failure to transfer the properties to the syndication companies.
- The financial statements of one company stated that a substantial amount had been advanced as a loan that was unsecured, interest-free, with no set terms of repayment. The recoverability of the loan and the viability of the arrangement with the borrower were not explained or disclosed in the annual financial statements.

The respondent had failed to document his evaluation of the companies' annual financial statements' compliance with IFRS in order to detect or correct the above omissions and his consideration of modifying his audit opinions in accordance with ISA 705. Furthermore, the respondent had failed to apply an appropriate level of professional scepticism during the audits.

Charge Seven – Entities 19-22

The respondent pleaded guilty to contravening rules 2.1 (failure to comply with Section 45 of the Auditing Profession Act 26 of 2005), 2.6 and 2.17 of the Rules Regarding Improper Conduct.

The facts of the charge were that the respondent had failed to report a reportable irregularity in that the directors of the companies had failed to comply with representations made in

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the prospectuses.

SENTENCE

The committee approached the matter on the basis that the respondent was considered to have been found guilty as charged because he had admitted guilt to the charges and the pro forma complainant, acting for the IRBA, had accepted the admission. Therefore, the committee only had to consider the issue of sanction and, after deliberations, accepted the proposal put forward by both the pro forma complainant and the respondent in respect of what is an appropriate sanction. Its motivation for doing so was that the IRBA operated utilising public monies and it was in the interests of the IRBA and the public it serves for the matter to be finalised as expeditiously as possible. Accordingly, the committee sanctioned the respondent as follows:

1. Charges one, two and three were taken together for the purpose of sanction and a fine of R75,000 was imposed.
2. A fine of R100,000 was imposed in respect of charge four.
3. Charges five and six were taken together for the purpose of sanction and a fine of R75,000 was imposed.
4. A fine of R50,000 was imposed for charge seven.
5. Half of the total fines of R300,000 (being R150,000) was suspended for five years on condition that the respondent is not found guilty of any offence relating to work done pertaining to professional services during the period.
6. The committee furthermore ordered the respondent to contribute a sum of R150,000 towards the IRBA's costs.
7. The payment of the payable portion of the fines and the total costs were ordered to be paid in 24 monthly instalments of R12,500 each, with the first payment commencing on the first day of the month following the date of the committee's ruling.
8. Furthermore, the committee ordered the IRBA to publish, in *IRBA News*, a summary of the facts of the case, the plea and sanction, excluding the respondent's name and the name of his firm.

SECOND MATTER

On 9 March 2017, the committee heard the matter of Mr V, who was present and represented. The respondent pleaded guilty to, and was found guilty of, 10 charges of improper conduct. The respondent was the auditor of a holding company and various subsidiaries, which had collected about R616 million from investors purportedly for the construction of a hotel.

Charge One

The respondent pleaded guilty to contravening rules 2.1.20 of the old Disciplinary Rules and, in particular, 4.3 of the 1997 Code of Professional Conduct in that he had created the appearance that his independence was compromised.

The essence of the charge was that, while the respondent was the auditor of the holding company, he had accepted an appointment as the director of the audit client. The respondent had entered into negotiations to be appointed as a director of the audit client prior to the finalisation and sign-off of the audit opinion, thereby creating the appearance that his independence as an auditor was compromised.

Charge Two

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

The respondent had failed to design and perform appropriate audit procedures in accordance with ISA requirements for the purpose of obtaining sufficient appropriate audit evidence and had failed to adequately document his audit procedures in relation to the audit of contract revenue and contract costs relating to the hotel project in the financial statements of subsidiary "A" for the period ended 30 June 2009.

Charge Three

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

The respondent had failed to design and perform appropriate audit procedures in accordance with ISA requirements for the purpose of obtaining sufficient appropriate audit evidence. In addition, the respondent had failed to adequately document his audit procedures in relation to the valuation and impairment of related party receivables and the validity of certain material income and expenses in the annual financial statements of subsidiary "A" for the period ended 30 June 2009.

Charge Four

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

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The essence of the charge was that the audit documentation in respect of the audit of subsidiary "A" for the period ended 30 June 2009 was not in accordance with ISAs insofar as there was no signed audit engagement letter; there was no signed management representation letter; there was no evaluation of management's assessment of the going concern assumption and subsequent events; and there was no evidence on file that the respondent had reviewed any of the audit working papers.

Charge Five

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

In respect of the charge the respondent had issued an unqualified audit opinion for the period ended 30 June 2009 for subsidiary "A" even though the directors of subsidiary "A" had capitalised overheads to inventories on hand, contrary to SA GAAP and IAS 2, *Inventories*, and this had the effect of materially overstating the profits of the entity.

Charge Six

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

The facts of the charge were that the respondent had issued an unmodified audit opinion for the period ended 30 June 2009 for subsidiary "A" despite the fact that there were material discrepancies in the financial statements that should have caused the respondent to have issued a modified audit opinion in accordance with the requirements of ISA 701.

Charge Seven

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

In respect of the charge, the respondent had issued an unmodified audit opinion for the period ended 30 June 2009 for subsidiary "B", a public company, despite the fact that there were material discrepancies in the financial statements of the entity that should have caused the respondent to have issued a modified audit opinion.

Charge Eight

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

The facts of the case were that the respondent had issued an unmodified audit opinion, with an emphasis of matter, regarding the fair valuing of inventory, being property development, in respect of the financial statements of subsidiary "C" for the period ended 30 June 2009. The essence of the charge was that the respondent, in fact, should have expressed an adverse opinion in that the fair value adjustment to the property development meant that the profits of subsidiary "C" were significantly inflated.

Charge Nine

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

In respect of the charge, the respondent had failed to detect certain incorrect applications of SA GAAP; IAS 2, *Inventory*; and IAS 23, *Borrowing Costs*. The effect thereof was that the financial results and financial position, as reflected in the 2009 financial statements of the entity, were significantly misstated and the audit opinion should accordingly have been modified.

Charge Ten

The respondent pleaded guilty to contravening Rule 2.1.5 of the old Disciplinary Rules.

The facts of the charge were that the respondent was responsible for the audit of the group and there were several instances of significant related party transactions between subsidiaries that had the effect of transferring profits between fellow subsidiaries. However, the respondent had failed to interrogate these suspicious transactions during the performance of his audit.

SENTENCE

The committee approached the matter on the basis that the respondent was considered to have been found guilty as charged because he had admitted guilt to the charges and the pro forma complainant, acting for the IRBA, had accepted this admission. Therefore, the committee only had to consider

LEGAL cont.

sanction and accordingly sanctioned the respondent as follows:

1. A fine of R100,000 was imposed in respect of charge one.
2. Charges two, three and four were taken together for the purpose of sanction and a fine of R50,000 was imposed.
3. Charges five and six were taken together for the purpose of sanction and a fine of R100,000 was imposed.
4. A fine of R100,000 was imposed in respect of charge seven.
5. Charges eight and nine were taken together for the purpose of sentence and a fine of R100,000 was imposed.
6. A fine of R50,000 was imposed in respect of charge ten.
7. The committee ordered that the imposition of the fines set out in 1-6 (inclusive) above shall be postponed until such time as the respondent is re-registered with the IRBA, and the payment of the fines shall be a condition for such re-registration and to the extent that re-registration is sought and permitted.
8. In respect of costs, the respondent was ordered to make a contribution of R50,000 to the IRBA, payable immediately.
9. The committee ordered the IRBA to publish, in *IRBA News*, a summary of the facts of the case, the plea and sanction, excluding the name of the respondent or the name of his erstwhile firm.

The committee was motivated to impose the above sanction due to the fact that the respondent had resigned from the IRBA in 2012 and was no longer practising as a registered auditor.

Furthermore, the committee took into account the respondent's dire financial state of affairs.

INDABA - EXAMINING PROCESSES

Every so often the Legal Department hosts an Indaba with the Disciplinary Committee and legal advisors to examine disciplinary processes and address some of the challenges experienced in the execution of its statutory duties. This was the case on Friday, 27 January 2017; and hosting the indaba was especially important for the department as the IRBA had recently appointed a number of new attorneys to its panel of legal advisors. The meeting was chaired by Disciplinary Committee chairman Alan Dodson SC and IRBA CEO Bernard Agulhas, who gave the opening address.

The agenda items included a discussion about the principles and approach to drafting charges of improper conduct; and the nature and consequences of a judicial review. It was an honour to have Adv Billy Downer SC, Western Cape Deputy Director of Public Prosecutions (front row, middle, in the photo below) attend and lead the discussion on the drafting of charges. The attendees had robust discussions on the various issues that were addressed, while some of the issues that had previously vexed the Secretariat were clarified.

Thank you to the chairman, CEO and attendees for actively participating and for their valuable contribution at the Indaba.



Attendees at the recently held indaba hosted by the Legal Department.

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Reportable Irregularities (RIs) for the Quarter October-December 2016 (Note that RIs are reported on quarterly in arrears)

355 second reports were received, of which:

RIs were continuing	278
RIs were not continuing	74
RIs did not exist	3

Of the 278 continuing RIs received, the top six types of RIs most frequently reported, categorised by nature, were: (Note that in many cases, a second report received would identify more than one RI)

Unlawful Act or Omission	Reporting Frequency	Regulator(s) Informed
Non-registration for and/or non-payment of UIF.	57.82%	Department of Labour (UIF); the Department of Basic Education; and the South African Revenue Service (SARS).
Financial statements not prepared/not approved within the allotted timeframe.	11.90%	SARS; the Financial Service Board (FSB); the Companies and Intellectual Property Commission (CIPC); etc.
Suspected theft, fraud and/or corruption.	9.86%	The Department of Basic Education; the Directorate for Priority Crime Investigation (DPCI); the Estate Agency Affairs Board (EAAB); SARS; the CIPC; the National Lottery; etc.
Tax and VAT-related contraventions (e.g. non-submission of tax returns, failure to register for tax, non-payment of PAYE, etc.).	7.82%	SARS.
Various Companies Act contraventions, e.g. director's conduct, reckless trading.	6.46%	The CIPC.
Contraventions of the FIC Act.	1.70%	The Financial Intelligence Centre (FIC).
Other (e.g. contraventions of the Pension Funds Act and the Attorneys Act; non-compliance with JSE listing requirements; etc.)	4.42%	The FSB; the relevant Provincial Law Societies; the Department of Higher Education; the Johannesburg Stock Exchange (JSE); etc.

RIs SENT ONWARDS TO THE DEPARTMENT OF BASIC EDUCATION

Legal recently met with representatives from the Department of Basic Education and a host of topics were discussed in relation to RI reports, which the regulator sends onwards to the department in accordance with the IRBA statutory obligations as per Section 45(4) of the Auditing Profession Act 26 of 2005.

In this regard, Ms Devoshum Moodley-Veera, the Director of Provincial Audit Monitoring and Support, wishes to ask auditors to ensure that when an RI is reported on educational institutions such as a primary or secondary school, the particular institution's relevant Education Management Information System (EMIS) number be clearly reflected on all

the auditor's RI reports and related documents. This will be of great assistance to her team in enabling them to easily identify the particular educational institution in question and to properly allocate the matter to the relevant provincial district within which the educational institution is situated.

In addition, she would like to request auditors that whenever it is reasonably possible for them to do so, they provide an indication of the quantum of the actual amounts involved in relation to the irregularities identified. Such an indication of the quantum will, she says, be of significant value to her department in properly motivating cases of reported irregularities to be duly escalated for further investigations.

Ms Moodley-Veera would like to extend an invitation to auditors who have any questions in this regard to call her

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offices in Pretoria on (012) 357-3857/4.

CIPC SURVEY ON INDEPENDENT REVIEWS

The CIPC's Corporate Compliance and Disclosure Regulation Department's Independent Review Stream recently conducted a survey among accounting professionals with the aim of collecting information on certain focus areas specifically relating to independent reviews.

According to Ms Elaine Kalappen, Senior Investigator Corporate Compliance and Disclosure Regulation at the CIPC, the ultimate goal of this survey was to formulate a clearer picture of the possible root causes behind the slow uptake of independent reviews by SMEs and companies with a PI score of between zero and 350 points. This perceived reluctance of the market in embracing independent reviews is of concern to her, especially since the CIPC has undertaken numerous interventions to promote independent reviews to various industry representatives.

The survey results will enable Ms Kalappen's team to identify the possible root causes behind the low volume of RIs reported to the CIPC by accounting professionals. Her team will also be analysing the survey results with the aim of identifying the reasons accounting professionals who report RIs to the CIPC do not necessarily always follow due process, as described in Regulation 29 to the Companies Act 71 of 2008.

The CIPC is, however, already aware of certain challenges that the independent review process is currently facing, and Ms Kalappen and her team wish to assure accounting professionals that the CIPC is actively working with various industry and professional bodies with the aim of addressing the identified challenges. With this in mind, Ms Kalappen and her team wish to encourage accounting professionals to reconsider their viewpoint towards the concept of an independent review, and also encourage accounting professionals to engage in active discussions with their respective clients in relation to this topic.

RAs who are interested in the results of this survey can access a [summary](#) on the CIPC's website. In addition, RAs who are experiencing difficulties in either performing independent reviews or in submitting RIs directly to the CIPC should contact Ms Kalappen and her team at one of the following

email addresses and/or telephone numbers:

Ms Elaine Kalappen
NKalappen@cipc.co.za
(012) 394-1611

Mr Thikhathali Mulaudzi
TMulaudzi@cipc.co.za
(012) 394-3044

Mr Benjamin Sebotsa
BSebotsa@cipc.co.za
(012) 394-3047

In addition, the CIPC is also in the process of updating its database of accounting professionals who perform independent reviews; and RAs who provide these services are encouraged to get in touch with Ms Kalappen and her team at any of the abovementioned email addresses or telephone numbers.

HOLDING OUTS

In 2012 Legal received a request from the SAPS to confirm on affidavit whether a certain firm or individual was registered with the IRBA. This was incidental to an investigation of alleged fraud relating to a signature on an attorney's trust account audit report.

Neither the firm nor the individual was registered. This was then reported to the SAPS on affidavit, as requested.

In March 2016, Caroline Garbutt, IRBA Manager Registrations, was served with a subpoena to attend court in Mogwase, North West, on 17 March 2016. On telephonically discussing the matter with the prosecutor, she was excused from attending court as the matter was not ready to proceed.

She was again served with a subpoena in September 2016 and duly attended court on 4 October 2016. The matter was postponed to 15 November 2016 as the magistrate was conflicted.

On 15 November 2016 she again attended court. The matter was postponed by the magistrate to 9 February 2017 due to unforeseen circumstances.

LEGAL cont.

On 9 February 2017 she again attended court and gave testimony on the firm and the individual not being registered with the IRBA. In addition, a representative of the Law Society of the Northern Provinces was in attendance and also provided testimony. Two other key witnesses for the prosecution failed to appear in court.

After intense argument, the magistrate discharged the accused in terms of Section 174 of the Criminal Procedure Act, 51 of 1977.

The IRBA vigorously prosecutes cases of holding out, but the outcome of the matters is beyond its control. The regulator, nevertheless, exhorts people to report cases of holding out to Legal.



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EDUCATION AND TRANSFORMATION

At its recent strategy session, the Education and Transformation Committee (EDCOM) defined its objectives statement as follows: To drive Education and Transformation in a way that recognises the evaluation of competencies required to enter and remain in the profession which contribute to the betterment of society. This objective statement embraces the Education and Transformation Department's main functions, which include:

- Transformation.
- The Audit Development Programme (ADP).
- The Proficiency Policy (known as the "Three Year Rule").

TRANSFORMATION

The importance of transformation in South Africa has been invigorated, with government urging the profession recently to drive transformation from an economic perspective and not simply from a "numbers game" view. This implies that the focus should be on true economic transformation rather than just the de-racialisation of the different sectors of the economy.

When parliament held public hearings on the transformation of the financial sector, various organisations presented on the progress made to date. Some organisations were congratulated on the progress made while some were requested to be sturdier in their efforts.

The call for the accountancy and auditing profession to do more for transformation was also raised during the Mandatory Audit Firm Rotation (MAFR) hearing held in Parliament in March. Members of Parliament asked why the profession was not represented at the public hearing on the transformation of the finance sector. They further spoke of the need for the

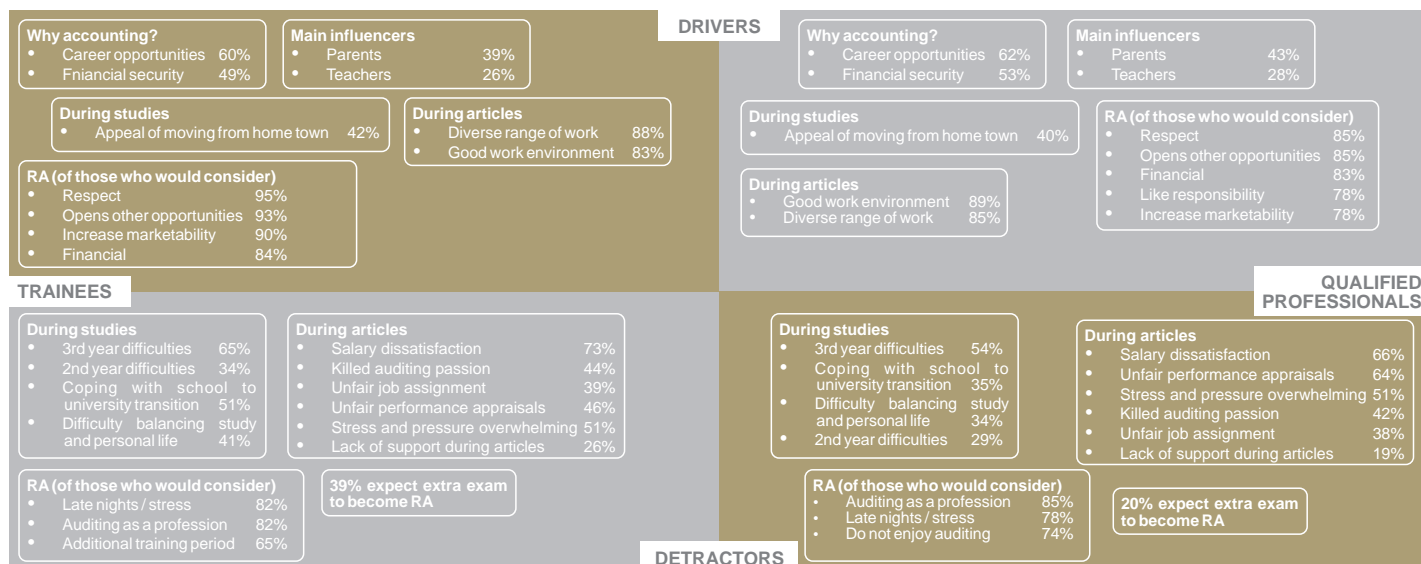
profession to initiate its own hearings on transformation.

The IRBA welcomes the call to raise the bar on transformation. Progress has been made in the profession regarding transformation and dealings with the members of the profession indicate that they want to do more. However, as the IRBA we acknowledge that a lot still needs to be done. The IRBA believes that even though the numbers have improved at certain key points in the route to qualifying as an RA, there is still more to do on qualitative issues concerning transformation.

In 2015, the IRBA commissioned research among trainees and recently qualified CAs in an attempt to quantify the factors driving and limiting professional advancement in auditing. The research came about because of feedback to the IRBA from trainees with regards to their firm experiences. Trainees had been raising concerns relating to unfair discrimination in areas of performance appraisals and job allocation, as well as the lack of cultural diversity within the firms. These concerns had and continue to have an impact on the number of trainees being retained in the auditing profession and on the number of trainees who may enter the IRBA's Audit Development Programme and eventually qualify as RAs.

To address some of these challenges, the IRBA will be hosting roundtable discussions to look at the results of the survey. Communication in this regard will be sent out to relevant stakeholders.

The graphic below is a summary of the drivers and detractors as indicated by the trainees and qualified professionals in the survey:



EDUCATION AND TRANSFORMATION cont.

THE AUDIT DEVELOPMENT PROGRAMME (ADP)

The ADP is a period of work experience undertaken by qualified professional accountants, currently SAICA's chartered accountants (CAs), and it is relevant to the work of a registered auditor (RA). The work experience enables the individual's development of professional competence in the workplace and provides a means through which individuals can demonstrate the achievement of professional competence in an RA firm.

Registered candidate auditors (RCAs) are required to report to the IRBA on a six-monthly basis on their ADP progress. Final assessment is through the submission of a Portfolio of Evidence (PoE). There is no written assessment.

The minimum period for ADP candidates to complete their training contracts in the auditing and assurance environment is 18 months. Between 1 March 2016 and 30 March 2017, 154 candidates registered for the ADP. At the drafting of this brief, the IRBA had received more registrations to process. However, there is still a challenge with the low number of transformation candidates registered for the ADP. In this regard, the IRBA continues to engage with training offices and those training offices identified as key in growing the number of transformation candidates.

Recognition of Prior Learning (RPL)

Candidates who wish to complete the ADP in less than 18 months may do so through RPL, which will be considered where the RCAs have post-articles experience at a more senior level on entering the programme. The IRBA encourages candidates who have recently qualified as CAs, but have already gained post-articles experience, to contact us as they may be able to register for the ADP and potentially be signed-off on a period shorter than 18 months. Candidates and firms may contact us on adpadmin@irba.co.za.

PROFICIENCY ASSESSMENT POLICY (THE THREE-YEAR RULE)

The IRBA has, as one of its mandates, the responsibility to ensure that all RAs are competent at entry to the profession and remain so throughout their professional lives. Equally, the IRBA has the responsibility to ensure that all applicants who

wish to enter the profession after an "extended absence" from the audit and assurance environment are competent.

The proficiency assessment policy defines an "extended absence" from audit and assurance as more than three years since an applicant was either (and whichever is the latter):

- o Registered with the IRBA (assurance1);
- o Successfully completed the ADP;
- o Completed a training contract in public practice; or
- o Worked in an audit and assurance environment.

Applicants Falling Within the Three-Year Rule

Applicants who fall outside the "extended absence" period would normally be registered without the need for a proficiency assessment. These would be applicants who are still within three years from the date they were either registered as assurance RAs, successfully completed the ADP, completed their training or worked in an audit and assurance environment.

However, the Board in 2016 made changes to the policy. If you have not been absent for an extended period but are starting your own practice, you would have to comply with the following provisions of the policy:

2. APPLICANTS WHO HAVE NOT BEEN ABSENT FOR AN EXTENDED PERIOD AND INTEND TO START THEIR OWN PRACTICES

2.1. On application for registration, any applicant who is deemed to have not been absent for an extended period and intends to start their own practice is required to supply the IRBA with:

- comprehensive CPD records;
- an up-to-date CV;
- a short description of why assurance registration is required;
- a practice plan, including a Quality (ISQC) Manual of the practice they intend to start; and
- the name and RA number of the RA identified as the practice's Quality Reviewer, in this regard also furnish the IRBA with agreements entered into with the Quality Reviewer.

2.2. The above requirements will also apply to applicants who are registered with the IRBA under an existing RA firm, who intend to leave the existing firm to start their own practices.

EDUCATION AND TRANSFORMATION cont.

This is a developmental process that ensures that all practices started are compliant with ISQC 1. The IRBA further believes that this improves audit quality.

Applicants Falling Outside the Three-Year Rule

Applicants who have had an “extended absence” from the profession may be required to attend the proficiency assessment interview. Applicants wishing to start their own practices must submit the following documentation relating to the practice they intend to start:

- Business Plan (Practice plan);
- Quality (ISQC) Manual, which must be drafted in accordance with ISQC 1; and
- The name and IRBA number of the RA identified as their firm's quality reviewer, including agreements entered into with the quality reviewer.

Again, this practice by the IRBA is aimed at improving audit quality as it ensures that all firms being started have quality control structures in place.

Applicants who are Outside the Three-Year Rule, but are Joining Existing RA Firms

Applicants who have been absent for an extended period but are joining existing RA firms are required to submit, with their registration, a letter of support from their firm detailing the following:

- That the firm supports the applicant's registration as an RA; and
- That the applicant meets the required competencies.

For more information on the Proficiency Policy, contact Thando Myoli (tmyoli@irba.co.za).

For general enquiries, contact us at edutrain@irba.co.za. For ADP specific queries, contact us at adpadmin@irba.co.za.



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COMMUNICATIONS

In the interest of improved communication with registered auditors and other stakeholders, a list of communiques sent by bulk e-mail during the reporting period for this issue is set out

below. These communiques may be downloaded from the IRBA website at www.irba.co.za under the News section.

24 March 2017	New online process for annual renewal
23 March 2017	IRBA Inspections Report shows decline in audit quality
14 March 2017	Revised Guide for Registered Auditors: Engagements on Attorneys' Trust Accounts
14 March 2017	Reminder: 2017 Assurance work declaration and firm update form
10 March 2017	IFIAR issues Report on the 2016 Global Inspections Findings Survey
10 March 2017	Fees payable to the IRBA with effect from 1 April 2017
06 March 2017	Revised Guide for Registered Auditors: Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports Required by the JSE Listings Requirements
06 March 2017	Adoption of the International Auditing and Assurance Standards Board's 2016-2017 Handbooks of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements
27 February 2017	Passing of Salamina Moremi-Kayizzi
24 February 2017	Withdrawal of SASAE 3502 (Revised), <i>Assurance Engagements on Broad-Based Black Economic Empowerment Verification Certificates</i>
20 February 2017	The International Auditing and Assurance Standards Board's (IAASB) Revised International Standard on Auditing (ISA) 250 (Revised), Consideration of Laws and Regulations in an Audit of Financial Statements
13 February 2017	New process for updating personal and firm details and annual renewal
07 February 2017	IESBA Releases Exposure Drafts on the Structure of the Code - Phase 2 and Revisions to Safeguards - Phase 2
07 February 2017	REMINDER: Effective Dates of Recent Amendments to the IRBA Code of Professional Conduct, Auditing Standards and Auditor Reports
13 January 2017	REMINDER: Standards-related communiques issued in 2016 with submissions due in 2017
13 January 2017	Standards News Omnibus: New Auditor's Report Q&A and Resources which can be used for applying Professional Skepticism
20 December 2016	IRBA News #36

GENERAL NEWS

NEW ONLINE PROCESS FOR ANNUAL RENEWALS

The IRBA has responded to registered auditors' (RAs) requests and will introduce a new and innovative way for RAs to update their personal and firm details, complete and submit their Individual Annual Returns and pay their individual annual fees online through our website.

As from 13 February 2017, RAs could update their personal and firm details through our website, while the 2017 annual renewal process will also be available from April 2017 when the new annual renewal cycle begins.

"We are excited about this new development and we strive to continually improve our services to the registered auditors," says Caroline Garbutt, Manager Registrations.

It is necessary for RAs to register on our website in order to use this service.

The individual Annual Return documents will be uploaded to the IRBA website at the beginning of April 2017, and RAs will be able to complete and submit their individual Annual Return documents and pay their individual annual fees through the website.

Annual Fees

Individual annual fees will be invoiced to RAs at the beginning of April 2017, and invoices will still be emailed to individual RAs.

Payment of annual fees may be made through one of the following methods:

- Using the new payment facility on the IRBA website;
- EFT; or
- Direct deposit or cheque payment into the IRBA bank account.

The IRBA does not accept cash payments.

Individual Annual Returns

The individual Annual Return will, however, no longer be emailed to RAs, and will only be available on the IRBA website for completion and submission.

For those RAs who have not yet registered on the website, the process to register is as follows:

1. Go to www.irba.co.za.
2. On the top menu bar, select the login icon.
3. This will bring up a login screen. Enter your IRBA individual registration number and your email address in the space provided. Leave the password field blank and click on "retrieve password here".
4. This will bring up a retrieve password screen. Re-enter your IRBA individual registration number and your email address in the space provided and click "submit".
5. An email will be sent to you with your password.
6. When you login with your password, a page will open up with your details.
7. You will then be able to change your password, if you so wish.

OVERVIEW

A decade of excellence

Agency's stringent regulation and enforcement has made SA a world leader in auditing and reporting standards enforcement

● This year marks the 10th anniversary of the Independent Regulatory Board for Auditors (IRBA), the statutory body controlling auditors (or accountants in public practice) in SA.

The organisation was established in 2006 to protect the financial interests of the investing public by ensuring that only suitably qualified individuals are admitted to the auditing profession and that registered auditors deliver high-quality services and adhere to the highest ethical standards.

In the decade in which it has been operational, the IRBA has scored some impressive achievements.

Top ranking

This year SA was once again ranked the world's number one country (out of 138 countries) for auditing and reporting standards – for the seventh consecutive year – by the World Economic Forum's *Global Competitiveness Report* issued at the end of September.

"We are very serious about upholding the highest standards of audit quality," says IRBA CEO Bernard Aguilhas. "As a country we are reliant on external capital and in order to attract foreign direct investment we need a well-regulated and reliable capital market. It's imperative that our audit profession is reputable so that potential investors and capital providers have reliable and

credible financial information at hand to make investment decisions."

However, he is quick to point out that SA's high ranking is a measure of the perceived strength of our financial auditing and reporting standards, as well as the robust process of standard-setting, regulation and enforcement in cases of noncompliance.

Furthermore, SA's ranking is not only due to the fact that the IRBA follows global best practice, but rather that as a globally respected regulator it influences international standards as well.

"Our strategy is to serve on as many relevant task forces and committees at a global level as possible. We adopt global standards only when we're assured that they're in SA's best interests."

In June the IRBA received confirmation that its application for recognition as an equivalent competent authority under the European Union legislation had been approved. "This is a positive development for audit firms and their global clients with shares listed on other stock exchanges," says Aguilhas.

In the wake of the Enron audit

What it means:

SA is number one worldwide for the strength of its financial auditing and reporting standards



Bernard Aguilhas: Commitment to upholding the highest standards of auditing

failure by Arthur Andersen in 2001, the debate around the regulation of auditors gained momentum. Since then the trend globally has been towards the establishment of independent audit regulators.

Trevor Manuel, then finance minister, decided to overhaul the auditing and accounting profession with the establishment of the Public Oversight Board; the Financial & Fiscal Commission (FFC); and the IRBA, which was

established in terms of the Auditing Profession Act, 2005.

"The name of the IRBA was deliberately chosen," says Aguilhas. "Previously, the industry was subject to 'self-regulation', with members of the board being auditors themselves. It was a situation of auditors regulating auditors. The result was that self-interest could have played some role in decision making – akin to a case of the tail wagging the dog."

The establishment of the IRBA in April 2006 meant that for the first time the regulatory body was independent of the auditing profession. "For the first few years it was a challenge to change perceptions and for the industry to accept the independence of the IRBA," says Agulhas.

The board of the IRBA is appointed by the minister of finance. For the first time in 2015 the board, which is accountable to the minister of finance, was wholly independent with no practising auditors in its ranks.

The board in turn delegates to the CEO the management of the day-to-day running of the IRBA.

In the decade since the IRBA was established, the organisation has grown from a staff complement of 30 to more than 90 people as it assumed more responsibility in its efforts to

become a robust regulator.

New roles

"We've taken on new roles over the years as we started seeing ourselves as more than just a body which sets auditing standards and regulates auditors via an inspection process," says Agulhas.

"The board came to the realisation that the IRBA had to play a bigger role in stimulating the economy rather than simply being a regulator." This is achieved by promoting investment through high-quality audits and robust regulation, which in turn creates employment, which has a ripple effect of stimulating the economy.

"Investors are more confident about investing in markets where there is robust auditor regulation and corporate governance in place," says Agulhas.

He says the IRBA's philosophy is

not to under or overregulate. "Our goal is 'right touch' regulation with the pendulum somewhere in the middle. While we are independent of auditors, we still remain the custodian of the profession."

The IRBA is well on its way to realising its vision to be an internationally recognised regulator

This is more than just a body which sets auditing standards and regulates auditors via an inspection process. The IRBA has to play a bigger role in stimulating the economy than just regulation

of the auditing profession and other assurance services relevant to the SA environment. In 2005 it adopted global audit standards.

"This was a deliberate decision," says Agulhas. "In order for the IRBA to fulfil its mandate it is imperative that investors have confidence in our audit opinions and standards. The investing public needs to base their investment decisions on reliable audit opinions. They also need to know that disciplinary action will be taken against any auditor who transgresses the IRBA's rules and regulations."

Registration with the IRBA is mandatory for all qualified chartered accountants wishing to enter public practice as auditors.

Not only do auditors have to comply with the IRBA's competence requirements, but they are also obliged to comply with its standards and code of ethics.

Inspections are carried out and investigations are conducted into all complaints from the public. ✕

STRATEGY

A perfect four-pillar formula

Taking the lead in regulatory strategies and maintaining independence has helped the IRBA deliver on its mandate

Rene Kenosi: IRBA sought permission to regulate all accounting PAOs

● During the 2013/2014 financial year the Independent Regulatory Board for Auditors (IRBA) responded to the World Bank's recommendation to regulate all professional accounting organisations (PAOs) by making certain proposals and including a more comprehensive regulatory model in its strategy. Consequently, its four-pillar strategy builds on the organisation's legislative mandate and supports government's national priorities.

The first pillar is for the IRBA to be a comprehensive regulator of the accounting and auditing professions. This pillar is based on a 2013 World Bank report, which advised how SA could improve its audit and accounting environment. Among the World Bank's recommendations – based on

extensive consultation with investors, accounting bodies, corporates and academics – was a recommendation to also regulate PAOs.

"In SA we don't have a level playing field," says IRBA chair Rene Kenosi. "The reality is that we have 4,254 auditors who are subject to very strict rules while more than 60,000 accountants are not regulated. However, banks and investors use the information generated not only by auditors, but also by tax practitioners, accountants and other professionals in finance. The World Bank therefore recommended that accountants should also be subject to some form of regulation."

SA is in the unique position of having nearly a dozen PAOs including Saica (SA Institute of Chartered Accountants) and Salpa (SA Institute of Professional Accountants), among others.

Based on the recommendations made by the World Bank the IRBA therefore proposed regulating these professional bodies rather than the 60,000-odd individual accountants in SA. "The IRBA has submitted a comprehensive proposal to the minister of finance



to regulate these bodies," says Kenosi. "We firmly believe that all accountants should be regulated as it will result in better quality and more consistency throughout the profession. It also means that a regulator can take action against those accountants who don't comply with the standards and regulations required."

The second pillar involves transformation, one of the biggest challenges facing the auditing profession locally. "There is no doubt that the auditing profession remains very unequal," says Kenosi. She says that only 24% of the auditing profession in black (comprising black, coloured and Indian individuals), and of that figure less than 10% are African.

"Though transformation is not in our mandate and happens at firm level, we believe it's an issue that warrants our attention," she says.

Since 2011 the IRBA has been

The new processes mean that a regulator can take action against those accountants who don't comply with the standards and regulations required. This ensures better quality and more consistency throughout the auditing and accounting profession

accrediting registered auditors offering broad-based black economic empowerment (BBBEE) assurance services. However, in September the IRBA officially withdrew from the regulation of the BBBEE verification industry, after consultation with the department of trade & industry (DTI), which remains responsible for BBBEE policy.

"Our position was that we believed that only auditors are qualified to offer BBBEE assurance services, as they are trained in verification. The DTI, however, was

of the opinion that anybody who has completed their course was competent to provide these services. The IRBA was therefore increasingly being associated with non-auditors offering B-BBEE assurance services. As a result the board became increasingly concerned that the IRBA could suffer reputational damage should something go wrong as a result of individuals they do not regulate.

"We therefore made the decision to leave the regulation of the B-BBEE verification industry to the DTI," says Kenosi.

The third pillar is to strengthen auditing governance and reporting practices on the African continent. According to Kenosi, as a globally respected body, the IRBA believes it has a role to play in supporting other African countries in terms of establishing their own independent regulators. "Most audit firms operate both in Africa and globally

and we can no longer limit ourselves to focusing only within our own borders," she says. "Though we don't have a budget for this as it's not part of our mandate, we do invite other countries to send representatives to sit in our statutory committee meetings and support the development of skills and capability within the structures of African regulators."

The fourth and final pillar is to strengthen the independence of the IRBA from the auditing profession as well as the independence of auditors from their clients. Regarding the former, the IRBA receives funding from government, auditors on registration and inspections in equal measure. Kenosi says plans are in place to develop a funding model that allows the organisation to be independent of both government and auditors.

Regarding the latter, she says

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Number
HAS A STORY TO TELL

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the board of the IRBA has long been concerned with the issue of auditor independence.

"Many of the audit failures both locally and globally have given rise to regulatory concerns globally and a focus on the work of auditors. A

failure occurs when they have expressed the wrong opinion, and this could be linked to poor audit quality, which could be caused by impaired independence. When something goes wrong the focus typically falls on the auditor –

whether they were at fault or not."

She adds that now that European Union regulations require mandatory audit firm rotation, mandatory audit tendering, joint audits or a combination, the IRBA needed to

consider such international trends.

"If we want to continue to be a global player and influencer it's important that we don't get left behind and continue to consider best international practice," Kenosi says. **x**

REGULATION

Mandatory audit firm rotation

The system will be put in place to eliminate any possibilities of a conflict of interest between auditors and clients

● The Independent Regulatory Board for Auditors' (IRBA) decision to introduce mandatory audit firm rotation every 10 years has come in for a great deal of criticism – from companies who have taken issue with the ruling, as well as certain audit firms, which have been quoted as saying that SA has sufficient safeguards to ensure the independence of auditors and doesn't need mandatory audit firm rotation.

However, the new rule, says IRBA CEO Bernard Agulhas, is necessary to ensure that auditors are genuinely independent of the companies they audit.

"We had become aware of the long-standing relationships between audit firms and their clients. For listed companies this is particularly pertinent and it is certainly in the public interest to know that for some of them the tenure of their audit firm was over 100 years," he says.

A number of large companies have used the same audit firm for several decades: Murray & Roberts, for example, has used Deloitte for 114 years, while Naspers has used PwC and AECL has used KPMG, both for more than 90 years. AngloGold Ashanti has used Ernst & Young (EY) for the past 72 years.

The audit fees are not insignificant: Naspers paid PwC R117m last year while AngloGold

Ashanti paid EY R101m.

Agulhas says if an audit firm has been associated with a client for that long it stands to reason that a perception is created that the firm could become complacent.

"In fact, frequently our audit file reviews highlight issues that could have arisen from familiarity and long association. Ultimately, as the audit regulator, we have to strive for high audit quality. We need to ensure that we avoid any perceived lack of independence which could potentially damage investor confidence in the resulting assurance opinions," says Agulhas.

In December 2015 the IRBA issued a rule requiring audit firms to disclose the number of years they had been auditing each of their clients.

At the very least, says Agulhas, this serves to make audit committees appreciate the length of tenure of their audit firm.

"We see a definite need for audit committees to be more mindful of their duty to consider the level of independence and not merely reappoint the same auditors year-in and year-out.

"We're not saying that audit

What it means:

Auditors to stay independent of the firms they audit to ensure accountability to shareholders



IRBA premises: The agency has maintained a clean track record since its inception

firms that have had a long tenure with their clients have necessarily been 'captured'. What we are saying is that there could be an issue of independence which the audit committee has a responsibility to consider."

He says it is the responsibility of the company audit committee to appoint the auditor, yet surprisingly it has tended to be the chief financial officers (CFOs) who are most critical of mandatory audit firm rotation.

"This in itself already raises a red flag in terms of perceptions of independence; why should CFOs be so bonded to their auditors and so resistant to change?" says Agulhas.

Of further concern, he says, is the fact that almost 25% of top 40 JSE companies have audit committee chairs who were previously employed by the company's auditor.

According to Agulhas, mandatory audit firm rotation has already been adopted in a number

of European countries and by introducing this ruling, SA will be following global best practice.

Mandatory firm rotation would also serve to achieve two other objectives: more rapid transformation in a largely white dominated industry as well as alleviating concentration in the market.

This is done by forcing opportunity for access to a market that has been closed exclusively for the big four audit firms – PwC, Deloitte, KPMG and EY – who collectively audit the vast majority of JSE-listed companies, thereby perpetuating a situation where second-tier firms cannot grow, nor attract talent and specialist skills because they just do not have access to JSE-listed clients.

"For now, however, we have decided to address these objectives through separate initiatives," Agulhas says. **x**

Corporate Report by Lynette Dacey
Advertising executive: Crescentia Sigola