



# irba

INDEPENDENT REGULATORY BOARD FOR AUDITORS

# NEWS

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## DARK CLOUDS CAST SHADOWS OVER THE PROFESSION

*To re-establish confidence will  
require working together*

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## FROM THE CEO'S DESK

The past three months have been discouraging for the IRBA. This started with the surprise leak of emails from the *AmaBhungane* journalists that implicated one of the big four audit firms in the Linkway Trading wedding scandal. Then the *World Economic Forum's Global Competitiveness Report 2017-2018* (based on a survey conducted between February and June 2017) was released, and it indicates that we have slipped from our number one ranking in respect of auditing standards. All of this has left us with more questions than answers.

Since well before this time last year, the IRBA had expressed its concerns around auditor independence. We encouraged dialogue around the risk of market concentration and the lack of transformation, and participated fully in the Parliamentary hearings on these issues. Our *Public Inspections Report for 2016*, released in March, drew attention to the overall regression in the inspection results compared to the previous year, with the number of unsatisfactory inspections of audit firms increasing by 27% and the number of unsatisfactory engagement inspections increasing by almost 50%, based on the selected inspections performed.

Clients and audit firms cannot see the same issues that the IRBA, as the audit regulator, sees with regards to declining quality and lack of independence. From the IRBA perspective, we have a far broader and more holistic view of the profession and the audit engagements as a result of our inspections process, complaints received, investigations and fines paid by auditors to settle disciplinary cases.

Therefore, it was unfortunate that the profession and companies resisted our efforts over the past few years to strengthen independence, particularly when our inspections and investigations processes frequently raised this as a concern.

The role of audit regulators worldwide is to mitigate risk and act when there is the appearance of a problem and not to wait until an entity fails before examining the audit practices of external auditors.

We are concerned that recent developments have contributed to misperceptions about the auditing profession that we will have to work hard to counteract. Much of the good work done

over the past 10 years to build integrity, credibility and reliability has come undone, and this is reflected in us dropping to number 30 in the world rankings for audit standards. The disappointment is profound for us as we know that the profession still has good people with a great deal of professional integrity. It is therefore critical that the profession and the regulator work together to address the areas of weaknesses we have identified.

We are hopeful that faced with the recent public outcry, shareholder activism and the increased expectation for the profession to perform its public protection role to the highest standard, we will have greater cooperation from auditors and their clients as we implement regulatory measures such as mandatory audit firm rotation (MAFR).

MAFR is six years away, so it will not provide short-term reassurance to the market that auditors are independent and applying professional scepticism. We will have to look at other measures – such as transparency reports, audit quality indicators, audit committee independence and governance – to demonstrate that as an industry we are taking firm and decisive action. We must also work with other regulators to correct the situation so that we can re-establish stability in our capital and financial markets.

Confidence in financial markets is dependent on perceptions of how safe it is to do business in a country; and such perceptions are influenced by levels of corruption, crime, downgrades and the strength of financial institutions.

In the meantime, speculation on the KPMG investigation is not only unhelpful, it is risky and everyone should strive to be patient and responsible in their commentary. The IRBA is independent and will not be influenced to favour any predetermined outcome. Neither will it compromise the robustness of its investigation. We will follow our due process, in terms of the requirements in the Auditing Profession Act, to draw the investigation to its rightful conclusion.

No matter what the final conclusion will be, these bumpy few months have highlighted the risks of oligopolistic concentration in a statutory audit market and the value of healthy competition. They have also shown the importance of continuous improvements, broadening access in terms of the

## FROM THE CEO'S DESK cont.

Constitution and keeping audit reforms in line with the fast-changing business environment. In addition, they have shown us a new level of shareholder activism and the power of "citizenism".

The time for resetting the audit landscape is now. We must adjust to a new normal and meet more exacting expectations in order to safeguard our continued relevance.



*Bernard Peter Agulhas*  
**Chief Executive Officer**

# STANDARDS

## The following topics are discussed in this issue:

- Exposure Draft: Proposed International Standard on Auditing 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.
- Reminder: Resources which can be used for applying Professional Skepticism.
- Revision of the Guide for Registered Auditors: *Access to Working Papers*.
- Exposure Draft: *Proposed South African Auditing Practice Statement (SAAPS) 2 (Revised 2017), Financial Reporting Frameworks and the Auditor's Report*.
- Project on the assurance concepts of rational purpose, subject matter and criteria for sustainability assurance engagements.
- Revision of the Guide for Registered Auditors: Auditing in the Public Sector Vol 1.
- IAASB projects in progress.
- IESBA Proposes Revisions Pertaining to the Offering and Accepting of Inducements.

## Exposure Draft: Proposed International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures

The International Auditing and Assurance Standards Board (IAASB) issued the proposed International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (ED-ISA 540 (Revised)), for public comment in April 2017.

Significant changes in how auditors evaluate accounting estimates and related disclosures have been proposed by the IAASB in ED-ISA 540 (Revised). The changes will require auditors to sharpen their focus on risks of material misstatements arising from accounting estimates, and to address those risks with more granular audit requirements.

ED-ISA 540 (Revised):

- Enhances requirements for risk assessment procedures to include specific factors related to accounting estimates, namely complexity, judgement and estimation uncertainty;
- Sets a more detailed expectation for the auditor's response to identified risks, including augmenting the auditor's application of professional skepticism; and
- Is scalable regardless of the size or sector of the business or audit firm.

The comment period ended on 1 August 2017. The IRBA submitted its comment letter on ED-ISA 540 (Revised), and this is available on the [IAASB website](#) along with all other comment letters that the IAASB received thereon.

## Reminder: Resources which can be used for applying Professional Skepticism

A reminder that 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 website is provided.

In addition, the page also has a link to *Towards Enhanced Professional Skepticism – Observations of the IAASB-IAESB-IESBA Professional Skepticism Working Group*, a publication developed by the Professional Skepticism Working Group. The publication outlines observations about the current environment and sets out actions the global standard-setting boards will take, as well as the role that other stakeholders can play in enhancing professional skepticism.

## Committee for Auditing Standards (CFAS)

### Revision of the Guide for Registered Auditors: Access to Working Papers

The update of the *Revised Guide for Registered Auditors: Access to Working Papers* (the Guide) is in progress. The Guide deals with the circumstances in which registered auditors and firms are requested or required to grant access to working papers, which support an auditor's opinion on financial statements or other financial or non-financial information, to the client, another auditor or a third party. Guidance is provided in respect of access requested in the following circumstances:

- Access required by law;
- Access required in compliance with the International Standards on Auditing and the IRBA's Code of Professional Conduct for Registered Auditors; and
- Access requested by third parties.

# STANDARDS cont.

The guide is being updated for:

- Changes to legislation;
- Relevant revisions of the International Standards on Auditing, International Standards on Assurance Engagements and the IRBA's Code of Professional Conduct for Registered Auditors; and
- Any other changes that may be ascertained and considered viable to address.

The Guide is expected to be issued on exposure in December 2017.

## **Exposure Draft: Proposed South African Auditing Practice Statement (SAAPS) 2 (Revised 2017), Financial Reporting Frameworks and the Auditor's Report**

The CFAS approved the issuing of the *Proposed SAAPS 2 (Revised 2017), Financial Reporting Frameworks and the Auditor's Report* (the proposed SAAPS 2 (Revised 2017)), in August 2017 for exposure for public comment by **30 November 2017**.

The proposed SAAPS 2 (Revised 2017) provides guidance to registered auditors on the application of ISAs in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements.

## **Revisions made to the proposed SAAPS 2 (Revised 2017)**

The proposed SAAPS 2 (Revised 2017) includes:

- Conforming amendments arising from the withdrawal of the application of Statements of GAAP, also called the GAAP Reporting Framework, from 1 April 2018.
- Conforming amendments arising from the introduction of the Modified Cash Standard by National Treasury in January 2015.
- An update of the reference from the *International Framework for Assurance Engagements* (the Framework) to ISA 210, *Agreeing the Terms of Audit Engagements*, regarding characteristics of suitable criteria for a financial reporting framework. This is as a result of the Framework having been revised to encapsulate assurance engagements other than audits or reviews of historical financial information.
- Conforming amendments, where considered necessary,

arising from the revision of the following ISAs:

- o ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
- o ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*;
- o ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*;
- o ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; and
- o ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.

The abovementioned ISAs are effective for audits of financial statements for periods ending on or after 15 December 2016.

Depending on comments received, it is anticipated that the final SAAPS 2 (Revised 2017) will be approved by the CFAS in March 2018 and issued in April 2018, with such approval and issue being noted at the subsequent meeting of the IRBA Board.

It is expected that the effective date will correspond with the effective date for the withdrawal of the application of Statements of GAAP, being effective for audits of financial statements for periods ending on or after 1 April 2018. As with the early adoption of the new and revised ISAs permitted by the IAASB, early adoption of this proposed SAAPS 2 (Revised 2017) will also be permitted where the auditor has early adopted the underlying suite of new and revised IAASB standards.

The CFAS welcomes comments on all matters addressed in this proposed SAAPS 2 (Revised 2017), and seeks responses to one question that is set out in the Explanatory Memorandum of this proposed SAAPS 2 (Revised 2017).

We invite registered auditors and other interested parties to submit any comments regarding the proposed SAAPS 2 (Revised 2017) to the IRBA by **30 November 2017**. Comments should be submitted by e-mail to [standards@irba.co.za](mailto:standards@irba.co.za) in Word format. All comments will be considered a matter of public record.

## STANDARDS cont.

A copy of the exposure draft is available in PDF format and may be downloaded from the [exposure drafts page](#) on the IRBA website. Should you have any other queries, please do not hesitate to contact the Standards Department by sending an email to [standards@irba.co.za](mailto:standards@irba.co.za).

- Agreed-upon procedures;
- Data analytics; and
- Integrated reporting (emerging forms of external reporting).

More information on these projects is available on the [IAASB 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.

### CFAS Public Sector Standing Committee (PSSC)

#### ***Revision of the Guide for Registered Auditors: Auditing in the Public Sector Vol 1***

The update of the *Guide for Registered Auditors: Auditing in the Public Sector Vol 1* (the Guide) is in progress. The Guide is being updated for:

- Changes made to the AGSA's audit methodology;
- Further guidance on how political governance structures in the public sector should be engaged with;
- Changes to the financial reporting frameworks applicable to the public sector; and
- Changes to the International Standards of Supreme Audit Institutions (ISSAIs).

### IAASB Projects in Progress

The IAASB's projects in progress are:

- Accounting estimates (ISA 540);
- Quality control at engagement level (ISA 220);
- Quality control at firm level (ISQC 1);
- Engagement Quality Control Review (EQCR) (ISQC 2) – **NEW STANDARD** – see the [IAASB website](#) for more information;
- Group audits (ISA 600);
- Professional scepticism;
- Auditor risk assessments (ISA 315 (Revised));

# ETHICS

## IESBA

### ***IESBA Proposes Revisions Pertaining to the Offering and Accepting of Inducements***

The International Ethics Standards Board for Accountants (IESBA) released for public comment the Exposure Draft, *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements*, on 8 September 2017.

The proposed comprehensive framework covers all forms of inducements and provides enhanced guidance on the offering and accepting of inducements by registered auditors, their immediate or close family members.

Among other matters, the proposals also require registered auditors to address any threats to compliance with the fundamental ethical principles, in accordance with the IESBA Code's conceptual framework, where there is no improper intent.

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, a Board Notice to the same effect will be published in the Government Gazette for public comment for a minimum period of 30 days.

Registered auditors and others are invited to submit any comments regarding the proposed changes to the IRBA Code for consideration as we prepare our response to the IESBA. Comments should be addressed to [standards@irba.co.za](mailto:standards@irba.co.za), in Word and PDF formats, by 24 November 2017.

Alternatively, comments may be submitted directly to the IESBA through the [www.ifac.org](http://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 8 December 2017.

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

## IRBA COMMUNICATIONS

Please advise Lebogang Manganye ([lmanganye@irba.co.za](mailto: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 twice during this period and referred 40 matters to the Disciplinary Advisory Committee with recommendations.

## Disciplinary Advisory Committee

The Disciplinary Advisory Committee met twice during this period and concluded on 39 matters.

### *Decisions not to charge*

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

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

Three matters in terms of Disciplinary Rule 3.5.1.3 – the conduct of the respondent was negligible in nature.

One matter in terms of Disciplinary Rule 3.5.1.4 – there are no reasonable prospects to succeed with a charge of improper conduct against the respondent.

### *Decisions to charge and matters finalised by consent order*

Twenty six matters were finalised by consent order.

### **Matter 1**

The respondent did not appropriately respond to the risk related to procurement in terms of the requirements of International Standards on Auditing. In addition, the respondent failed to disclose non-compliance with legislation regarding procurement in the joint audit report of the entity.

The respondent was sentenced to a fine of R200 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, a cost order of R20 000 and publication by the IRBA in general terms.

### **Matter 2**

The respondent in reviewing the audit file failed to detect that the work performed did not appropriately respond to the risk related to procurement in terms of the requirements of International Standards on Auditing. In addition, the respondent failed to disclose non-compliance with legislation regarding procurement in the joint audit report of the entity.

The respondent was sentenced to a fine of R200 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, a cost order of R20 000 and publication by the IRBA in general terms.

### **Matter 3**

The respondent did not document the considerations in terms of ISA 230 on why the omission of disclosures were not considered a material departure from ISA 8 requirements. Furthermore, these omissions were not included in the summary of uncorrected misstatements.

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 cost order and publication by the IRBA in general terms.

### **Matter 4**

The respondent did not document sufficient and appropriate audit evidence to support the classification of an item disclosed as a discontinued operation in terms of IFRS 5 requirements and that was then reclassified through a prior period correction in the subsequent year.

The respondent was sentenced to a fine of R100 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 cost order and publication by the IRBA in general terms.



# INVESTIGATIONS cont.

## Matter 5

The respondent failed to identify that the working papers reflected a calculation of a revaluation that did not comply with the requirements of IFRS 5. In addition, the respondent failed to identify that the working papers reflected a calculation of deferred tax on the revalued amount of land at a tax rate that was not in compliance with IAS 12. These errors were corrected in the subsequent year through a prior period correction.

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 cost order and publication by the IRBA in general terms.

## Matter 6

The respondent failed to document sufficient appropriate evidence on the appropriateness of the disclosure of a material item as operating activities in the cashflow statement, which in the subsequent year was restated as financing activities in the cashflow statement.

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 cost order and publication by the IRBA in general terms.

## Matter 7

In reviewing the audit file, the respondent failed to detect that the work performed on the disclosure of a material item as operating activities in the cashflow statement was not sufficient and appropriate. In the subsequent year, the amount was restated as financing activities in the cashflow statement.

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 cost order and publication by the IRBA in general terms.

## Matter 8

The matter arose from a referral by the Inspections Department. The respondent failed to detect a material error in the calculation of one of the subsections of a B-BBEE scorecard.

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 cost order and publication by the IRBA in general terms.

## Matter 9

The respondent did not document sufficient and appropriate evidence of the honorarium payment to the management committee in relation to the constitution requirements of the entity. In addition, the respondent did not identify that the budget ought to have been approved by members at the AGM, in terms of enabling legislation, and not by the management committee.

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 cost order and publication by the IRBA in general terms.

## Matter 10

The respondent did not identify that advances to a related party entity did not comply with the requirements of the Companies Act and should have been reported as a reportable irregularity to the IRBA. In addition, the disclosure on the related party entity in the financial statements was not in terms of IFRS for SMEs. Furthermore, the respondent performed both the accounting and audit work for the company in contravention of the Companies Act.

The respondent was sentenced to a fine of R150 000, of which R75 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 cost order and publication by the IRBA in general terms.

# INVESTIGATIONS cont.

## Matter 11

The respondent did not identify that investment revenue as disclosed in the financial statements was understated by withholding tax paid and dividends accounted for directly in the shareholders' loan accounts. In addition, the respondent did not modify his report on the departure from the accounting standards, which required the client to prepare consolidated financial statements.

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 cost order and publication by the IRBA in general terms.

## Matter 12

The matter arose from a referral by the Inspections Department. The respondent failed to detect an error in the annual financial statements. The audit client did not eliminate intergroup transactions that had occurred between the reporting entity and its joint ventures, which led to an overstatement of the revenue and cost of sales line items.

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 cost order and publication by the IRBA in general terms.

## Matter 13

The matter arose from a referral by the Inspections Department. The respondent issued an unmodified audit opinion despite the financial statements being materially misstated. The material misstatement related to the incorrect amount of revenue and cost of sales recognised relating to internal charges.

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 cost order and publication by the IRBA in general terms. In addition, the imposition of a previously suspended fine of R50 000 relating to a previous matter became payable.

## Matter 14

This matter arose through a complaint relating to two attorneys' trust assurance reports. The respondent on the first attorney's trust audit failed to identify errors in the interest disclosure, failed to report debit balances on trust creditors and failed to identify the mingling of trust creditor transactions. On the second attorney's trust audit the respondent failed to document the minimum procedures as per the SAICA guide.

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 cost order and publication by the IRBA in general terms.

## Matter 15

The respondent issued an unqualified assurance report on an attorneys' trust account despite including in the report that trust shortages were identified. In addition, the respondent failed to report on an identified breach by the client of the Law Society Rules relating to a cash payment made.

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, no cost order and publication by the IRBA in general terms.

## Matters 16-22

The respondents' audit firm prepared the annual financial statements or performed accounting services for clients where the respondents were the audit engagement partners. In so doing, the respondents contravened Section 90(2) of the Companies Act.

The respondents were each sentenced to a fine of R80 000, of which R40 000 has been suspended for three years on condition that the respondents are not found guilty of unprofessional conduct committed during the period of suspension, a cost order of R5 000 and publication by the IRBA in general terms.

# INVESTIGATIONS cont.

## **Matters 23-26**

The matters arose from a referral by the Inspections Department. The respondents made amendments to the audit engagement files after the final audit file assembly date and did not adhere to the documentation requirements of ISA 230 in this regard.

The respondents were each sentenced to a fine of R150 000, of which R75 000 has been suspended for three years on condition that the respondents are not found guilty of unprofessional conduct committed during the period of suspension, no cost order and publication by the IRBA in general terms.

## ***Decisions to charge and matters referred for a disciplinary hearing***

Two matters were referred to the Legal Department for a disciplinary hearing.



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# INSPECTIONS

## Audit Evidence on the Audit File for Approved Audit Reports and Annual Financial Statements

This communication aims to emphasise the importance of clearly documenting on the audit file, sufficient and appropriate evidence of the final auditor's report and the final approved financial statements for inspection or quality review purposes. It is not intended to provide an interpretation of the definition and legality of electronic signatures in relation to the Electronic Communications and Transactions Act of 2002, but rather to address a practical challenge experienced by IRBA inspectors when inspecting audit engagement files.

It has come to the IRBA's attention that many annual financial statements have been published with auditor's reports that do not contain physical handwritten signatures of the auditors. In addition, some annual financial statements published do not contain the physical handwritten signatures of an authorised director as evidence of the company board's approval. This practice is seemingly on the increase.

This creates a number of challenges, which include:

- Uncertainty as to the identification of the final version of the auditor's report and annual financial statements. This is because the auditor may not be able to provide the inspector with appropriate audit evidence of the final version of the auditor's report or the approved annual financial statements that were audited.
- Uncertainty as to the approval by the company's board of the exact final version of the annual financial statements on the archived audit file.
- The risk that the incorrect annual financial statements are published, and this is not identified by the auditor or the inspector.

International Auditing Standard (ISA) 700 (Revised), paragraphs 46 and 49, require the auditor to sign the auditor's report. Furthermore, paragraph 48 requires the auditor to date the audit report only after obtaining evidence that "those with the recognized authority have asserted that they have taken responsibility for those financial statements".

To help prevent uncertainties, ISA 230, paragraph A4, states that the "auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for

typographical or other errors, and duplicates of documents".

In conclusion, the auditor should obtain and document sufficient appropriate audit evidence to address the risk of the incorrect version of the annual financial statements being used. For practical reasons, physically signed copies of the final auditor's report and annual financial statements are considered to be the simplest and most reliable form of such evidence.

## An Overview of Root Cause Analysis as an Important Part of the IRBA's Remedial Action Process

### Background

In a continuous effort to improve audit quality as well as strengthen the inspections process, the IRBA is driving a formal Remedial Action Process (RAP) with auditors at both firm and engagement levels by actively encouraging them to constructively buy into the regulatory monitoring process. The purpose of this initiative is to aid auditors in understanding the issues reported to them and prompt them to take full responsibility for the continuous improvement of audit quality in their firms.

This is achieved by prompting auditors to perform a detailed Root Cause Analysis (RCA), as well as develop and implement an appropriate remedial action plan that will address the reported issues across all the audits of the firm.

Inspected firms or engagement partners who have received unsatisfactory inspection outcomes are requested to analyse the inspection findings and submit to the IRBA a root cause analysis and an action plan within 30 calendar days from the date of the Inspections Committee result letter, with a written undertaking that all deficiencies that were reported to them will be addressed. The IRBA analyses the RCA and action plans and engages with the auditors, where deemed necessary. During the RAP, the IRBA remains aware of its independence.

This process has proven to be highly effective where the firm's leadership actively embraced the process in a constructive manner.

# INSPECTIONS cont.

## *The Remedial Action Process (RAP)*

### Remedial Action Process (RAP)

- Unsatisfactory inspection outcome by the Inspections Committee prompts RAP.
- Affected Firm/Partner required to perform a detailed Root Cause Analysis (RCA).
- Firm/Partner submits a written undertaking, including a detailed RCA and action plan within 30 days.
- IRBA reviews RCA and action plan and engages where necessary.
- Follow-up inspections scheduled 12-18 months after the result letter date.
- Enhanced communication with firm Leadership/Partner around root causes.
- Publish common findings and root causes in the Annual Public Inspections Report.
- Feedback to other stakeholders, e.g. Audit Committees and Professional Bodies, on Audit Quality Indicators (AQI) and common root causes.
- Specific RAP - Specific action might be required by the Inspections Committee.

## Definitions

**Root cause:** The original event, action and/or condition generating an actual or potential undesirable condition, situation, nonconformity or failure.

**Root Cause Analysis:** A technique for identifying the underlying key cause (or causes) behind review findings, whether specific to one audit or firm wide, so that an appropriate and achievable action (or actions) can be taken to prevent the recurrence of negative outcomes and promote the recurrence of positive ones.

### The need for appropriate Root Cause Analysis

There is a significant misunderstanding of the RCA and in many instances, it would either be incorrectly prepared or not prepared at all.

For example, identifying “lack of documentation” as the root cause without getting to the real reason why the documentation was insufficient or lacking is not sufficient.

As per the 2016 IRBA Public Inspections Report, the most common root cause identified by auditors was “human error”, without drilling down to exactly why the issue existed or resulted in an inspection finding (root cause vs symptoms).

Those auditors who effectively identified the underlying root

causes and implemented real proactive action plans demonstrated significant improvement during follow-up inspections.

The principle of “Professional Scepticism” can also be effectively applied in conducting better RCAs, as it refers to an attitude that includes a questioning mind, being alert to conditions and a critical assessment of evidence.

### *Addressing the symptoms*

The following are examples of possible causes, but they do not necessarily drill down to the true root cause:

- Human error;
- Misunderstood the requirement;
- Misunderstood the standards;
- Documentation insufficiency;
- System error/audit methodology;
- Elaborating on the finding;
- Expanding on symptoms;
- The consultant messed up; and
- It was an oversight.

### Using the right tool

One of the suggested tools is “The 5 Whys” whereby one would keep on asking *why* until the real root cause is identified. This will enable the engagement team (with emphasis on the team “brainstorming” the issues) to identify and address the real root cause.

# INSPECTIONS cont.

In addition to asking *why* until the most appropriate root cause is identified, engagement teams can also ask questions such as: “*What in the system failed to make the problem occur?*”

## Outcome

The IRBA aims to promote a notable reduction in inspection findings through its RAP with the firms.

## References

The IRBA presented an RCA information session on the 27th of June 2017. The presentation and case studies are available on the [IRBA website](#).

## Recommendations

We encourage auditors to embrace the RAP and related feedback in order to improve audit quality. The firm's leadership and tone at the top are crucial to achieving and maintaining consistent sustainable high audit quality; and interventions need to be real and substantive if they are to have a lasting effect.



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# LEGAL

## Disciplinary Committee

The Disciplinary Committee did not sit during this period.

## Reportable Irregularities

### Reportable Irregularities (RIs) for the quarter April to June 2017

(Note that RIs are reported on quarterly in arrears)

127 second reports were received, of which:

RIs were continuing	75
RIs were not continuing	51
RIs did not exist	1

### Of the 75 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
Financial statements not prepared/not approved within the allotted timeframe.	31.4%	The South African Revenue Service (SARS), the Financial Services Board (FSB), the Companies and Intellectual Property Commission (CIPC).
Various Companies Act contraventions, e.g. reckless trading, breach of directors' fiduciary duties, irregular financial assistance to directors, AGM-related irregularities, etc.	23.3%	CIPC
Tax and VAT-related contraventions (e.g. non-submission of tax returns, failure to register for tax, non-payment of PAYE, etc.).	16.3%	SARS
Contraventions of the Sectional Title Schemes Management Act.	4.7%	The Community Schemes Ombud Service, SARS, etc.
Contraventions of the Estate Agency Affairs Act.	4.7%	The Estate Agency Affairs Board (EAAB).
Non-registration for and non-payment of UIF and Skills Development Levies.	3.5%	The Department of Labour (UIF).
Other (e.g. contraventions of the PFMA, PRECCA, the Nonprofit Organisations Act, the Johannesburg Stock Exchange regulations, etc.)	16.1%	The Directorate for Priority Crime Investigations (DPCI), National Treasury, the Department of Social Development, the Johannesburg Stock Exchange, etc.

### RIs on individuals trading as sole proprietors

When reporting RIs on individuals trading as sole proprietors, we request that RAs must please provide us with such individuals' identity numbers when submitting RI reports. This will assist regulators to whom continuing RIs are sent with identifying the individuals being referred to should they decide to initiate any follow-up action on the matters that have been reported.

### Concluding on the outcomes of RIs

We wish to emphasise that we cannot process a second RI report unless the responsible RA provides us with a definitive conclusion as to whether or not the particular RI is continuing or is not taking place or has not taken place.

While we do appreciate that RAs aren't always in the best possible position to provide us with such a definitive conclusion within the 30-day timeframe as stipulated in the

## LEGAL cont.

Auditing Profession Act 26 of 2005 (the APA), these three options are the only possible conclusions the APA provides for determining the status of an RI after the 30-day period has lapsed.

Note in this regard that the IRBA is not at liberty to allow for any extension to be granted in terms of the 30-day timeframe for an RA to submit a second RI report to the IRBA.

### **RI reporting date and the RA's signature in relation thereto**

We sometimes receive RI reports that are not dated, and in this regard we wish to remind all RAs who submit RI reports to us to ensure that all such reports are correctly dated. In addition, we request RAs to send their RI reports to us without any undue delay. This will ensure that the date reflected on the RI report does not differ substantially from the date on which we physically receive the RI report, be it the report was sent via post, hand-delivery or email.

In addition, an RA who reports an RI to us must add his/her signature to the RI report and must also ensure that his/her IRBA registration number is clearly indicated on any such reports submitted.

### **RA's letter to the management board of the entity**

As indicated per the illustrative auditor's second report to the IRBA as reflected in Appendix 5 of the 2015 Revised Guide for Registered Auditors on Reportable Irregularities in terms of the Auditing Profession Act (the RI Guide), an RA submitting a second RI report to us effectively confirms that he/she has included a copy of the written notice that was sent to the members of the management board of the entity concerned. We do, however, find that RAs do not always submit these written notices, and we therefore wish to remind RAs that they must send us such written notices when submitting their second RI reports. In this regard, we recommend that this be done in an attachment that is separate from the actual second RI report.

In addition, should the members of the management board have made any written representations in response to such written notices, we recommend that these representations also be submitted to us and that these also be attached separately from the second RI report.

### **Guidance on whether or not certain scenarios are to be reported to the IRBA as an RI**

While we do encourage RAs to send us their queries pertaining to RIs in general, we wish to reiterate that we will hardly ever be in an ideal position to advise RAs on whether or not any type of scenario that is sketched should or should not be classified as an RI. This is due to the fact that we may not necessarily be privy to all of the relevant information that might have been of value in deciding on whether or not it would or would not have been advisable to report an RI under the prevailing circumstances.

RAs need to apply professional judgement in determining whether an unlawful act or omission has indeed been committed by the management of an entity and whether such unlawful acts or omissions qualify to be reported as an RI. All such considerations are to be properly documented in accordance with ISA 230, *Audit Documentation*.



*Jane O'Connor*

**Director: Legal**

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# REGISTRY

## INDIVIDUALS ADMITTED TO THE REGISTER OF THE IRBA FROM 1 JULY 2017-30 SEPTEMBER 2017

Mugova, Sheila Rudo	Shabangu, Nontobeko Rebecca	Kadwa, Mahommed Omar
Chetty, Alethia	Manohar, Shabashini	Wrench, Laurence Vincent Edward
De Jager, Pierre	Muhumbe, Joyce Takudzwa	Fouché, Jean-Pierre
Eksteen, Herman Badenhorst	Makaula, Lwandile	Marais, Johan Abram
Hlajoane, Kelello	Heydenrych, Deon Sarel	Machigidi, Tavaziva
Madhav, Priya	Kamener, Chrismare	Laxson, Leanne Gail
Mokone, Maserame Marcia	Komape, Kgabo Antonett	Bass, Gillian-Lee
Muller, Jacques Ettienne	Young, Amelia	Shezi, Thembelani Innocent
Rajah, Fatima	Akoodie, Imraan	Vawda, Muhammad
Gumede, Archibald	Botha, Nestene	Bestbier, Wester Johanna
Mehlomakulu, Tendai Marshall	Gerber, Martha Magdalena	Njikelana, Randy
Mehlomakulu, Aquilina Teku	Wiid, Line Cornette	Van Der Mescht, Lindi Marilise
Mmokwa, Molatelo Mildred	Bunu, Vitalis	Rolleston, Lucian
Pretorius, Ernest Hendrik	Gangen, Theeban Balan	Van Wyk, Tanya
Tini, Viwe	Jansen, Barend Nicolaas	Smith, Francois
De Wet, Pieter Arnoldus Johannes	Ntlatleng, Portia Mashala	Mohideen, Muhammed Naeem
Mngadi, Luyanda	Watkins-Baker, Jonathan David	

## INDIVIDUALS RE-ADMITTED TO THE REGISTER OF THE IRBA FROM 1 JULY 2017-30 SEPTEMBER 2017

Monama, Stephen Lesetja	Wells, Alfred Herbert Henry	Dickson, Mariska Helena
Mokwena, Vusi Joseph	Mustard, Clinton	Duff, Grant William
Makwetu, Thembekile Kimi	Limekaya, Cuma	

## INDIVIDUALS REMOVED FROM THE REGISTER OF THE IRBA FROM 1 JULY 2017-30 SEPTEMBER 2017

Adlam, Jan Coenraad	Resigned	Bester, Wessel Christiaan	Resigned
Gerber, Eckhardt	Resigned	De Jager, Dijon Gerret	Resigned
Kapp, Gert Jacobus	Resigned	Lambat, Ahmed	Resigned
Lombard, Frans Jacob	Resigned	Mulder, Jacob Cornelis	Resigned
Venter, Andre Louis	Resigned	Hauptfleisch, Werner	Deceased
Wilson, Johannes Gysbertus	Resigned	Fourie, Johannes Wilhelmus	Resigned
Rapp, Arnold	Deceased	Jacobson, Myron	Emigrated
Burger, Conrad	Resigned	Thoresen, Gary	Resigned
Ferreira, Anton Steyn	Resigned	Claassens, Louis Stephanus	Resigned
Msongelwa, Mandisi	Resigned	Mcmaster, Christopher Steven	Resigned
Van Der Post, Willem	Resigned	Zaacks, Kenneth	Resigned
Venter, Martin	Resigned	Van Der Walt, Willem Dreyer	Deceased
Maseko, Lyndsay Ronald	Resigned	Khimjee, Anil	Resigned
Birkholtz, Leslie Edgar	Deceased	Fotinakis, Gerald Roland	Emigrated

# EDUCATION AND TRANSFORMATION

## Adapting to a Changing Environment

Auditors are constantly faced with changes that disrupt the way in which they conduct their daily business. Changes in technology, growing competition, evolving client needs, globalisation and legislative requirements are just some of the realities the profession is constantly confronted with.

Adapting or running the risk of becoming irrelevant appear to be the two options available. To quote Brian Tracy, self-development author and motivational speaker: "Those people who develop the ability to continuously acquire new and better forms of knowledge that they can apply to their work and to their lives will be the movers and shakers in our society for the indefinite future."

However, it is not only the auditors who are facing these challenges. As a regulator, the IRBA has to constantly re-evaluate the competencies required of an auditor. For South African auditors to compete in the global landscape, we need to ensure that the competencies being developed through our programmes are relevant and continue to be of a quality that is ranked among the best in the world. This is the basis for the Audit Development Programme (ADP), which is the qualification path to become a registered auditor (RA).

It is also not enough to merely react to the challenges that descend upon the profession. There is a need for a proactive approach that involves participating in the discussions that are shaping the future. This involves identifying potential problems the profession will face as well as starting to put in place solutions to deal with them before they arise. In this regard, the IRBA is an active member of the International Accounting Education Standards Board (IAESB).

The IRBA's Continuing Professional Development (CPD) policy is currently under revision to incorporate international trends in so far as they are applicable to the local environment. Research has also been commissioned to identify competencies that a future auditor will require.

## Transformation

In the previous *IRBA News* we spoke about the invigorated importance of transformation in South Africa. Parliament has also called on the profession to start focusing on true economic transformation and not just on numbers. As the IRBA, we have started roundtable discussions with key members of the profession to look into ways in which we can work together to find innovative solutions on transformation.

On Thursday, 28 September 2017, about 30 key members of the profession met to discuss the challenges faced by the profession regarding transformation, specifically in the auditing profession, with a focus on coming up with solutions on how the profession can deal with some of those challenges. The IRBA will be hosting more of these discussions in the near future and invites the profession to join us as details of the events are made available. Once these discussions have been concluded, the IRBA will distribute the results of the discussions to the profession. We hope that as a profession we can start sharing best practices.

## Continuing Professional Development

The IAESB recently issued its exposure draft on the International Education Standard (IES) 7 (Continuing Professional Development). Therefore, we are expecting the IAESB to issue a new IES 7 in the near future. The IRBA has begun its process to revise its CPD policy in line with these developments. This could potentially see the policy moving towards an output-based approach. Consultations with key stakeholders are yet to take place to ensure that all views are considered in the final policy. Therefore, you may soon be receiving communication from the IRBA requesting your views on the CPD policy. We would appreciate your responses to our questionnaires, as and when we send them out.

In the meantime, members are still required to adhere to the existing CPD policy as CPD monitoring is still based on the existing policy. Your compliance with the current CPD policy is therefore very important.

## The Audit Development Programme (ADP)

The ADP is a period of work experience undertaken by qualified professional accountants, currently SAICA's chartered accountants (CAs). 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.

### ADP Monitoring

The ADP may be offered by any RA firm that is registered with the IRBA. Registration with the IRBA provides some indication of quality as all RA firms are required to be ISQC 1 compliant. The ADP is designed to complement and run parallel with the internal structures of the RA firm. Firms that have registered candidates on the ADP must have their quality structures

# EDUCATION AND TRANSFORMATION

monitored by the IRBA. ADP Monitoring takes place as follows:

- Through the IRBA's firm inspection processes.
- Through the Education and Transformation Department's ADP monitoring process.

Registration of a candidate on the ADP is what triggers an ADP monitoring visit. This means that all firms with candidates registered on the ADP will be subject to monitoring.

The ADP monitoring process focuses on the following:

- Checks compliance with standards and indicators that form the basis of the self-evaluation report and are statements of good practice.
- Promotes the principles of ISQC1 and audit quality.
- Conducts external validation procedures on the validity of the six-monthly reports or the information contained in the Portfolio of Evidence submitted by candidates.
- Uses interviews and focus groups to verify the information in the self-evaluation reports.
- Produces monitoring reports that are developmental in nature.

There are three possible outcomes of the ADP monitoring process:

- Low monitoring intensity – All standards are largely met and the environment in which the ADP is offered is conducive to the development of professional competence.
- Medium monitoring intensity – Most standards are either met or are in the process of being met. The environment is conducive to the development of professional competence. However, there are a number of areas that require improvement.
- High monitoring intensity – A number of significant standards are not met or a standard considered to be significant on its own is not met and the environment in which the ADP is offered may be compromised due to poor adherence to the standards. The environment is not conducive to the development of professional competence and the registered candidate auditors (RCAs) may be at risk.

The most common findings from the ADP monitoring visits conducted to date have included the following:

- Firms did not have a documented quality control system.
- Annual and engagement independence declarations were not completed by audit staff.
- Periodic monitoring of the firms' quality control systems was not performed.
- During the commencement of engagements, there was no evidence that a planning meeting was held by the

engagement team to discuss, among other things, the risk of material misstatement due to fraud, including how fraud may occur.

- In the planning section of the files selected for review there was no assessment performed on whether the engagements should be subject to Engagement Quality Control Reviews (EQCR).
- The firms had not established a framework to determine the competencies required for newly appointed and existing employees to ensure that there is clarity in the roles and responsibilities.
- The performance appraisal process was not documented.

## Recognition of Prior Learning (RPL)

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

## Successful completion of the ADP

The IRBA would like to congratulate the following candidates who have recently completed the ADP:

- Ian Charters;
- Lindi van der Mescht;
- Tanya van Wyk; and
- Hester Bestbier.

We wish them all the best in their future endeavours and look forward to their registration as RAs.

## 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 (whichever is the latter):

- More than three years since an applicant:
  - o Was registered with the IRBA (assurance);

## EDUCATION AND TRANSFORMATION cont.

- o Successfully completed the ADP;
- o Passed the Public Practice Examination;
- o Completed a training contract in public practice; or
- o Worked in an audit and assurance environment.

Applicants intending to start their own practices are required to 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 ISQC1; and
- Name and IRBA number of the RA identified as their firm's Quality Reviewer. In this regard, also furnish us with agreements entered into with the Quality Reviewer.

We have received numerous calls and emails from applicants requesting what qualifications the Quality Reviewers should possess. The Quality Reviewer should be an assurance RA who has been registered as an RA for a minimum period of three years or must have been eligible for registration with the IRBA for a minimum of three years. This requirement seeks to ensure that only suitably qualified and competent individuals perform the reviews.

Non-assurance RAs may also be appointed as reviewers if in their current employment they have the responsibility of performing quality control on audits. The IRBA reserves the right to request the reviewer's CV to confirm their current role.

In addition to the requirements above, the Quality Reviewer is required to perform EQCR for the first three assurance engagements conducted by the applicant.

### Assistance on Offer

For general queries on education and transformation matters, please contact us at [edutrain@irba.co.za](mailto:edutrain@irba.co.za).

For ADP specific queries, contact us at [adpadmin@irba.co.za](mailto:adpadmin@irba.co.za).

For CPD specific queries, contact us at [cpdadmin@irba.co.za](mailto:cpdadmin@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 out 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](http://www.irba.co.za) under the News section.

<b>14 September 2017</b>	<b>IESBA Proposes Revisions Pertaining to the Offering and Accepting of Inducements</b>
<b>7 September 2017</b>	<b>Letter Issued by the JSE Limited – New Listings: Key Audit Matters in Auditor's Reports</b>
<b>31 August 2017</b>	<b>Proposed South African Auditing Practice Statement (SAAPS) 2 (Revised 2017): Financial Reporting Frameworks and the Auditor's Report</b>
<b>11 July 2017</b>	<b>REMINDER: IRBA Code amendments relating to Non-Compliance with Laws and Regulations become effective as of 15 July 2017</b>

# GENERAL NEWS

## KPMG Investigation

The IRBA is aware of the announcement KPMG International made on Friday 18 September 2017 regarding an investigation into various allegations with respect to its South African operation's work on behalf of the Gupta family and the report it produced on SARS.

The IRBA notes that the firm has made known its findings, is enforcing accountability and also taking action in the public interest. However, the IRBA will continue with its own independent investigation in order to bring the matter to the necessary conclusion.

At this point, though, the IRBA cannot give an indication on how long the investigation will take nor what the complete list of allegations will cover. It is, however, committed to performing a robust investigation in as short a time as reasonably possible to deliver on its mandate to serve the public interest.

It is critical for the reputation of the profession and the stability of our capital markets that the IRBA continues to work with audit firms to strengthen independence, professional scepticism and compliance to standards.

Now, more than ever, regulators and oversight bodies must work together with the profession to respond to the challenges facing the economy and the country. It is critical that the profession remains responsive to regulators' measures to protect not only the public and investors but also audit firms from exposing themselves and falling short in areas such as ethics, including independence, and the required standards.

Only then will we be able to maintain confidence in the profession, which is a quality that remains a vital component in creating credible financial markets that will attract the required investment to the benefit of all citizens.

## IRBA Signs an MoU with ACFE SA

The IRBA and the Association of Certified Fraud Examiners (ACFE) South Africa have signed a memorandum of understanding (MoU) that will result in the two organisations cooperating on a number of projects, including information sharing.

ACFE is the world's largest anti-fraud organisation and premier provider of anti-fraud training and education. One of its objectives is to reduce business fraud worldwide and inspire public confidence in the integrity and objectivity of the anti-fraud profession. ACFE SA is a chapter of the ACFE tasked with servicing the South African members by providing training and ensuring that the international professional standards for fraud examiners are met.

"The IRBA and ACFE SA believe that a coherent global approach to combating business fraud is the most effective tool to bringing down the levels of corporate fraud and corruption," said Jaco de Jager, CEO of ACFE SA.



Servaas du Plessis, president of ACFE SA; Jaco de Jager, CEO of ACFE SA; and Bernard Agulhas, CEO of the IRBA.

Commenting on the MoU, IRBA CEO Bernard Agulhas said: "We are pleased with this cooperation and believe that it will advance our efforts in our respective professions to combat fraud and collaborate with other bodies to address the challenges of business fraud. This collaboration will go a long way in helping us to pursue our mandate of protecting the public."

## IRBA Director Honoured at the SAICA 35-Under-35 Awards

Robert Zwane CA (SA), Director Education and Transformation, has been awarded the South African Institute of Chartered Accountants' Top 35-under-35 Award in the education category. The awards were launched by *Accountancy SA* magazine to recognise future leaders in South Africa.

## GENERAL NEWS cont.



Robert Zwane

Robert has been with the IRBA for four years and has been instrumental in a number of initiatives, including leading the implementation of the Audit Development Programme. He is passionate about education and transformation, and is also driven by the passion to change the education landscape to positively influence the mind-sets of the youth in South Africa.

“We are very proud of Robert and his achievements. He is our role model when it comes to issues of transformation and education at the IRBA. Robert plays a key role in driving awareness about the auditing profession and the registered auditor brand and has become a great influencer in the profession,” said CEO Bernard Agulhas.

### Drop in World Economic Forum Ranking – Regrettable but Expected

While the IRBA regrets the drop in its ranking for auditing standards in the latest World Economic Forum's Competitiveness Report 2017-2018, it fully expected not to retain the number one spot it had enjoyed for the past seven years.

“We are disappointed, but we expected this result,” said CEO Bernard Agulhas. “What this means is that the IRBA and other

regulators must work together to correct the situation, with the support of everyone, so that we can re-establish stability and confidence in our capital and financial markets.”

He said the drop in confidence indicates that South Africa is no longer seen as a safe investment destination. “As confidence drops, investment drops and our markets suffer the consequences. Given that our financial markets and institutional ranking slipped in a number of areas, including the strength of securities exchange, efficacy of corporate boards, protection of minority shareholders' interests, strength of investor protection and ethical behaviour of firms, the result was predictable.

“The IRBA's role is public protection and it does so through regulation. Given our own interest in audit quality and independence, the IRBA has been working on audit reforms for some time,” said Agulhas.

“What is particularly satisfying, though, is that citizens and shareholders are now also reacting to corruption and irregular activity, and awareness and shareholder activism have been heightened in the past few months. However, public outcries on recent issues in the market are merely symptomatic of deeper root causes that our country must address.

“Our institutional pillars must be continuously strengthened, and as the importance of governance, transparency and 'doing the right thing' is again foremost on citizens' minds, we can all work together to regain confidence in our markets, stimulate investment and reclaim our world-class rankings.”