



# **STRATEGIC PLAN**

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**for the fiscal years  
2016 – 2021**

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## Foreword

The IRBA is the statutory body established in terms of the Auditing Profession Act, Act 26 of 2005, with its primary objective to protect the investing public. It does so by regulating auditors through setting, monitoring and enforcing high quality auditing standards and ethical behaviour.

As a Schedule 3A public entity in terms of the Public Finance Management Act, the IRBA supports the State's policy outcomes, and the IRBA Strategic Plan demonstrates how the IRBA contributes to selected outcomes. The IRBA Strategic Plan is also aligned to the National Development Plan and the IRBA has an important role to play on the road to government's desired destination.

The IRBA incorporated the concept of Integrated Thinking in the preparation of the Strategic Plan, which includes the key capitals of finance, human resources and intellectual capacity. The remaining capitals, Manufactured Capital, Social and Relationship Capital and Natural Capital, although important, are not as critical to the IRBA's Strategy. Stakeholder Relationships constitutes an underlying principle which permeates everything the IRBA does. More importantly, to ensure that the organisation is fully integrated, the staff and management were involved and participated in the preparation of the Strategic Plan. This is because everyone in the organisation must be able to associate with and support the strategy. The strategy will also determine the competencies for new board members and staff. Each of the key strategic focus areas will be allocated to specific board members to allow them to take ownership and become more involved.

In terms of upward integration, the IRBA forms part of the Heads of Entities Forum which was established by the Minister of Finance to enhance mutual cooperation between entities within the Ministry's jurisdiction, and share information and resources in the greater interest of the Ministry, the State and the public.

Although the Strategic Plan necessarily builds on the IRBA's legislative mandate, it also includes strategic focus areas which were agreed by the Board, and which might not currently arise from the IRBA's empowering legislation, although it supports the State's national priorities. These focus areas are:

- To be a comprehensive regulator of the accounting and auditing professions;
- To strengthen the independence of the IRBA from the auditing profession, as well as the independence of auditors from their clients;
- To strengthen governance and reporting practices on the continent; and
- To influence transformation in the auditing profession.

The IRBA's strategy is therefore aligned to the State's policy outcomes and the ultimate goal of public protection.



Executive Authority

## Official sign-off

It is hereby certified that this Strategic Plan:

- Was developed by the management of the Independent Regulatory Board for Auditors (IRBA) under the guidance of its Board, with inputs from staff.
- Takes into account all the relevant policies, legislation and other mandates for which the IRBA is responsible.
- Accurately reflects the strategic outcome oriented goals and objectives which the IRBA will endeavour to achieve over the 2016 to 2021 fiscal years and makes reference to processes and strategies which will impact on the IRBA's current mandate.



W de Jager  
Chief Financial Officer

Signature: \_\_\_\_\_



B P Agulhas  
Accounting Officer

Signature: \_\_\_\_\_



Approved by:  
WHG van der Linde  
Executive Authority

Signature: \_\_\_\_\_

## Executive summary

The Independent Regulatory Board for Auditors (IRBA) was established in terms of the Auditing Profession Act, 2005 (APA). Proposed interim amendments to the APA have been submitted to National Treasury and The Minister of Finance introduced the Auditing Profession Amendment Bill in Parliament. The interim amendments include changes to the IRBA's mandate in respect of providing for the registration and regulation of candidate auditors by the IRBA and to update references to the Companies Act, 2008, in the Act.

More importantly, further legislative amendments are envisaged within the next five years that might expand the IRBA's mandate. This comes on the back of the World Bank's Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing for South Africa issued in 2013. The board, executive team and treasury subsequently held an IRBA strategic session to consider the World Bank ROSC recommendations adopted by the Minister of Finance and also the larger landscape, against which the IRBA determined its own vision and five year strategy.

On 21 July 2014, the Minister of Finance, Nhlanhla Nene, stated the following during his budget vote speech in the National Assembly:

*"During this year, the Office of the Accountant General will put forward plans to strengthen the regulatory environment in the audit and accounting industry. This will be done by taking into account the recommendations of the Report on the Observance of Standards and Codes (ROSC) done by the World Bank. "*

Based on the above, it is understood that the IRBA will be playing a pivotal role in achieving the Minister's objective of implementing a more comprehensive regulatory model and the proposed extended mandate is included as part of the IRBA's strategy.

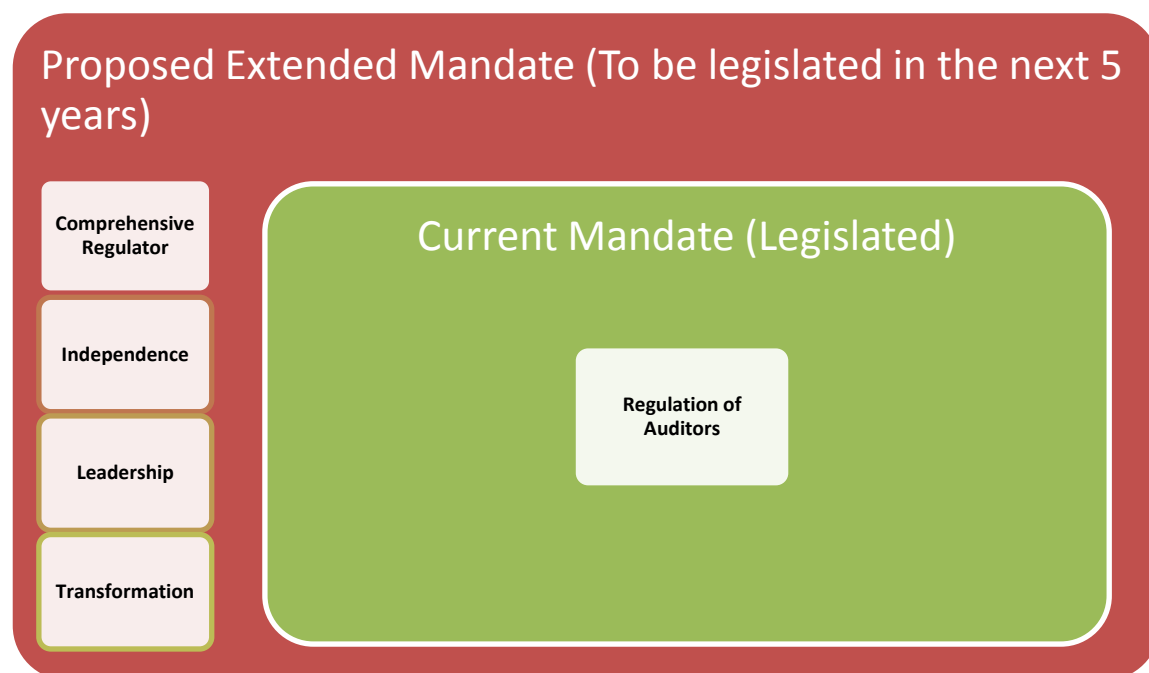


Diagram 1: Current versus proposed extended mandate

The issuance of the World Bank's ROSC might have a significant impact on the IRBA's mandate and operations. Relevant recommendations include the potential regulation of Professional Accountancy Organisations, strengthening the rigour of inspections and investigations where required, addressing auditor liability, strengthening the independence of the IRBA, strengthening Small and Medium Practices and inspecting compliance with Financial Reporting Frameworks. The IRBA has prepared strategies and plans to implement these recommendations. Some of the recommendations require legislative changes that will require considerable planning and preparation before it becomes law, but the process has been built into the five year strategy and budget to accomplish the objectives of the board. The remaining recommendations that do not require legislative changes have been implemented already to some extent and the IRBA continues in its efforts to strengthen independent regulation.

Despite some major social, political and economic challenges facing South Africa, the IRBA must continue to entrench its role as a respected regulator in which the public, government, investors and other regulators place trust, and investor confidence is maintained through appropriate audit and ethics standards and effective regulation as it evolve over time.

Transforming the profession remains a challenge. To address this, the IRBA has developed an integrated plan to retain Black auditors in the profession, attract Black auditors back into the profession and address the imbalance in the demographic representation in the auditing profession.

The IRBA will implement its new model to qualify auditors, which will position the auditor as a specialist Chartered Accountant and focus on those professional competences that are required to operate in a dynamic environment.

Since 2012, the IRBA implemented a robust stakeholder engagement and communication plan to raise awareness of the profession and educate stakeholders on the role of the IRBA as audit regulator and protector of the public. The objectives of the first phases have been achieved and it will continue to position itself as the protector of confidence in the sustainability of the system.

Having achieved the number 1 position in the world for the strength of auditing and reporting standards for the fifth year in a row, the IRBA will continue to serve on relevant international structures where it can influence standards and regulation, while responding to the needs of local stakeholders and the profession.

Closer to home, the IRBA will continue to engage with other regulators and standard setters on the African continent, to support them in strengthening governance practices and reliable reporting in Africa, through robust audit and ethics standards and independent audit regulation.

Since the audit failures associated with Enron and larger corporates in South Africa, the independence of auditors and regulators have become a focal point for governments and oversight structures. Investors and the public are also demanding more information and transparency and have become more aware of their rights to be protected. These

developments have seen the European Union and other international role players implement more robust measures which will enhance the independence of auditors, as well as audit regulators.

The ROSC and other strategic developments described above resulted in a Proposed Extended Mandate (Four Strategic Pillars) as follows:

1. **Comprehensive regulator:** To provide for a more comprehensive regulatory model that includes the regulation of Professional Accountancy Organisations (PAO). The Minister of Finance has given in-principle approval that the IRBA will assume this responsibility.
2. **Independence.** Strengthening both the independence of the IRBA and the independence of registered auditors.
3. **Leadership in Africa.** Implement programmes which will contribute to enhancing and improving overall reporting, governance and regulatory practices on the African continent.
4. **Transformed profession.** Influencing the advancement of transformation in the profession.

The IRBA has to remain excellent at the regulation of auditors, which remains its core mandate; however, to achieve the above objectives means using the current skills and experience in other dimensions and more importantly, require proper planning and stakeholder engagement in order to obtain approval, expand the legislative mandate and implement the strategy over the next few years.

Although the Board has adopted the Four Strategic Pillars as its key strategic focus areas, in addition to delivering on the required legislative mandate, these strategic focus areas will require funding. The current budget does not include funding for the Four Strategic Pillars, where it is not incidental to the current mandate.

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## **Part A: Strategic overview**

### **1 Vision**

The IRBA's vision is to be an internationally recognised, comprehensive and independent regulator of the accounting and auditing profession in South Africa.

### **2 Mission**

Our mission is to protect the financial interest of the South African public and local and international investors in South Africa through the effective and appropriate regulation of auditors, in accordance with internationally and locally recognised standards, codes and laws.

To do so, the IRBA must create an enabling environment to allow suitably qualified auditors to enter and remain in the profession, while simultaneously creating an environment in which prospective assurance providers can enter the profession.

## **3 The IRBA Regulatory Philosophy and Value Proposition**

### **3.1 Regulatory Philosophy**

Our philosophy is to regulate the auditing profession in the best interest of the public and the local and international investor community, and at the same time recognising the importance of a sustainable and viable auditing profession in South Africa.

We adopt a "Prudential Approach" to regulation, which implies having an agreed set of principles and values supported by well - developed and internationally recognised standards, codes and clear laws and regulations.

### **3.2 Value Proposition**

Given the challenges in attracting talent to the auditing profession, it has become important for the IRBA to have a value proposition for registered auditors, while simultaneously protecting the public. Although, as the regulator, it does not have to get involved in areas which are reserved for the institute, it has become necessary to become a regulator which is seen as adding value, in addition to the value it adds by ensuring credible financial markets.

In terms of the IRBA's new strategy, emphasis will be placed on exploring different dimensions to become a comprehensive, multi-disciplinary, and value adding regulator locally and internationally.



Areas which have been identified as adding value include:

- Training in areas which have a direct impact on auditors and audits, for example, the Companies Act and Regulations, the Consumer Protection Act, the Code of Ethics and the B-BBEE Legislation and Codes.
- Building capacity to provide more guidance on new legislation and regulatory developments.
- Responding to needs from auditors, for example, where legislation has unintended consequences in its practical implementation.
- Raising awareness of IRBA's protection of the public (value add to public)
- Becoming a comprehensive regulator by expanding its offering to include the regulation of Professional Accountancy Organisations (PAO) and to be a multi-disciplinary and value adding regulator to the public and the State.
- Further strengthening the independence and transparency of the IRBA as a world-class regulator and that of its Registered Auditors to the benefit of the public.
- Contributing to the enhancement of independent audit regulation internationally.
- Promoting transformation as an embedded and underlying consideration in the auditing profession in our country.

## **4 Legislative and other mandates**

### **4.1 Legislative mandates**

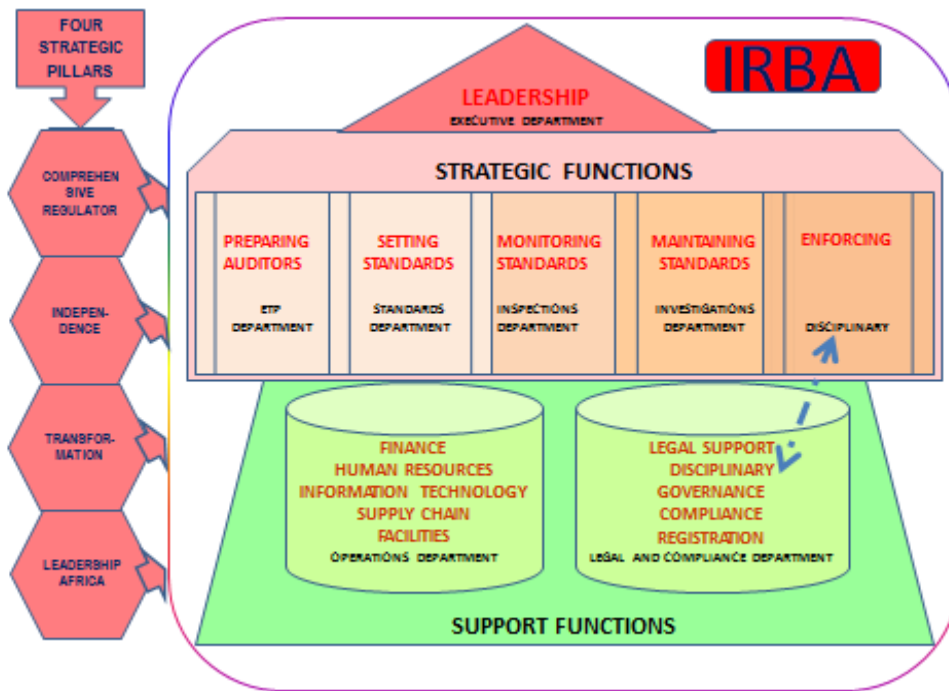
The Strategy addresses the IRBA's mandate with reference to 2 programmes:

- Programme 1: The current mandate which arises from the Auditing Profession Act, Act 26 of 2005; and
- Programme 2: The extended mandate which is not in the IRBA's current legislation and which will require new legislation to be drafted and implemented over the following 5 years.

This can be illustrated as follows:

**PROGRAM 2**

**PROGRAM 1**



**4.1.1 Primary mandate (Programme 1)**

The Independent Regulatory Board for Auditors (IRBA) was established in terms of Section 3 of the Auditing Profession Act, 2005, (Act 26 of 2005), (the APA) and came into effect on 1 April 2006. The objects of the Act as set out in Section 2 are as follows:

- a) To protect the public in the Republic by regulating audits performed by registered auditors;
- b) To provide for the establishment of an Independent Regulatory Board for Auditors;
- c) To improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in South Africa;
- d) To set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession; and
- e) To provide for procedures for disciplinary action in respect of improper conduct.

Amendments to the APA have been introduced and considered in parliament (Government Gazette General Notice 919 of 2014). These amendments comprise changes to the IRBA's mandate in respect of providing for the registration and regulation of candidate auditors by the IRBA and update references to the Companies Act, 2008, in the Act.

#### **4.1.2 Proposed Extended Mandate (Programme 2)**

On 21 July 2014, the Minister of Finance, Nhlanhla Nene, stated the following during his budget vote speech in the National Assembly:

*"During this year, the Office of the Accountant General will put forward plans to strengthen the regulatory environment in the audit and accounting industry. This will be done by taking into account the recommendations of the Report on the Observance of Standards and Codes (ROSC) done by the World Bank. "*

Based on the above, it is understood that the IRBA will be playing a pivotal role in achieving the Minister's objective to implement a more comprehensive regulatory model and the proposed extended mandate is included as part of the IRBA's strategy. New legislation will therefore be required to expand the IRBA's mandate to facilitate:

- Regulation of Professional Accountancy Organisations (PAO).
- Strengthened Independence and transparency of the regulator (Independent funding model, independent governance structure and less restrictive reporting with indemnity).

Although the Board has adopted the Four Strategic Pillars as its key strategic focus areas, if the objectives in pursuit of these are not funded or supported by the Minister of Finance/Treasury, these objectives will not be achieved. The current budget does not include funding for the Four Strategic Pillars where these are not incidental to the current mandate.

#### **4.1.3 Other**

The IRBA will continue to discharge its responsibilities as a Supervisory Body in terms of the Financial Intelligence Centre Act. However, following a survey which indicated that not many auditors are classified as Accountable Institutions in terms of the services they provide (financial services), a Memorandum of Agreement was signed between the IRBA, FIC and FSB in terms of which the FSB will take the lead to perform inspections on auditors, who will also be registered with the FSB if they provide financial services.

During 2013, SARS also recognised the IRBA as a Recognised Controlling Body for tax practitioners. What this means is that SARS delegated the supervision of tax practitioners who are also auditors, to the IRBA.

The IRBA also regulates auditors who provide Broad-Based Black Economic Empowerment Verification services.

## 5 Situational analysis

### 5.1 Performance environment

#### 5.1.1 General

##### ***5.1.1.1 Achievements and progress in the implementation of commitments made by the President in his June 2014 State of the Nation Address***

Under-pinning a radical socio-economic transformation is the protection of the public interest, including local and international investors. This protection is made possible through the regulatory regime and system of laws. The IRBA has contributed by now notching up its fifth ever first place ranking by the World Economic Forum for the quality of auditing standards in South Africa. South Africa's ranking contributes to the confidence in, and integrity of our financial markets, as stakeholders can rely on financial information which is exchanged in a global market. Such reliance is made possible through the credibility of auditors' opinions expressed on the financial information, when those opinions result from the application of world class auditing standards. The IRBA therefore enhances investor confidence by promoting high quality audits.

It is equally important for the public and investors to have confidence that there is adequate oversight over the auditing profession. This is achieved through monitoring compliance through inspections, and taking disciplinary action against auditors who fail to comply with standards or the prescribed code of professional ethics.

We also enhanced our focus on public interest entities with a high systemic impact by inspecting auditors that audit State Owned Entities (SOEs) such as Eskom, where the Auditor General has elected not to perform the audit. We are also strengthening our relationships with other government entities and departments (Auditor General, Johannesburg Stock Exchange, Financial Services Board, Reserve Bank, Heads of Entities Forum etc.) to share information and resources to be more efficient and effective and thereby contribute to a holistic and informed regulatory and compliance regime.

Auditors are required to report reportable irregularities, which is a critical element to support government's fight against corruption and crime. In its role as a supervisory body in the auditing profession to oversee compliance with tax regulation and anti-money laundering practices, the IRBA also contributes towards government's objectives to strengthen compliance in the country.

The above serves to enhance investor protection and confidence, and promotes investment, job creation and growth. It also serves to encourage similar performance by other public entities and regulators.

The last few years have seen the registration of between 200 and 400 new Registered Auditors. Auditors that have left the profession have either started businesses, or become partners in existing businesses, across the length and breadth of the country. While realising

their own personal and professional ambitions, these practitioners help create a business environment with high levels of compliance and responsible corporate citizenship.

#### **5.1.1.2 Achievements and progress in the implementation of the MTSF:**

The IRBA's strategy is aligned to that of government, specifically in its contribution to the enhancement of economic growth, investment, education, inter-governmental cooperation, and transformation. The IRBA is sensitive to the regulatory burden on the profession, and continues to strive towards 'balanced' regulation. Major achievements that are worthy to note are our consistency in attaining clean audits, international recognition (EU and US) as an internationally respected regulator and our nr 1 ranking by the World Economic Forum for the strength of our auditing standards for five years in a row.

#### **5.1.1.3 Key plans and upcoming programmes or projects:**

The IRBA has aligned its corporate strategy to the goals of the MTSF. These are:

- Comprehensive regulation: to give effect to the recommendations in the World Bank Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing.
- Strengthening independence of the regulator from the profession and of auditors from their clients: The IRBA is in the process of incorporating provisions in the audit legislation which will entrench its independence from the profession, and continues to enhance the Code of Ethics for Auditors to ensure that they are independent of their clients. Independence of the regulator is critical for effective regulation and avoiding any potential perceptions of self-regulation, and unless auditors are independent of their clients, in mind and appearance, the public cannot have the required confidence in auditors' reports on the financial statements of their clients.
- Leadership: In terms of the IRBA's strategy, we will implement initiatives which will contribute to enhancing and improving overall reporting, governance and regulatory practices on the African continent.
- Transformation: Transformation of the profession remains critical, and although the IRBA relies on collaboration with other stakeholders such as the audit firms, the South African Institute of Chartered Accountants, the Auditor General and universities, it developed a strategy which addresses areas where it could influence the advancement of transformation in the profession. Black auditors that have left the profession to start their own businesses, or become partners in existing businesses, not only help create a business environment with high levels of compliance and responsible corporate citizenship, but also contribute to transformation in the greater economy.

#### **5.1.1.4 Envisaged policy interventions or amendments:**

The IRBA will support government in implementing the recommendation in the ROSC to unite the accountancy profession under one regulatory body, as proposed by the World Bank, and announced by the Minister of Finance in his budget statement in July 2014. In terms of this intervention, the IRBA will not only regulate auditors, but also professional accountancy organisations whose members are accountants. This will ensure consistency in

the quality of services provided by accountants as well as provide the public with the required confidence that there is oversight by an independent regulator.

The ROSC also includes recommendations to strengthen the inspections and investigations processes of the IRBA.

The IRBA will be launching its Audit Development Programme (ADP) in 2015, which is the new programme to qualify auditors. The ADP is a period of specialization undertaken by professional accountants who want to become Registered Auditors. It provides a context wherein the consolidated abilities developed in the training programme can be refined in a more complex learning environment and in performing roles more senior to those undertaken in the training contract.

The IRBA continues to participate in, and influence international structures responsible for setting auditing standards, and to share best practices and challenges faced by audit regulators.

## **5.1.2 Political developments**

### **5.1.2.1 The Political Environment**

After 20 years of democracy in South Africa, there still remain many political, social and service delivery challenges. The political environment remains volatile and the IRBA is uncertain as to how these challenges will impact the organisation. It is therefore crucial that the IRBA remain solution focussed in such an environment. Uncertainties are expected to continue to impact market activity and investor confidence.

The IRBA must continue to entrench its role as a respected regulator in which the public, government, investors and other regulators place trust, and investor confidence is maintained through appropriate audit and ethics standards and effective regulation. The IRBA must therefore build the necessary trust and confidence to continue to be recognised as the regulator for assurance services and the entrenched protector of investors and the public. This will entail continued communication, education, and raising awareness of IRBA and assurance through stakeholder interaction and the IRBA's Branding Strategy.

### **5.1.2.2 Government's Policy Outcomes**

The IRBA must support government's policy objectives. Although it is not in a position to contribute to all of these, there are some outcomes in which it can play a role. The 14 priority objectives, and IRBA's role in meeting these objectives, are as follows:

<b>Outcome and government priority information</b>	<b>How IRBA can contribute to the selected outcome</b>
1. Improved quality of basic education	The IRBA must engage with the government departments responsible for Basic as well as Higher Education, to address the issue of Maths Literacy. Although this is more relevant to the financial industry, it could also improve Higher Education which will, in turn, influence the

	quality of overall education.
2. A long and healthy life for all South Africans	n/a
3. All people in South Africa are and feel safe	n/a
4. Decent employment through inclusive growth	The IRBA does not have a direct impact on job creation. Its indirect impact is by creating a stronger economic environment through building confidence in, and reliance on audit reports issued by registered auditors. Confidence attracts investment and investment creates employment.
5. A skilled and capable workforce to support an inclusive growth path	The IRBA provides an appropriate framework for the qualification, education and training of auditors as well as their on-going competence. Amendments to the APA have been introduced in parliament (Government Gazette General Notice 919 of 2014). These amendments comprise changes to the IRBA's mandate in respect of providing for the registration and regulation of candidate auditors by the IRBA.
6. An efficient, competitive and responsive economic infrastructure network	High quality audits have a direct impact on the credibility of the financial markets through the provision of reliable information, which provides the confidence to investors to do business in SA. As such, the existence of a strong, independent and internationally respected audit regulator is essential in achieving government's objectives.
7. Vibrant, equitable and sustainable rural communities with food security for all	n/a
8. Sustainable human settlements and improved quality of household life	n/a
9. A responsive, accountable, effective and efficient local government system	The IRBA must consider how its influence derived from the competencies in the accounting and auditing profession can contribute to strengthening governance and accountability in local government.
10. Environmental assets and natural resources that are well protected and continually enhanced	The IRBA must consider how its involvement in standards and assurance could contribute towards the promotion of sustainability projects and strategies.
11. Create a better South Africa and contribute to a better and safer Africa and World	The IRBA's objectives include creating a framework and principles to contribute to the protection of the public who rely on the services of registered accountants and auditors who carry out their duties competently, fearlessly and in good faith. Particular strategic focus is also placed on the enhancement and improvement of overall reporting, governance and regulatory practices

	on the African continent. Part of the IRBA's focus is not only to stay abreast of international developments in the auditing profession, but also to influence developments through active participation.
12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship	The IRBA must consider how it can support government using strategies and processes derived from its own efficiencies and knowledge.
13. A comprehensive, responsive and sustainable social system	Our role in the greater economy is to create continuing value as an embedded protector of confidence in the sustainability of the system, thereby contributing to the protection of the South African public.
14. A diverse, socially cohesive society with common national identity	Promote transformation by influencing the advancement of transformation in the profession.

### **5.1.2.3 Support to government and implementation of the National Development Plan**

The IRBA must establish the appropriate space within which it can support other government initiatives. For example, the Auditor General has set itself the objective of improving financial reporting at local government. The IRBA should forge the necessary relationships with the Auditor General to support such initiatives which will ultimately benefit the country.

The IRBA and the auditing profession must also find the appropriate role it needs to play in the fight against corruption. The National Planning Commission of the Presidency issued the National Development Plan 2030, titled “*Our Future – Make it work*”, which highlights government’s political will to address corruption in the country. The following excerpt from the Plan summarises the issue and makes reference to the role and importance of audit in prevention of corruption:

*“High corruption levels frustrate society’s ability to operate fairly and efficiently and the state’s ability to deliver on its development mandate. According to Transparency International’s global corruption survey, between 2001 and 2010, the level of corruption increased. Corruption often involves both public and private-sector participants. The perception of high levels of malfeasance at senior levels of government makes the fight against corruption that much harder.*

*Strong social factors play a contributing role. Perceptions that the structure of the economy is unjust, historical inequities and new forms of empowerment that have benefited politically connected individuals fuel a culture in which corruption thrives, both in government and in business. These underlying social phenomena must be addressed as part of the fight against corruption.*

*Political will is essential to combat this scourge. Political will is measured by assessing the amount of money spent fighting corruption, the legal arsenal that corruption-busting*



*institutions have at their disposal, the independence of anti-corruption authorities from political interference and the consistency with which the law is applied. Being soft on smaller cases, or unusually tough on corruption involving political opponents, implies consistency.*

*In addition to political will, corruption has to be fought on three fronts: deterrence, prevention and education. Deterrence helps people understand that they are likely to get caught and punished. Prevention is about systems (information, audit and so on) that make it hard to engage in corrupt acts. The social dimensions of corruption need to be tackled by focusing on values, through education”.*

In his state of the nation address President Jacob G Zuma on 17 June 2014 stated “The low level of investments is a key constraint to economic growth.” and “South Africa will continue to support regional and continental processes to respond to and resolve crises, promote peace and security, strengthen regional integration, significantly increase intra-African trade and champion sustainable development in Africa.”

On 19 February 2013, the Minister of National Planning in the Presidency, Trevor Manuel, and the Minister for the Presidency: Performance, Monitoring and Evaluation as well as Administration, Collins Chabane, MP, conducted a media briefing on the implementation of the National Development Plan.

The briefing included, *inter alia*, the following points which are relevant to the IRBA:

- The National Development Plan (NDP) defines the desired destination and identifies the role that the different sectors in society need to play in getting there (own emphasis) -
  - Providing **overarching** goals
  - Building **consensus** on the key obstacles and how to overcome them
  - Providing a **shared** long-term strategic framework
  - Creating a basis for allocating **limited resources**.
- Ensure that South Africans attain a decent standard of living through the elimination of poverty and reduction of inequality. Core elements include –
  - Quality education and skills development
  - Employment
- Departments and government entities must integrate their plans to bring the NDP to life and the NDP provides the golden thread that brings the coherence and consistency
- The Presidency and National Treasury will work with departments to clarify roles and responsibilities, ensure that plans are aligned and develop clear performance indicators
- Long term planning and investment in the future is equally important for the private and public sectors.

The core implementation principles and conditions for successful implementation include those principles and conditions which resonate with the IRBA:

- Broad ownership
- Continuous capacity building
- Policy consistency
- Clarity of responsibility and accountability
- Continuous learning and improvement
- Building trust and confidence among key stakeholders

- Strengthening public sector capacity
- Streamlining reporting procedures

In 2014, the Heads of Entities Forum (HEF) was established under the auspices of the Minister of Finance (the Minister) which comprises the Heads of Entities that report to and fall under his jurisdiction. Public entities reporting to the Minister will benefit from mutual cooperation, sharing of information and sharing of resources in the greater interest of the Ministry, Government and the public. Accordingly, the aims and objectives of the HEF are to:

- Share information within confidentiality restrictions.
- Consider possible opportunities to share resources.
- Commission, review and approve projects which will further the aims and objectives of the HEF.

While we agree that the NDP is equally important to the private and public sectors, we would go even further and suggest that there is better and improved coordination and collaboration between the sectors, which requires the necessary trust.

It should be noted that jurisdictions, such as the United States, places a lot of emphasis on Internal Controls and the role it plays in preventing and detecting fraud and corruption. In terms of the Sarbanes-Oxley legislation, auditors are required to express an opinion on such internal controls, indicating the importance of management to discharge its responsibilities in this area. An increased focus on Internal Controls should be considered locally as well, in which case the IRBA can determine its role in possibly extending requirements placed on auditors to provide assurance on such controls, and thus increasing the confidence of the public and investors that the areas of fraud and corruption have been addressed.

In South Africa, there has also been an increased interest in the concept of Combined Assurance. Should this concept increase confidence in reported information, which is the intended objective, then investors can be better assured that a variety of stakeholders have implemented the necessary controls and processes to discover and address irregularities and corruption.

Ultimately, the IRBA must strive, together with other state entities, to build a capable state through building capable and well governed institutions, and so fulfil a wider purpose.

#### ***5.1.2.4 World Bank Report on the Observance of Standards and Codes – Accounting and Auditing for South Africa***

At the request of the Minister of Finance, the World Bank conducted and concluded its second Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing for South Africa in 2013.

The ROSC makes recommendations to strengthen accounting and auditing practices towards enhanced competitiveness, governance and accountability in the private and public sectors. The report also makes recommendations on strengthening the resources, capacity,

independence, inspections and investigations at the IRBA, and implementing inspections on financial reporting compliance by auditors.

### **5.1.3 The Economy**

South Africa has been exposed to the consequences of the global financial meltdown caused by the 'sub-prime' crisis, although not to the same extent as other countries. This was partly due to robust credit regulation in South Africa. However, expected growth forecast for the economy is significantly lower than expected, mainly due to labour unrest, the energy crisis, including systemic challenges such as high unemployment and poor education. The slow growth has meant that the amount of tax that government has been able to raise fell below expectations, which significantly increased the country's budget deficit. This resulted in austerity measures and strategies being implemented by the Minister of Finance to reduce the budget deficit, stabilise debt and rebuild the fiscal space that enabled South Africa to escape the worst effects of the global economic crisis.

This five year strategy takes into consideration these limitations in resource planning and the budget.

South Africa, with its developed economy, is exposed to the global financial system and relies very much on external capital. The IRBA plays a pivotal role in stimulating investor confidence through contributing to the protection of the financial markets.

In an address during the onset of the global financial crisis, the then Minister of Finance confirmed that we have a good understanding of how the international community will combat the economic weaknesses, but also needed to understand how we would address our own local economic challenges. He saw part of the solution in the reforms of international institutions but also in improved coordination and cooperation, not only between local financial regulators, but also with international regulators.

This view was supported by the President and confirms the importance of maintaining international relationships. The latest international survey by the World Economic Forum confirmed SA in the pole position for its auditing standards in the global arena, for the fifth consecutive year. The maintenance of appropriate auditing and ethics standards is a major contributor to our reputation in local and foreign financial markets and therefore plays a large part in maintaining investor confidence and, indirectly, the creation of employment. In times of turmoil, it is even more important for auditors to provide assurance that the financial information they report on is credible and reliable to enable investors to be confident about the decisions they take.

On 23 February 2011 the National Treasury issued a policy document titled 'A safer financial sector to serve SA better'. The foreword from the then Minister of Finance, Minister Pravin Gordhan, aptly summarises the purpose of the policy document, and remains particularly relevant to the IRBA's role in the financial sector and the greater economy:

*'The financial sector plays a central role to support the real economy. Yet, it also introduces risks, particularly when it recklessly chases short-term —artificial profits, as was proved*

*during the global financial crisis. As a result, internationally, much has been done to improve the regulation of the financial sector. Much more still needs to be done.*

*While the recession is over, the crisis and the results of the crisis still linger as financial stability is not yet secured internationally. In South Africa, our financial sector successfully weathered the crisis, but a million people still lost their jobs. Recognising the need for coordinated international efforts to secure global financial and economic stability, we have committed to important obligations to try and prevent a similar crisis in the future. These commitments are also informed by our own domestic situation.*

*Financial stability, however, is not the only objective. The financial sector needs to do more to support the real economy. The sector has a vital role to play in the ongoing transformation of our society, and our desire to bring a better life to all of our people. For this reason, this document outlines a number of changes in the area of market conduct, consumer protection and financial inclusion, including a new approach to dealing with high and opaque bank charges as well as for insurance and savings charges.*

*This is the beginning of an important conversation with society including all other stakeholders.*

*We look forward to engaging with each of you on the issues we raise, and together building a safer financial sector to serve South Africa better.'*

There is no certainty that the financial crisis is over, and SA needs to again evaluate its position in the event of another global economic downturn. What the SA public needs is the confidence to invest and the assurance that matters such as unemployment and other social issues will be addressed. Such assurance can be provided by the existence of a well regulated capital market, which, in turn, relies on a reputable auditing profession to provide capital providers with credible financial information.

It will also be important for the IRBA to take cognisance of the impact that the financial crisis could have on auditors, and inspections should take into account the possibility that quality might be compromised to save costs.

#### **5.1.4 Skills Development and Transformation in the profession**

The IRBA provides an appropriate framework for the qualification, education and training of auditors as well as their on-going competence.

The IRBA also recognises a need for a transformed profession that is representative of the population of South Africa. The Board, in partnership and collaboration with business, professional bodies, academic institutions and government has developed an integrated plan to influence, attract and retain potential RAs into the profession. Transformation has been given prominence through the Board, identifying it as a one of the key strategic pillars, and recognising that transformation goes beyond numbers, and instead inform decisions and activities throughout the organisation and the profession.

### **5.1.5 International collaboration**

The IRBA continues to participate in and secure representation on international forums, in line with its objectives. The IRBA also continues its involvement in assisting African countries in setting up their own regulatory framework. This would entail visits to the region and interaction with the current organisations to determine the assistance required.

The World Economic Forum's ranking of SA as number 1 out of 148 countries for its auditing standards (2010, 2011, 2012, 2013 and 2014) confirmed the IRBA's recognition as a world class standard setter.

One of the important components of creating an environment where Foreign Direct Investment (FDI) can occur is a well regulated and reliable capital market. This, in turn, requires a reputable audit profession to provide potential investors and capital providers with reliable and credible financial information on which investment decisions can be made. It therefore becomes crucial for the IRBA to ensure that the Registered Auditor continues to be seen to inspire investor confidence, locally and internationally, and that the local profession continues to be recognised internationally. Although this requires the strengthening of the Registered Auditor brand, SA does enjoy international recognition through its participation in international projects, membership of international committees and particularly of the International Forum for Independent Audit Regulators (IFIAR). Currently the IRBA is represented on the Standards Coordination Working Group (SCWG), the Investor and Other Stakeholders Working Group (IOSWG) and the Inspections Workshop Working Group (IWWG).

In addition, the IRBA is represented on the Consultative Advisory Group (CAG) of the International Accounting Education Standards Board (IAESB) and two of the task forces of the IAESB in addition to being a member of the IAESB. SA is also a member of the Integrated Reporting <IR> Working Group of IFAC and identified <IR> as a thought leadership project.

The representation on these international forums provides SA with the advantage of not only staying abreast of international developments, but also influencing them.

Following the success of the 'pilot project' to roll out the World Bank's wider strategy to build capacity in Africa, the IRBA is in the process of collaborating with the Mauritius FRC by way of entering into a Memorandum of Understanding to guide the relationship, the purpose of which is to assist other jurisdictions on the African Continent with auditing standards and audit regulation.

### **5.1.6 Sustainability of the Auditing Profession**

In order to sustain an economy which has financial credibility, it is equally important to sustain an auditing profession which can provide such credibility. There are various factors which could influence the sustainability of the profession:

#### **5.1.6.1 Sustainability of the regulator**

The World Bank ROSC recommends adequate and independent funding and resources as well as increased independence. The adoption of a new independent funding model is pivotal in the pursuit and success of comprehensive regulation.

#### **5.1.6.2 The new Audit Development Programme**

The IRBA will be implementing a new model to qualify auditors, effective from 2015. This will ensure that Candidate RAs are equipped with appropriate professional competences to perform their public function in an ever changing environment. The new model also provides for alternative routes to qualification through Recognition of Prior Learning.

#### **5.1.6.3 Auditor Liability**

The current auditor liability regime has been a deterrent to potential auditors entering and remaining in the profession, since the risks associated with audit could be seen to outweigh the benefits. Auditor liability needs to be proportionate to the risk incurred; however, the current model is perceived to extend liability beyond what is considered to be reasonable. This was also mentioned in the World Bank ROSC and legislative amendments are envisaged within the next five years to provide for more limited liability for auditors (Limited Liability Partnerships).

#### **5.1.6.4 Audit Quality**

In order for audit firms, especially Small and Medium Practices (SMPs), to secure their future existence, it is essential that the required investment is made to achieve audit quality, as audits of an inferior standard will not sustain firms indefinitely. SMPs often lack resources to implement the necessary training and measures to safeguard audit quality. This was also mentioned in the World Bank ROSC wherein a recommendation was made that SMPs should be encouraged to strengthen their resources and capabilities in order to be competitive in providing professional services. The IRBA has developed and implemented an SMP Strategy to address the above recommendation.

The International Auditing and Assurance Standards Board (IAASB) released its publication, *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* (the Framework for Audit Quality) in 2014. Through the Framework for Audit Quality, the IAASB aims to raise awareness of the key elements of audit quality, encourage key stakeholders (such as audit firms, regulators, audit committees, investors, universities and other stakeholders who have an interest in continuously improving audit quality) to challenge themselves to do more to increase audit quality in their particular environments, and facilitate greater dialogue between key stakeholders on the topic.

#### **5.1.6.5 Legislation**

The changes in Corporate Legislation have removed the need for an audit of smaller private companies, to reduce the regulatory burden and costs. Most of the small and medium size

practices (SMPs) audit these entities, and these practices have had to revisit their business strategies if they wished to continue in public practice.

### **5.1.7 Stakeholder Interaction and Enforcement**

The IRBA continues to forge a close relationship with its Executive Authority. The Minister appointed two Ministerial representatives to the Board in 2013. The IRBA trusts that this will bear positive results in terms of communication with its Executive Authority.

There are also a number of other regulators in the Financial Services Sector, such as the FSB, FIC, SARS, CIPC, etc. with which the IRBA interacts. It is important that the IRBA cooperates closely with all of these relevant regulators so that it too can play its appropriate role in the regulatory framework of the country. The regulation of auditors, being the exclusive function of the IRBA in South Africa, has increased the responsibility of regulators in their respective jurisdictions to ensure that there is sufficient co-operation between them.

At a meeting between the Minister and public entities in the Finance Sector held in early 2013, the importance of public entities supporting each other and sharing information was again emphasised and the Heads of Entities Forum established to promote such cooperation. The IRBA continues to contribute to the objectives of the Forum.

### **5.1.8 Mutual Recognition**

With increased globalisation, South African companies continue to seek access to foreign capital markets and listings in multiple jurisdictions are increasing, which ultimately affects the cost of capital. This makes these companies subject to multi - jurisdictional regulatory environments, including foreign audit regulatory environments. This also requires the IRBA to cooperate more closely with various foreign audit regulators. It is important that the relevant stakeholders appreciate that the independence of IRBA plays a large role in such continued cooperation, and that the independent funding of the regulator is a high priority.

The IRBA was approved by the European Union as a regulator which is equivalent to the best in the world. The IRBA continues to work closely with the US Audit regulator, the Public Company Accounting Oversight Board (PCAOB) so that there could be full mutual recognition in the future. This recognition is currently subject to the IRBA Board becoming fully independent from the profession.

The new Inspection Fee Model which increases the IRBA's independence from the profession was submitted to the PCAOB and the Director: Inspections has forged close relationships with Inspections staff of the PCAOB in an attempt to provide them with the necessary comfort to move towards total reliance on the IRBA's inspections process. The recent Report on the Observance of Standards and Codes (ROSC) for accounting and auditing in SA includes several recommendations in terms of strengthening the independence of committees and the board, of which some had already been implemented.

There are increasing requests from other jurisdictions for SA to recognise their audit qualification. Although no immediate action is required, we are starting conversations with other jurisdictions as we move towards a global audit market. This process forms part of the accreditation model through the institutional requirements.

### **5.1.9 Technology**

The speed of technological change is perpetually accelerating and continues to influence the way business is done. The financial services industry in South Africa has always kept abreast of international technological developments and is one of the main reasons why our financial markets are so well integrated globally. The rest of the business world in SA is also not lagging far behind and the impact of technology is visible across all business sectors.

The convergence of various IT platforms has made the audit of transactions across the globe very complex and this increases the threat of fraud and the increased risk to the public. This, in turn, places increasing demands on the auditor to protect the public against such risks.

The IRBA continues to consider its use of technology in meeting its legislative mandate and achieving strategic objectives more efficiently.

### **5.1.10 International developments in Audit Regulation**

Independent audit regulators identified the need to coordinate their efforts globally and in September 2006 established the International Forum for Independent Audit Regulators (IFIAR). The IRBA is a founding member of the IFIAR. Consistent with the objectives of IFIAR, the IRBA continues to consider the following issues:

- Independence
- Factors influencing audit quality. The IRBA represented audit regulators on the Audit Quality project of IFAC as Audit Quality remains a priority for IFIAR. The IFAC Audit Quality Framework was subsequently issued in 2014.
- Access to information across different jurisdictions
- Knowledge sharing and consistency in inspection processes
- Concentration of global firms (the Big 4) in international audit markets
- Regulatory impact
- Regulatory capture

Furthermore, changes in the economic environment and the market for audit services have impacted how the audit industry operates and how it is perceived by users and the general public. Important issues facing the audit industry include:

- Commoditization of the audit;
- The perceived value and relevance of the traditional audit including the auditor's responsibility to detect fraud;
- The impact of an increased focus by the larger audit firms to grow their non-audit services with a specific focus on advisory / consulting services; and
- The impact of advances in technology and greater availability of and access to data.



The IRBA needs to ensure that it stays abreast of these issues in order to evaluate and assess its relevance and impact on the South African environment, as well as develop appropriate responses. Membership allows the IRBA to remain informed of cutting edge audit regulation while simultaneously sharing its own experiences with jurisdictions which are less advanced in independent audit regulation and standard setting.

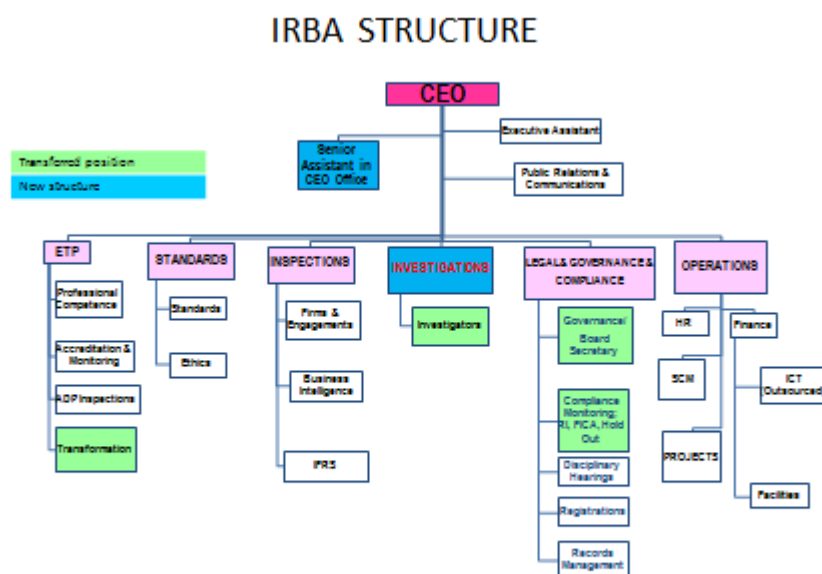
The European Commission issued its Green Paper on Audit Policy: *The Financial Crisis – Lessons learnt*, in October 2010, which deals with various aspects of audit regulation. The IRBA continues to closely monitor developments in this regard to remain abreast of international trends and started to monitor certain independence provisions in the Companies Act, 2008 with effect from 1 January 2014, ahead of most jurisdictions.

## **5.2 Organisational environment**

Based on the recommendations in the World Bank Report on the Observance of Standards and Codes (ROSC), as well as to accommodate the strategy for succession planning while improving efficiency and effectiveness of the organisation, the following factors were considered for the proposed changes to the structure of the IRBA:

- The IRBA must strengthen the investigation capacity and thereby ensure robust investigations.
- The Minister has expressed concerns that the investigations might not be sufficiently robust and it was important to respond to these concerns.
- A Chartered Accountant (SA) would in principle be best qualified to head up investigations since it requires a working knowledge of the auditing and ethics standards.
- The Legal Department should drive the disciplinary processes, and not the investigations process, and provide legal support, for which the demand continues to grow, to the IRBA as a whole. The Legal Department should make a determination of whether cases should be prosecuted or not and advise why cases should not be prosecuted.
- The disciplinary process should, in principle, be directed by a legal person as it entailed a legal process and knowledge of law.

The structure of the IRBA will therefore be as follows:



The current approved headcount of the IRBA is 77 positions. The minimum number of new positions required to effect the above structure is seven, which will increase the total headcount to 84 positions. These positions are critical and included in the budget for 2015/16, although more positions are required to alleviate the workload of existing staff but have been excluded due to austerity measures.

The IRBA will still not be able to fulfil all requirements as set out in the ROSC and as expected by the Minister of Finance. Based on current information, an additional 15 positions will be required to deliver on the ROSC and meet expectations over the next five years when funds are available.

This still excludes the staff requirements for the regulation of accountants which can only be determined after the completion and approval of the initial research and project plan.

The current lease contract for the office ends in August 2016 and the building does not have the capacity for the above number of staff required. The IRBA will therefore have to procure a new building to be occupied from September 2016. The new building will also have to accommodate the staff required for the regulation of accountants, once the extended mandate is legislated.

### 5.3 Description of the strategic planning process

The strategic planning process at the IRBA has two distinctive features. These features emerge from our commitment to leading by example. The first of these features was staff involvement. Our strategic planning process commenced with a broad based invitation to all staff to participate in strategic planning. Staff was consulted within their teams on the key changes in our work environment, and on emerging opportunities and threats. As a result,

the broad list of strategic issues that the Board considered had been distilled from a range of sources including inputs from IRBA staff. The second feature was the commitment to integrated thinking in the strategic planning process. This commitment was achieved through:

- comprehensive environmental scanning, domestically and internationally
- alignment between national priorities and the IRBA strategy
- insights gleaned from extensive stakeholder engagement during the last few years
- recognition of the inter-connectedness of IRBA activities

The application of resources and capitals contributes to value creation, against which annual reporting can take place.

A strategic session was held on 18 July 2014 by the board members, executive management and treasury. The strategic session was led by the chairman of the board.

Having referred to the larger landscape against which the IRBA was meeting to determine its own five year strategy, background was provided to the process followed which resulted in the four main key strategic focus areas. Members were referred to the IRBA's current strategy and the extent of progress made against it, and it was also explained that the purpose of the exercise was to ensure that members remained realistic in setting a strategy that will be measurable and achievable (Based on the SMART Principles).

Treasury confirmed that they agreed with the process followed by the IRBA in developing its strategy.

It should be noted that the strategy would be a 'live' document.

Following the strategic session, the board requested that a high level plan be submitted for the board meeting that took place on 30 July 2014.

The strategy was subsequently revisited by the executive management following a separate session on 4 December 2014, to consider the impact of the World Bank ROSC recommendations and its impact on the IRBA's strategy.

## **6 Strategic outcome oriented goals of the institution**

The IRBA's goal is to help create an ethical, value-driven financial sector that encourages investment, creates confidence in the financial markets and promotes sound governance practices.

This is done by:

### **Programme 1 - Current mandate per the APA:**

- Developing and maintaining auditing and ethics standards which are internationally comparable;

- Providing an appropriate framework for the education and training of properly qualified auditors as well as their on-going competence;
- Registration of auditors who meet the registration requirements;
- Monitor compliance with reportable irregularities and anti-money laundering;
- Monitor registered auditors compliance with professional standards;
- Investigating and taking appropriate action against registered auditors in respect of improper conduct;
- Developing and maintaining stakeholder relationships to enhance performance, accountability and public confidence;
- Strengthening the IRBA's organisational capability, capacity and performance to deliver on its mandate in an economically efficient and effective manner, in accordance with the relevant regulatory frameworks.

**Programme 2 – Proposed extended mandate (Four Pillar Strategy):**

- Expansion of the IRBA's offering to be a multi-disciplinary and value adding regulator
- Enhanced independence of the IRBA and auditors
- Enhanced independent audit regulation throughout Sub-Saharan Africa
- Underlying and embedded consideration of transformation in all activities.

**Part B: Strategic objectives**

In line with our legislative mandate, the IRBA objectives are to create the framework and principles to contribute to the protection of the public who rely on the services of registered auditors and to support registered auditors who carry out their duties competently, fearlessly and in good faith.

Furthermore, we shall strive to create an enabling environment which allows suitably qualified auditors to contribute to the protection of the public.

In addition to the current mandate, further legislative amendments are envisaged within the next five years that may expand the IRBA's mandate. This means that the strategic objectives will include measurable targets on the preparation and planning activities that is required to change the law and before the laws will include the extended mandate as envisaged per the IRBA's Four Strategic Pillars (Comprehensive regulator, Independence, Leadership, Transformation).

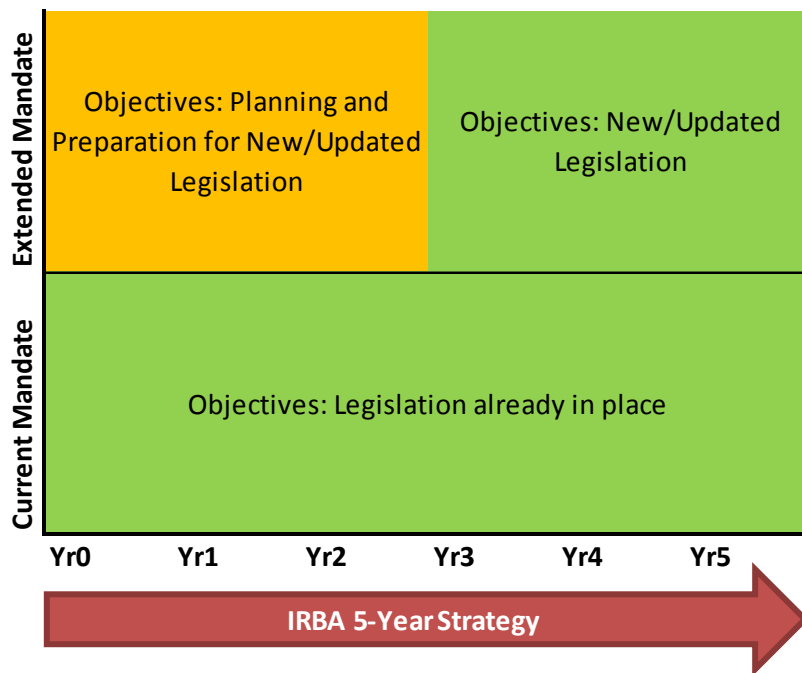


Diagram 2: Objectives in terms of current & extended mandate

Taken from the strategic analysis, a review of the past years performance, as well as the reviewed strategic intent, the executive team identified the focus areas under Programme 1 and Programme 2 below as critical to the business. These focus areas are informed by the following principles:

- 1) *The strategic objectives exclude the impact of any other legislation on the IRBA.*
- 2) *The strategic objectives include the preparation and planning activities that are required to change the law and mandate to accommodate the IRBA's extended strategic pillars (Comprehensive regulator, Independence, Leadership, Transformation).*
- 3) *Targets for the IRBA are prepared differently and measured differently to an entity that produces tangible outputs. Measurable objectives are therefore mostly based on qualitative and not only quantitative factors.*
- 4) *Targets are not necessarily increased annually as the targets which are indicated reflect the IRBA's optimum performance (Maintain a high level of performance).*
- 5) *The measurement of outputs has been agreed with Internal Audit, the Auditor General and National Treasury.*

## 7 Programme 1 – Current mandate (Regulation of Auditors)

### 7.1 Strategic objectives

(Refer to Annexure A1)

### 7.2 Resource considerations

The organisational chart and budget represent the human resources, financial and infrastructural requirements to fully implement and deliver on the strategic objectives of the IRBA.

**It does not include the regulation of Professional Accountancy Organisations (PAO), strengthened Independence and the regulation of the B-BBEE Verification Industry. These functions will require changes to the IRBA's legislative mandate and additional funding and resources.**

## 7.3 Risk management

The top 5 strategic risks of the IRBA, not ranked, are as follows:

	Risk name	Risk event (description)	Objective to which risk is linked	Root causes of the risk	Consequences of the risk	Mitigating action plans
1	<b>Sustainability of the IRBA</b>	Ineffective relationship and communication between the Board / Management and the National Treasury.	Strengthening the IRBA's organisational capability, capacity and performance to deliver in an EEE manner, in accordance with regulatory frameworks	<ul style="list-style-type: none"> <li>- Lack of appreciation / understanding of the role and relevance of the IRBA.</li> <li>- The insufficient productive interaction and engagement between the IRBA and Treasury.</li> <li>- National Treasury's lack of understanding of the operational requirements and therefore lack of funding requirements provided by Government.</li> </ul>	<ul style="list-style-type: none"> <li>- Inability to deliver on present mandate.</li> <li>- Failure to effect the legislative changes to respond timeously to changing requirements.</li> <li>- Loss of international standing and international investor confidence.</li> <li>-</li> </ul>	<ol style="list-style-type: none"> <li>1. Forge a closer relationship with Ministries (Minister of Finance in particular) and decision making state officials in Government.</li> <li>2. Improved relationship management by the Board with Government.</li> <li>3. Exploring alternative controlling models for similar public entities.</li> <li>4. Education outreach.</li> </ol>
2	<b>Demands from other stakeholders on IRBA's capacity</b>	Negative impact on current capacity due to increased external demands by other local and international regulators, government and stakeholders, without a corresponding increase in capacity, resources and funding.	Strengthening the IRBA's organisational capability, capacity and performance to deliver in an EEE manner, in accordance with regulatory frameworks	<p>Increased and complex demand for data by international and local oversight bodies, for example EU Commission Adequacy Assessment, FAOA Survey Equivalence Assessment, IOSCO Financial Sector Assessment Program, FATF Mutual Evaluation follow-up report</p> <p>Senior management input required by third parties from IRBA processes for completion of information, attending workshops and meetings, giving advice and guidance.</p> <p>IRBA regarded as an internationally recognised standard setter and regulator</p>	<ul style="list-style-type: none"> <li>- Burn-out of existing staff.</li> <li>- Diverting resources from delivery of core mandate.</li> </ul>	<ol style="list-style-type: none"> <li>1. Consider the impact of increased demands on existing mandate</li> <li>2. Increase capacity and resources.</li> <li>3. Prioritise functions.</li> </ol>

	<b>Risk name</b>	<b>Risk event (description)</b>	<b>Objective to which risk is linked</b>	<b>Root causes of the risk</b>	<b>Consequences of the risk</b>	<b>Mitigating action plans</b>
<b>3</b>	<b>Constraints on capacity required</b>	Inadequate number/ scarcity of suitably qualified and experienced technical staff to recruit, retain and replace. Failure to address capacity needs to deliver on current mandate and expanded mandate and expectations.	Strengthening the IRBA's organisational capability, capacity and performance to deliver in an EEE manner, in accordance with regulatory frameworks	<ul style="list-style-type: none"> <li>- Specialised skills not available in the market at affordable price.</li> <li>- IRBA not in a position to compete with private sector salaries.</li> <li>- Insufficient black senior staff.</li> <li>- Additional demands through other Regulators.</li> <li>- Insufficient succession planning.</li> <li>- Loss of key staff due to scarcity and inadequate income to pay comparative salaries.</li> </ul>	<ul style="list-style-type: none"> <li>- Hampered delivery of IRBA mandate and additional requests.</li> <li>- Burn-out of existing staff.</li> <li>- Business continuity and loss of intellectual capital in the loss of key staff.</li> <li>- Impaired service delivery.</li> </ul>	<ol style="list-style-type: none"> <li>1. Develop succession plan.</li> <li>2. Leadership identification and mentorship of these leaders.</li> <li>3. Consider different funding model (to boost required resources).</li> <li>4. Funding of the required capacity budget.</li> <li>5. Further improvement of the performance appraisal system.</li> <li>6. Remuneration changed to financial market related salaries, instead of general market salaries.</li> </ol>
<b>4</b>	<b>Regulatory capture (independence)</b>	Undue influence by those regulated.	Developing and maintaining auditing and ethical standards which are internationally comparable Robust inspections and investigations.	<ul style="list-style-type: none"> <li>- Lack of independence.</li> <li>- Conflicts of interest.</li> <li>- IRBA not accepted by International regulators.</li> <li>- Current legislative requirements</li> <li>- Auditors being represented on IRBA structures</li> </ul>	<ul style="list-style-type: none"> <li>- Decisions taken which are not necessarily in the public interest</li> <li>-</li> <li>- Ineffective regulation.</li> <li>- Loss of international ranking achieved and international recognition.</li> <li>- Additional costs for local audit firms.</li> </ul>	<ol style="list-style-type: none"> <li>1. Revisit composition of Committees</li> <li>2. Develop protocol for the process of appointing committee members.</li> <li>3. Increase capacity within the IRBA to rely less on certain committees, e.g. INSCOM and INVESCO.</li> <li>4. Changes to legislation</li> </ol>



	<b>Risk name</b>	<b>Risk event (description)</b>	<b>Objective to which risk is linked</b>	<b>Root causes of the risk</b>	<b>Consequences of the risk</b>	<b>Mitigating action plans</b>
<b>5</b>	<b>Change in mandate</b>	Changes to the IRBA mandate as a result of changes to current and other legislation for example B-BBEE, Tax Administrators and ROSC	Strengthening the IRBA's organisational capability, capacity and performance to deliver in an EEE manner, in accordance with regulatory frameworks	<ul style="list-style-type: none"> <li>- IRBA being approached to regulate other industries without commitment from departments regarding capacity and funding.</li> <li>- Not all risks taken into account when considering additional responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>- IRBA cannot deliver on the additional requirements due to lack of funds.</li> <li>- Expectations are created that cannot be met.</li> <li>- Threat to delivery on existing mandate.</li> </ul>	<ol style="list-style-type: none"> <li>1. Impact assessment of increased regulatory mandate</li> <li>2. Preparing business plan, including risks and how they will be addressed, for each new regulatory request and agree funding and capacity between National Treasury and relevant Government Department before acceptance or implementation.</li> <li>3. Provide departments with sufficient guidance regarding any additional responsibilities.</li> <li>4. Ensure MOAs are in place, where relevant.</li> <li>5. Continuous evaluation of emerging risks and development of appropriate responses</li> </ol>

## **8 Programme 2 – Proposed Extended Mandate (Four Pillar Strategy)**

The IRBA's Four Pillar Strategy:

1. **Comprehensive regulator:** To provide for a more comprehensive regulatory model that includes the regulation of Professional Accountancy Organisations (PAO). The Minister of Finance has given in-principle approval that the IRBA will assume this responsibility.
2. **Independence.** Strengthening both the independence of the IRBA and the independence of registered auditors.
3. **Leadership in Africa.** Implement initiatives which will contribute to enhancing and improving overall reporting, governance and regulatory practices on the African continent.
4. **Transformed profession.** Influencing the advancement of transformation in the profession.

### **8.1 Strategic objectives**

Refer to Annexure A2

### **8.2 Resource considerations**

**Although the Board has adopted the Four Strategic Pillars as its key strategic focus areas, if the objectives in pursuit of these are not funded or supported by the Minister of Finance/Treasury, these objectives will not be achieved. There is only budget expected to be available for Programme 1 at the time of compiling this strategic document.**

## **Part C: Links to other plans**

### **9 Long-term infrastructure and other capital plans**

The lease for the current building expires in June 2016. Therefore a process will commence to secure new premises after that date.

## Annexure A: Strategic overview

### Policy Recommendations in the Report on the Observance of Standards and Codes – Accounting and Auditing (2013)

**8.1.** The principle-based policy recommendations outlined in this section result from the review and discussions held with stakeholders by the ROSC team. They are formulated on international good practice and take into account the country context. Implementation of the recommendations will contribute to further strengthening of corporate financial reporting practices. To implement the recommendations, the Government and country stakeholders should develop a country action plan that incorporates specific objectives to be undertaken noting the timing (short, medium, or long term) and institution responsible of implementing each action. Commitment from the Government, Steering Committee, and other stakeholders is critical. Development partners should be engaged to support implementation of the action plan with financial and technical assistance. The key policy recommendations focus on enhancing oversight over professional accountancy bodies with the overall aim of increasing access and improving on quality of qualifications, strengthening audit quality reviews, and establishing a legal-backed process of reviewing financial statements and taking corrective sanctions.

Management prepared a Plan to implement the recommendations which impact on the IRBA. Some of the recommendations require legislative changes that will require considerable planning and preparation before it become law, but the process will be built into the five year strategy and budget to accomplish the objectives of the board. The remaining recommendations that do not require legislative changes have been implemented already to some extent and the IRBA will continue in its efforts to strengthen independent regulation.

As stated above, some recommendations might require legislative changes, and most require additional funding. The extent of funding will depend on whether new structures will be required, or whether current structures will merely be amended to accommodate the implementation of the recommendations. The IRBA, for example, already has the structures in place to facilitate the regulation of auditors, and has in excess of 60 years' experience in audit regulation.

The policy recommendations in the ROSC and the IRBA's responses thereto are summarised as follows:

<b>Recommendations</b>	<b>Status/Responsibility</b>
<b>8.2</b> Appropriate legislation should be enacted to provide for the regulation of both professional accountancy organizations and an audit regulatory body	We concur and are developing a 3-year framework to address this as follows: Year 1: Research, Year 2: Advocate, Year 3: Changes in law.
<b>8.3</b> An independent board should govern the proposed regulatory body with support from a secretariat that has adequate capacity in financial and human resources	We support this recommendation and have already taken steps to implement some of the recommendations in the composition of the Inspections and Investigations Committees. Further independence-enhancing changes will require legislative amendments.
<b>8.4</b> The independence of IRBA's inspection and	We support this recommendation

investigations processes should be strengthened	and have already taken steps to implement some of the recommendations in the composition of the Inspections and Investigations Committees. Further independence-enhancing changes will require legislative amendments.
<b>8.5</b> The approach, methodology, and rigor of IRBA's inspections should be strengthened	We support this recommendation and have already taken steps to implement some of the recommendations in the composition of the Inspections Committee. Further independence-enhancing changes will require legislative amendments.
<b>8.6</b> The disciplinary process and sanctioning requires independence, rigor, and timely resolution	We support this recommendation and have already taken steps to implement some of the recommendations in the composition of the Investigations Committee. Further independence-enhancing changes will require legislative amendments.
<b>8.7</b> IRBA resources and capacity should be increased and funding model should be stabilised.	We agree with this recommendation.
<b>8.8</b> IRBA should be more robust in sharing information with other South Africa regulators	The IRBA welcomes information sharing with other regulators, subject to legislative restrictions.
<b>8.9</b> The follow-up process of reportable irregularities should be improved to ensure corrective actions are taken	We support this recommendation which requires legislative amendment.
<b>8.10</b> The proposed legislation to regulate both professional accountancy organizations and an audit regulator (paragraph 8.2) should require review of financial statements of large public interest entities for compliance with financial reporting standards	We support this recommendation. The IRBA should implement inspection procedures to review compliance with Financial Reporting Frameworks, in addition to inspecting compliance with Auditing Standards.
<b>8.11</b> All professional accountancy organizations should increase their partnership engagement with universities and other tertiary institutions	We support this recommendation.
<b>8.12</b> Professional accountancy organizations and tertiary institutions, where appropriate, should include public sector modules in their education and training curricula	We support this recommendation.

<b>8.13</b> The FRSC should be provided with necessary infrastructure and resources to achieve its mandate	We support this recommendation.
<b>8.14</b> All professional accountancy organizations should be strengthened to have capacity to increase and serve their members	We support this recommendation.
<b>8.15</b> South Africa should consider enacting a law that would allow audit firms to organize as limited liability partnerships (LLPs)	We support this recommendation, which is subject to research being completed on developing limited liability legislation.
<b>8.16</b> Large private companies with public interest should be required to make available their audited financial statements to the public on request	We support this recommendation.
<b>8.17</b> SMPs should be encouraged to strengthen their resources and capabilities in order to be competitive in providing professional services	We support this recommendation.

**The following are non-strategic recommendations in the ROSC that are still relevant in the context of the IRBA's mandate:**

**1. *The proposed legislation should provide for the review of financial statements***

The IRBA supports this recommendation and will be working closely with the FRSC and JSE Ltd's FRIP.

**2. *SMPs should be encouraged to strengthen their resources and capabilities***

Although it is critical that the IRBA remains independent of the profession, it has developed an SMP Strategy which outlines options for strengthening SMPs to grow and compete in the audit market, and so avoid concentration of audits in the hands of a few firms, which could, in turn, impact on audit quality. We will also work with the SAICA National Small-Medium Practice Committee (NSMPC) and the SAICA Audit Guidance Committee (AGC) in this regard.

**3. *Transformation***

We will continue to work with other stakeholders, including the CA Charter Council, in promoting transformation of the profession.

**4. *"Twin-Peaks" Model of Regulation***

In February 2011 Treasury published a policy document titled "*A safer Financial Sector to Serve SA better*" that introduced the move towards a Twin Peaks model of financial regulation. The model suggests that the Financial Services Board be transformed into a dedicated market conduct authority, whose objective will be to protect consumers of financial services and promote confidence in the SA financial system.

While the IRBA does not form part of this transition, the process will provide useful lessons to the IRBA when transforming into the Comprehensive Regulator once the IRBA's role has been confirmed.

## Annexure B: Strategic objectives

### PROGRAMME 1

1. AUDITING AND ETHICS STANDARDS	To develop and maintain auditing and ethics standards which are internationally comparable	Standards and Guidance issued	Issued auditing and ethics pronouncements	High quality audits	Target dates for issuing audit pronouncements as per CFAS Project Timetable adjusted on a quarterly basis	Baseline:85%  Target: Maintain baseline
2. EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT	To provide an appropriate framework for the education and training of properly qualified auditors and to establish processes so that only competent candidates enter the audit profession	Approved framework and processes	Processes to manage the development and assessment of professional competence of Candidate Auditors.	Candidate Auditors have satisfied the professional competence criteria required for registration with the IRBA.	Adherence to the Audit Development Programme (ADP) work flow process	Baseline: 90% adherence to work flow process  Target: Maintain baseline
	To monitor the programmes and institutional requirements of accredited professional bodies	Monitoring Reports	Monitoring reports of the recognised programmes of accredited professional bodies	A partnership with the accredited professional bodies to ensure competent professional accountants.	The IRBA's Response to monitoring reports which have been submitted.	Baseline: 100% adherence to approved schedule  Target: Maintain baseline

3. INSPECTIONS	To monitor registered auditors' compliance with professional standards	Inspections performed in accordance with the Inspections plan.	Inspection reports	Compliance of firms (including its individually registered auditors) with the auditing, and ethics standards	Number of inspections completed in accordance with the inspection plan	Baseline: 90% adherence to inspection plan  Target: Maintain baseline
4. INVESTIGATIONS	To investigate and take appropriate action against registered auditors in respect of improper conduct	Completed investigations	Closed case files	Public trust in the profession	% of complaints closed within 18 months of receipt of complaint ( <i>excluding matters referred to disciplinary hearings</i> )	Baseline: 80%  Target: Maintain baseline
5. OPERATIONAL EFFECTIVENESS	Strengthening the IRBA's organisational capability, capacity and performance to deliver on its mandate in an economically, efficient and effective manner, in accordance with the relevant regulatory frameworks	Reports from internal and external audit	Systems, policies and processes which ensure compliance, accountability and sound management of revenue, expenditure, assets and liabilities.	Financial sustainability to deliver on mandate	Clean audit report regarding financial statements, compliance and performance information.	Baseline: Clean audit report  Target: Maintain baseline



<b>PROGRAMME 2</b>						
1. COMPREHENSIVE REGULATOR	Expansion of the IRBA's offering to be a comprehensive, multi-disciplinary and value adding regulator	Identification and regulation of Professional Accountancy Organisations (PAO) and other relevant professional bodies	Approval and implementation of expanded offering	Expanded legislative mandate enacted and implemented	Achievement of milestones per the stakeholder and implementation plans.	Baseline: No mandate for extended offering  Target: Expanded legislative mandate enacted and implemented
2. INDEPENDENCE AND AUDIT QUALITY	Enhanced independence of the IRBA	To obtain mandate approval and implement an Independence Plan (Independent Funding Model and Governance Structure)	Independence Plan comprising the approval, law-making and implementation of Independent Funding Model and Governance Structure	A more independent regulator	Achievement of milestones per the Independence plan	Baseline: Partly-independent Funding Model and Act allowing auditors in governance structures  Target: Fully independent Funding Model and APA not allowing auditors in governance structures
3. LEADERSHIP IN AFRICA	Enhance independent audit regulation throughout Sub-Saharan Africa	Relations with relevant African stakeholders	Stakeholder Plan	Enhanced governance and reporting in Africa	Progress against Stakeholder Plan	No baseline  Achievements of milestones in stakeholder plan.
4. TRANSFORMATION	Providing an appropriate framework for the education and training of properly qualified auditors	To promote transformation and raise awareness of the audit profession	Project Plan with activities that raises awareness and promotes transformation of the audit profession	Progress with transformation in the profession.	Delivery against the project plan as approved by the Board	Baseline: 80% compliance with the project plan  Target: Maintain baseline