

INFORMATION HANDBOOK INSPECTIONS STRATEGY AND PROCESS: 9TH INSPECTIONS CYCLE

1 APRIL 2024





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INTRODUCTION

As the Independent Regulatory Board for Auditors' (IRBA) Inspections Department, we are committed to enhancing audit quality and promoting compliance with professional standards and rules, and this is demonstrated through the inspections process we perform. Additionally, our functions support the IRBA's five-year strategy that has been adopted by the Board and approved by National Treasury and Parliament.

This document, therefore, provides an overview of the inspections process and includes significant changes for the 9th Inspections Cycle (covering the three-year period from 1 April 2024 to 31 March 2027). Auditors may find this information valuable, as they plan for and perform audits. Also, audit committees and those charged with governance may use this information to better understand the inspections process, as well as to initiate and inform constructive dialogue with their auditors in the interest of enhanced audit quality.

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OBJECTIVE OF INSPECTIONS

The IRBA's vision is to be a preeminent and respected audit regulator that is internationally and locally recognised, and whose purpose is to protect the public interest and safeguard the integrity of the South African financial markets by creating an enabling environment in which auditors can deliver high-quality audits.

Its mission is to endeavour to protect the financial interests of the investing community by creating and enhancing regulatory tools and principles, to empower registered auditors to carry out their duties competently, independently and in good faith.

Part of this mission entails performing inspections, in terms of Section 47 of the Auditing Profession Act 26 of 2005, as amended (APA).



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INTERNATIONALLY RECOGNISED AUDIT REGULATOR

The IRBA is a founding and board member of the International Forum of Independent Audit Regulators (IFIAR), an international body of more than 50 independent audit regulators. Its membership and representation on the board and its working groups – such as the Inspections Workshop Working Group, the Investor and Other Stakeholders Working Group, the Enforcement Working Group, the Standards Coordination Working Group and the Technology Task Force – allow the IRBA to keep up to date with international developments in audit regulation, including inspections. Therefore, our inspections process is benchmarked on an ongoing basis against the IFIAR core principles and inspection processes followed by other recognised independent audit regulators worldwide.

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STRATEGIC FOCUS ON AUDIT QUALITY

One of the revised strategic focus areas of the IRBA's refocused five-year strategy relates to audit quality. As such, this has been prioritised because improvement in audit quality is critical to restoring confidence in the profession. The IRBA continues to respond to this focus area by, inter alia, employing and developing the relevant skills to increase the coverage of inspections; strengthening the disciplinary and sanctions processes; and developing information technology (IT) solutions that will enable it to work proactively and more efficiently in the dynamic audit environment. For the 9th Inspections Cycle, the Inspections Department has therefore aligned the inspections process to the IRBA refocused strategy.

This cycle will overlap with the IRBA's Strategic Plan for 2021-2025. So, as the organisation prepares its new five-year strategy, it is anticipated that any strategic shifts in focus will subsequently be incorporated into the 9th Inspections Cycle Strategy.

STRATEGIC FOCUS ON COMPREHENSIVE STAKEHOLDER ENGAGEMENT

Comprehensive stakeholder engagement is another focus area in the revised strategy. This is particularly important because the IRBA has a responsibility to respond to the concerns of its varied stakeholders, especially those who rely on the auditor's opinion that an entity's accounts reflect fairly, as investment decisions are partly made based on the veracity of these opinions.

As such, with this cycle's strategy, the Inspections Department is focusing on increasing its stakeholder relations and enhancing its communications plan. This will include engaging with audit firms on a proactive basis, while maintaining independence; assessing the need to engage with audit committees of listed entities; and engaging with other regulators and institutions.

In line with this strategy, we will follow a broader stakeholder approach to audit quality improvement that requires enhanced transparency and accountability in the public interest. Therefore, audit firms are encouraged to promptly share their latest inspection decision letters, formal reports and remedial action plans with audit committees of listed companies and other public interest entities (PIEs), to facilitate robust dialogue on matters affecting audit quality.

5.1. Monitoring Forum

To bolster the IRBA's revised strategy, the Inspections Department plans to implement initiatives that will enhance its key stakeholder engagements. One of these will be the establishment of a Monitoring

Forum, to address the gap between internal and external inspection results identified through the Annual Survey Report on Audit Quality Indicators, among others.

Members of the Monitoring Forum will include representatives from the department and relevant individuals from the audit firms, preferably heads of quality and risk. The platform will allow direct communication between the department and the profession, with the goal of reducing the number of recurring inspection findings and improving audit quality in a collaborative manner.

This forum will meet on a regular basis, with sessions not focused on the inspections process but on matters affecting audit quality, such as recurring inspection findings and themes that consistently yield review deficiencies. We expect these engagements to lead to the publication of relevant articles or other forms of feedback to the profession on the promotion of consistent audit quality. Furthermore, this mechanism will improve proactive remediation and prompt the profession to implement certain measures that would otherwise only be known after a firm or registered auditor had been through the inspection process.

The Monitoring Forum, though, will not have the authority to provide mandatory technical guidance or vote on matters of technical complexity. Also, it will not be authorised to interpret the accounting, auditing and assurance standards in a manner that does not align with the official due process for standard setting.



5.2. Inspections Roadshows

The department is committed to enhancing audit quality and promoting compliance with professional standards and rules. Our recently published Public Inspections Report on Audit Quality shows a 5% decrease in engagement inspections outcomes for referral for investigation. Further, the 2023 Audit Quality Indicators (AQIs) Report reflects on a year that has shown progress in the auditing profession in South Africa. Overall, these observations indicate that in relation to the relevant quality indicators, firms have stayed on course in their commitment to transparency and continuing improvement.

However, our risk-based inspections approach prioritises audit firms that audit public interest entities, though our regulatory mandate covers all registered auditors (RAs). So, to enhance our engagement with the broader RA population, the department will be hosting multiple Inspections Roadshows across the country where we will unpack the latest developments and observations from the 2023 Public Inspections Report, delve into the AQIs Report, and provide an overview into our upcoming inspections approach for the 9th cycle. This platform allows for an opportunity to gain valuable insights and engage in meaningful dialogue on audit quality.

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PROACTIVE MONITORING OF REMEDIATION INITIATIVES

The proactive monitoring process provides audit firms and their practitioners with an opportunity to commence with the remediation of the IRBA-identified deficiencies at an earlier stage in the inspections process. An essential part of this, which is aimed at strengthening the current Remedial Action Process, relates to the effectiveness and reliability of the audit firm's internal monitoring controls. As such, through the proactive monitoring initiative, the IRBA expects that prompt remediation will occur at an individual auditor level, with the hope that such intervention will then influence audit quality at a firm-wide level. The IRBA then will monitor this through a tool that audit firms will need to complete, supported by the relevant evidence of remediation action plans and based on reported deficiencies during the inspection process.

Once the proactive monitoring process for a specific practitioner and audit firm has been completed, we will inspect the evidence compiled, to confirm the sufficiency of the remediation. Then, a supplementary outcome letter (without changing the original inspection result) will be issued to the individual practitioner.

The expectation is that through this process the IRBA will be able to provide further insights to relevant stakeholders on the remediation steps, including their appropriateness, the audit firm undertook, considering the findings initially identified. That should then address the risk of recurring findings.

RISK-BASED INSPECTIONS APPROACH

The IRBA has adopted the IFIAR¹ Core Principles, which state that audit regulators should ensure that a risk-based inspections programme is implemented. The purpose of the risk-based inspections approach is mainly to ensure that firms performing *high-risk assurance engagements*² are analysed, categorised and selected for inspections at the appropriate frequency, based on inherent and identified risk factors.

Firms providing assurance services are classified into the following categories, based on their size (per annual assurance fees declared); the number of registered auditors performing assurance engagements; and the nature/type of assurance engagements:

- High-risk firms: Those that perform high-risk assurance engagements, as defined.
- Low-risk firms: Those that perform low-risk assurance work, as defined.

The Inspections Department focuses primarily on *high-risk firms*; however, *low-risk firms* may be selected, where deemed appropriate. For compliance monitoring purposes, the department inspects entities that require mandatory/statutory audits and prioritises the inspection of PIEs, as defined in the IRBA Code of Professional Conduct for Registered Auditors³. This is in line with the IRBA's mandate and strategy to help protect the broader investing public from potential audit failures that could also affect a wider percentage of the public, and to protect the reputation of the auditing profession. The list of engagements that result in a firm being classified as high-risk is reviewed and revised yearly, as part of the annual fee declaration process, and is published in the Annual Return Explanatory Memorandum.

Low-risk firms may be inspected, where specific risks are identified, and selected on a random basis, at the IRBA's discretion.

Despite the focus on firms and audits with greater public interest exposure, our current mandate stretches beyond listed entities and PIEs. Therefore, small to medium-sized practices and firms that audit non-PIEs cannot be overlooked.

Risk factors may include the nature and complexity of the entity being audited; its industry and level of public interest; audit issues likely to be encountered; and the maturity of markets. Other risk factors considered are specific to the audit firm and include the type and range of its assurance engagements; prior reported inspection deficiencies; and reportable deficiencies from inspections of its internal quality control and risk management processes.

The gathering and analysis of intelligence data form the basis of a comprehensive risk analysis that enables the department to make informed decisions on which audit firms and specific assurance engagements, or parts thereof, to select for inspection. Risk factors are generally assessed at the following three levels:

- Level 1 – Firm level.
- Level 2 – Specific assurance engagements and/or individual registered auditor risks.
- Level 3 – Scope of the inspection (specific areas within an assurance engagement).

¹See www.ifiar.org.

²Entities that require statutory audits in terms of legislation or regulation and are categorised by the IRBA as *high-risk assurance engagements*.

³The IRBA Code of Professional Conduct can be located [here](#).



FIRM SELECTION

Factors considered to determine which firms to select for inspection include:

- Section 47(1) (b) of the APA (as amended).
- Type and range of assurance work, i.e. high risk or low risk.
- Firm size.
- Firm specific risk indicators, including firm inspection results and relevant audit quality indicators.
- Developments in the firm's assurance client profile structures.
- Assurance engagement portfolio and associated risks.
- Prior firm review findings from the firm's own internal quality control and risk management processes.
- Prior inspection findings raised by the IRBA at firm and engagement levels and the remediation thereof.
- Reports issued by other regulators to the firm.
- Firm leadership's "tone at the top" and governance.
- Firm governance.
- Audit failures and media articles.



ASSURANCE ENGAGEMENT SELECTION

Factors considered to determine which assurance engagements to select for inspection include:

- Level of public interest inherent to the engagement entity.
- Engagement partner specific risk indicators, including prior inspection results, client portfolio and engagement partner experience.
- International and local developments, including accounting and auditing standards as well as market and industry indicators.
- Selections include an element of random selection of assurance engagements.
- Nature and knowledge of the industry risks and the nature of the client.
- SENS announcements and media coverage.



SCOPE OF SELECTED ASSURANCE ENGAGEMENT

Factors considered to determine the scope of the inspection include:

- Nature and knowledge of the industry risks and the nature of the client.
- Risk factors identified from a review of the audited annual financial statements.
- Trends in areas of poor audit quality.
- International and local developments, including accounting and auditing standards as well as markets and industry indicators.
- Planning and completion sections.
- Fieldwork scope, based on identified risks and judgement.
- Prior inspection findings at firm and engagement levels, including the effectiveness of the firm's quality control system and remediation process.

RISK-BASED INSPECTIONS APPROACH

To enable effective Business Intelligence (BI) and risk-based selections, additional information is obtained through declarations, audit quality indicators, collaboration with other regulators and financial reporting reviews. The BI function supports the IRBA as a whole through intelligence gathering and risk-scanning processes.

The inspections approach also includes elements of an unpredictable and random selection of firms, engagement partners and assurance engagements, to complement its risk-based selections and scope.

The risk-based inspections approach is not intended to select a representative sample of a firm's assurance work. Instead, it is focused on higher-risk engagements and audit areas where deficiencies are likely; and areas that, if not appropriately responded to by the auditor, can create a risk of an inappropriate auditor's report being issued. This approach also means that inspection results should not be statistically extrapolated across the entire auditor population. Rather, inspections are designed to address inherent and identified risks and not to cover all auditors or assurance engagements in a cycle.

It should also be noted that an inspection is not designed to identify every deficiency that may exist; and the IRBA's scope, reportable deficiencies and reports are not necessarily exhaustive. Accordingly, the formal inspections report and the decision of the IRBA's independent Inspections Committee (INSCOM) do not provide any assurance over the firm's quality control system or assurance engagements. Rather, they describe reportable deficiencies that the IRBA wishes to bring to the auditor's attention, at a particular point in time, to prompt remediation across all offices and

audits performed by the firm, as part of its quality improvement processes.

7.1. Tip-offs Process

This new initiative is already operational, with a dedicated email address for the submission of tip-offs via the IRBA website. Tip-offs can be provided either anonymously or with one's personal or contact details. The primary benefit of this process – presently existing in certain international jurisdictions – will be the enhanced proactiveness of the risk-based inspections approach. It is also envisaged that some information received through this process may yield similar proactive benefits for other IRBA departments, ultimately leading to early regulatory interventions. Tip-offs are expected to empower those who would otherwise fear reporting matters that could be of significant risk. Also, the availability of an external reporting channel may deter individuals from acting in a manner that would otherwise negatively impact audit quality in the market.

It must be noted that the IRBA already has a formal complaints process that is facilitated through the Investigations Department. As such, anonymous tip-offs should not be confused with the formal complaints process. Furthermore, submitting a tip should not create the expectation that the IRBA will follow up on every piece of information received, as some of it may not be sufficient enough for a follow up, from a regulatory perspective. Individuals who wish to report a matter that they believe warrants disciplinary action are encouraged to follow the formal complaints process that can be accessed via the IRBA website⁴.

⁴The IRBA complaints [process](#) is accessible on its website

ANNUAL FEE DECLARATION INSPECTIONS

The Inspections Department performs standard procedures during selected inspections, to verify the completeness and accuracy of annual firm fee declarations. A separate specific fee declaration inspection can also be scheduled at any time, if the IRBA suspects that the firm's declaration is incorrect or incomplete.

Any errors or omissions in the declarations are regarded in a serious light, as they do not only adversely impact the scope of inspections but also the IRBA's fee base. These cases may result in reportable deficiencies in the formal inspections report and could be referred to the Operations Department for correction and/or to the Investigations Department for an investigation, if negligence, dishonesty or failure to cooperate with the regulator is suspected.

INSPECTIONS PROCESS

PRE-PLANNING

- Firm's Annual Declaration (Must be timely, accurate and complete).
- Cycle/Annual Themes and Scope.
- Annual Risk & Capacity Budget.
- Annual Performance Plan (Performance targets).
- Business Intelligence (BI) risk analysis and report.
- Risk-based selection (Firm/Engagement partner/Assurance engagement).
- Financial Reporting Inspection and report.
- Risk-based selection (Component/Focus areas) including file selections for theme-based inspections.
- Planning and allocating appropriate resources to specialised areas.

PLANNING & EXECUTION

- Scheduling of selected Firm/Engagement partner.
- Complete and accurate preliminary information submitted to the IRBA in the specified time.
- Performing inspections with technical support by a dynamic/multi-skilled team.
- Discussion of findings with Firm/Engagement Partner/Team.
- Team Leader supervision, review, and guidance.
- Dedicated Team Leader at larger firms to liaise with firm leadership.
- Robust internal and independent Quality Control Review.
- Issue and discuss Preliminary Findings Report.
- Firm/Engagement partner submit complete and succinct written comments, including relevant supporting evidence to the IRBA in the specified time.
- Anonymous evaluation of inspections team by firm/engagement partner (optional but encouraged).
- Ongoing communication and consultation where deemed necessary.
- Additional internal and independent Quality Control Review.



REPORTING AND SUBMISSION TO INSCOM



- Anonymised draft inspection reports with comment letters submitted to INSCOM.
- Report includes reportable deficiencies that require remediation by firm/engagement partners to improve audit quality.
- INSCOM meets four times a year on a quarterly basis.
- INSCOM determines and communicates further action required (if any) to the firm.
- Nothing identified that requires any action.
- Action/conditions required (See Remedial Action Process below).
- INSCOM determines if any specific re-inspection is required and the extent thereof.
- Written formal inspections report issued to firm leadership (CEO or equivalent) and this includes.
- INSCOM's decision on any further action/conditions required and special messages.
- Reconsideration process available (evidence based only).

REMEDIAL ACTION PROCESS

- INSCOM requires a written undertaking within the specified time that appropriate action to remediate all reported findings will be implemented by the firm and its engagement partners.
- General action/condition - INSCOM requires a Root Cause Analysis and Action Plan (RCAAP) to be submitted within the specified time, including any supporting evidence.
- Specific action/condition - INSCOM may also require additional specific action/conditions to be met by the firm/engagement partner within a specified time, supported by evidence.
- The IRBA evaluates the RCAAP and evidence received and engages with the firm/engagement partner where deemed necessary.
- Guided proactive monitoring process commences and is implemented simultaneously with normal remedial action process.
- Continued non-compliance and failed remediation reported to INSCOM may lead to an investigation/disciplinary action.
- Publish key inspection findings, e.g. The Annual Public Inspections Report.
- Feedback to relevant stakeholders.
- Drive broader proactive audit quality improvement strategy with relevant stakeholders on areas where it is most needed.

Three types of inspections are performed, namely, firm-wide, theme-based and assurance engagement inspections. It is important that the inspections process is comparable to international best practice. To ensure this, the inspections approach, methodology, scope and procedures are benchmarked against those of other reputable international regulators on an ongoing basis.

The inspections process is also regularly updated, in response to shifts in the environment. These may include new international standards of accounting and auditing, changes in relevant legislation as well as trends identified in the political and economic landscape.

9.1. Firm-wide Inspections

The objective of firm-wide inspections is to inspect the design, implementation and operating effectiveness of an audit firm's system of quality management, in terms of the applicable standards. In line with this, on 15 December 2022 firms were required to have adopted and implemented the International Standards on Quality Management (ISQMs), meaning the Inspections Department then has to monitor compliance with the components of:

- ISQM 1 (Quality management) – the firm's risk assessment process; governance and leadership; relevant ethical requirements; acceptance and continuance of client relationships and specific engagements; engagement performance; resources; information and communication; monitoring; and the remediation process.
- ISQM 2 (Engagement quality reviews) – applying and complying with relevant requirements; appointment and eligibility of engagement quality reviewers; performance of the engagement quality review; and documentation.

Firm inspections also include a selection of assurance engagements, to assess the implementation and effectiveness of the firm's system of quality management as well as the overall consistency and quality of assurance engagements by its engagement partners.

Logistical arrangements, including suitable office space for the inspectors, laptop computers, software licences and engagement file back-ups, must be arranged in advance; and all requested information must be provided to the Inspections Department by the specified time and before the commencement of, and during, the inspection. An offer or invitation to inspect information at a certain location will not be regarded as information provided, unless agreed to by the inspector and the firm in advance.

9.2. Theme-based Inspections

These inspections are aimed at measuring the extent to which audit firms or auditors implement appropriate remediation to address predetermined themes that include previously reported deficiencies (themes) and other areas of heightened risk. The inspection of these themes will be performed on selected engagement files, in addition to those selected for a full-scope inspection. The selected themes will be communicated to the firm's leadership at the start of the inspection, with the same being regarding the results. The theme-based inspections, together with firm or engagement file inspections, will be performed concurrently for a specific audit firm. Themes could be specific to an audit firm, based on previous inspection findings and/or those reported by the IRBA through the Public Inspections Report on Audit Quality and the IFIAR Survey of Inspection Findings.

9.3. Assurance Engagement Inspections

The objective of individual assurance engagement file inspections is to monitor firms' and engagement partners' compliance with applicable standards, codes of conduct and legislation in performing assurance work of a consistent, sustainable high quality. The risk-based approach may result in the selection of one or more assurance engagements of the same audit firm and/or engagement partner in a cycle. Engagement performance quality on selected assurance engagements is used as an indicator of the effectiveness and consistency of the firm's quality control system. Therefore, some



engagement-level inspection findings may be escalated to a firm-level inspection finding.

9.4. General Inspection Procedures

In its inspections, the department generally follows the procedures that are highlighted below.

- The Senior Administrator notifies the firms of the planned dates of the scheduled inspection, for logistical purposes. However, in terms of Section 47 of the APA, the IRBA may, at any time, inspect or review the practice of a registered auditor (RA).
- Once the team has concluded the internal risk-based selection and planning processes, pre-inspection information is requested from the firm/engagement partner. The firm/engagement partner must ensure that all relevant information and documentation are provided to the IRBA by the specified time and before the inspection commences. This includes all relevant electronic and hardcopy documents or working papers.
- Selected completed assurance engagement files are requested prior to the commencement of the inspection, and the firm should provide these promptly. This includes all relevant electronic and hardcopy documents or working papers.
- The inspector performs the inspection, scheduling the necessary kick-off, progress and close-out meetings with the firm/engagement partner.
- During the inspection, the inspector may request (or make) copies of any relevant documents and working papers.
- Inspectors may, at any time, interview firm staff, including members of the engagement team.
- Initial or potential draft reportable deficiencies (preliminary reportable deficiencies) are promptly communicated and discussed with the firm/engagement partner throughout the duration of the inspection.
- The draft reportable deficiencies are subjected to an internal quality control review, and a preliminary inspections report (PIR) is issued and discussed within the internal timeframes. The PIR is subject to change or, in some cases, additional reportable deficiencies may be raised later in the process.

- The inspector obtains written comments on the PIR from the firm/engagement partner on the firm's letterhead (PDF version), together with a separate MS Word version (to allow for anonymisation) within the specified timeframe.
- The inspector assesses the written responses and prepares an anonymised draft formal inspections report (which includes the reportable deficiencies, comments received and conclusions, where applicable). Then, following a final internal quality control review, the inspector submits the report to the INSCOM for a decision on any further action/conditions (if any).
- The INSCOM's decision, including any required action/conditions, an executive summary highlighting key inspection themes and risks, any special paragraphs and inspections report(s) are all formally communicated to the firm's leadership as one reporting pack.
- Where the formal inspections report requires further action/conditions, the firm/engagement partner is required to respond within 30-60 calendar days from the date of the formal inspections report. Further communication with the firm/engagement partner is initiated, where deemed necessary.

9.5. Small Firms Inspection Procedures

In terms of the APA, Sections 47(a) and (b), the IRBA is responsible for the regulation of all auditors (audit firms and individual RAs) in South Africa. As part of its strategy to improve audit quality at all levels and restore confidence in the profession, the IRBA developed a strategic approach for the inspection of smaller firms. In employing this approach, the aim is to ensure effective oversight while recognising the unique challenges and characteristics of these audit firms.

The audit firms that fall into the "small firm inspections" category are those that are not prioritised for inspection through our continuous risk-based approach. Mostly, these firms perform audits that have lesser public interest (non-PIEs). However, it should be noted that some of the audits

they perform are still classified as “high risk”, based on the classification requirements in the annual assurance work declaration guidance issued.

Though the clients audited by these smaller firms do not have the same extent of public interest and impact, their users still rely on the audit reports issued, necessitating a regulatory approach to ensure that audits are performed at a sustained high level of quality. Should the audit report issued not be appropriate, the repercussions would still have a negative impact on confidence in the profession.

The small firm inspections approach will be followed, to assist us with the assessment of the extent to which audit firms and RAs comply with the requirements of the relevant standards, including the accounting and auditing standards and the requirements of the Quality Management standards. Through this process, we will also be able to:

- Evaluate whether the audit quality deficiencies reported annually through the Public Inspections Report are addressed or considered on audits performed, on all levels.
- Inspect the audit quality themes across a wider selection of assurance engagements within the firms, to address specific risks identified.

The process described below is not intended to replace the established inspection process or its administrative aspect. The inspection process can take the form of a firm-wide inspection (ISQM), an engagement file inspection or a theme-based inspection, depending on the specific risks identified. It will be a top-down approach, i.e. the scope and extent of the inspection will be determined after the review of the information provided, based on the requests. The process is as follows:

- Initial information request (the type and extent of what is requested from the audit firm/RA will be based on the risks identified and can be different for each audit firm/RA);
- Review and evaluation of the information provided;
- Additional request for information (depending on the result of the evaluation of the information initially provided, additional data may be requested

and that may change/increase the scope of the inspection);

- Review and evaluation of the additional information provided;
- Updated scope of the inspection;
- ISQM (full scope or limited to certain aspects);
- Engagement file(s) and/or theme-based inspections (in certain circumstances, the inspection can be completed after the initial and additional information requests are reviewed and evaluated, without performing further full/specific-scope inspections at the firm or engagement level);
- Discussion of observations and possible deficiencies in audit quality identified;
- Issue a PIR and an evaluation of the responses (the reportable findings will be based on the requirements of the ISQMs, International Standards on Auditing (ISAs) and other relevant requirements); and
- Evaluation of the findings reported and an INSCOM decision on the inspection outcome.

The reporting of deficiencies identified during these inspections will follow the same process as described for firm-wide, engagement and theme-based inspections. However, to further assist with understanding how the deficiencies identified during these inspections will be reported on, the following should be noted:

- Reporting will be to the audit firm's leadership (where applicable) and the RA involved in the engagement-level findings (depending on the audit firm's structure/size).
- The audit firm and the RA will be provided an opportunity to respond to the deficiencies reported.
- The deficiencies on firm and engagement levels may be included in one PIR, depending on the structure of the audit firm.
- It is the audit firm's responsibility to ensure that the responses to the PIRs include a signed response from both the firm and the RA, where applicable.
- As with PIRs, one formal report may be issued for the firm-level and engagement-level deficiencies (depending on the firm structure).



- When concluding on the outcome for the inspection(s), the INSCOM will take into account the deficiencies reported on at the assurance engagement inspections level, the theme-based inspections and any firm-level deficiencies.

9.6. Leadership Responsibilities

In this inspections cycle, there will be a continued focus on firm leadership, which is ultimately responsible for promoting a culture of quality that ensures consistent, sustainable high quality on all audits within the firm. This also includes a responsibility that any reported quality management review or inspection reportable deficiency is promptly evaluated, internally communicated and remediated, as part of the firm's ongoing quality improvement processes.

This is in line with ISQM 1, which requires the firm leadership to assume ultimate responsibility for the firm's system of quality management, including consistency and the quality of engagement performance.

A dedicated team leader will be allocated to the selected network firms, to drive the IRBA's strategy with firm leadership to promote consistent, sustainable high audit quality within the firms.

Leadership and those delegated to manage quality at the firm should at all times remain up to date on the inspections process and any possible reportable deficiencies. In addition, the firm's leadership will be required to attend key meetings with the Inspections team during the course of the inspections, to avoid any unnecessary disagreements or delays in the inspections process. The team leaders will maintain their independence at all times.

9.7. Fraud

ISA 240 defines fraud as an intentional act, by one or more individuals among management, those charged with governance, employees and/or third parties, involving the use of deception to obtain an unjust or illegal advantage. The IRBA recognises that fraud has played a role in the recent financial

reporting failures, which led to a global crisis of confidence in financial reporting, in general, and increased scrutiny of the role of auditors in relation to fraud.

An expectation gap exists between the role of an auditor and what the public expects from auditors. Although the primary responsibility for the prevention and detection of fraud rests with those charged with governance and management, consistent audit quality enhances the accuracy and credibility of financial reporting. There are multiple initiatives to enhance audit quality, at the local and international levels, and there has been a shift in the auditing landscape to increase the focus on risks arising due to fraud. Nonetheless, recent public inspection reports issued show that fraud risk has emerged as an audit quality deficiency theme. For this reason, practitioners are reminded of their responsibilities in relation to fraud, per the auditing and regulatory frameworks, both at the firm and engagement levels. The 9th Inspections Cycle will have an increased focus on the risk of material misstatements due to fraud. The IRBA has a dedicated webpage of available resource⁵ to assist auditors in performing their duties regarding the risk of fraud.

9.8. Enhanced IT Inspections Process

Globally, there has been an increasing adoption of automation technologies and tools – for entities/clients and firms' processes – for business and audit processes. As such, the IRBA recognises the growing importance and impact of the use of technology-driven tools and techniques to assess risk, formulate responses and gather sufficient and appropriate audit evidence in an effective and efficient manner.

Automation technologies have been applied in, for example, stock counts, asset verifications and financial reporting processes, with some firms having introduced guidance on these sooner. Largely, this has been driven by the standard setters' recognition and subsequent incorporation

⁵Fraud guidance is available on the [IRBA website](#).

of technology considerations in, for instance, ISA 315 (Revised 2019); ISQM 1; ISA 220 (Revised); and the non-authoritative guidance related to the use of technologies issued by the International Auditing and Assurance Standards Board (IAASB) on planning, risk assessment, risk response and documentation.

The IRBA continues to observe the increasing use of technology (either developed in-house or purchased applications) as part of the auditor's response to audit risks, and this adoption of technology in the audit process is encouraging. Also, the IRBA is undergoing changes on the technology front by seeking further collaborations with relevant stakeholders (firms and regulators), to improve its effectiveness as a regulator.

With the implementation of the new Quality Management standards, the IAASB and the International Ethics Standards Board for Accountants – through their technology workstreams – continue to publish literature related to audit guidance on the use of technology tools in the audit process, including the impact on ethics. Moreover, the IRBA has a dedicated resource⁶ webpage that provides a central repository of guidance available to auditors. Further, the IFIAR, also through its technology workstreams, is using its collaborative efforts to ensure that inspections remain effective, and the Inspections IT team has been actively participating in those initiatives since their inception.

9.9. Reportable Deficiencies

There are two types of reportable deficiencies communicated to the firm/engagement partner in the formal inspections report following an IRBA inspection. These are:

- Firm level – those related to the audit firm's system of quality management, including theme-based deficiencies; and
- Engagement level – those related to the firm's individual assurance engagements.

A reportable deficiency at a **firm level** includes any significant or systemic deficiency related to the firm's conduct (including ethics and independence

requirements); or its system of quality management that may have an impact on audit quality by creating a risk of inappropriate auditor's reports being issued by the firm, including failure to implement remedial/corrective action on all assurance engagements performed by the firm, resulting in recurring inspection reportable deficiencies.

A reportable deficiency at an **engagement level** includes any significant deficiency whereby the engagement partner has failed to perform sufficient and appropriate audit procedures and/or has failed to obtain or document sufficient and appropriate audit evidence to support their auditor's report, including a failure to identify or address a material or likely potential material financial reporting/accounting-related deficiency or error in the application of an accounting principle. Alternatively, this takes into consideration any non-compliance with applicable standards, codes of conduct (along with ethics and independence requirements) and legislation, including a departure from the firm's adopted policies, procedures or methodology.

Reportable deficiencies on assurance engagements do not necessarily imply that the financial statements are materially misstated or the auditor's opinion is inappropriate. However, they may relate to a lack of documented procedures or sufficient and appropriate evidence that would have detected misstatements.

The purpose of communicating reportable deficiencies is to formally alert the firm/engagement partner to any identified deficiency of a significant or systemic nature that requires prompt remediation or corrective action to be implemented, to promote consistent, sustainable high audit quality on all audits within the firm.

9.10. Inspection Outcomes

The INSCOM assesses the nature and facts of the deficiencies, including the responses to the reportable deficiencies identified. Then, it comments on these reportable deficiencies and determines any further action it deems necessary, as follows:

- When there are no pertinent reportable deficiencies identified during the inspection that require any action on the part of the firm/

⁶Technology guidance is accessible on the [IRBA website](#).



engagement partner, this will be reported as “no further action required”.

- Where reportable deficiencies are identified and reported to the INSCOM, the firm will be required to, within the specified timeframe, submit a written undertaking that prompt remedial/corrective action will be taken to address the reportable deficiencies within the firm. This includes submitting a Root Cause Analysis and a Remedial Action Plan in the prescribed format to the IRBA for evaluation (general action/conditions). Firms are required to undertake these actions when the INSCOM concluded with one of the following outcomes:
 - Some improvement required: Where the nature and/or extent of the reportable deficiencies identified are not regarded as significant in that they do not relate to areas of significant risk.
 - Significant improvement required: Where the nature and/or extent of the reportable deficiencies identified are significant and/or relating to significant risk areas.
 - Referral for an investigation with significant improvement required: Where the nature and/or extent of the deficiencies identified are regarded as a material non-compliance with the Code/ISAs. This include instances where the audit opinion issued is incorrect, material misstatements were not identified by the auditor or there was even significant non-documentation of audit work performed.

The INSCOM, at any time, reserves the right to refer any firm/engagement partner to the Investigations Department, based on the significance, systemic nature or extent of the deficiencies reported, including recurring deficiencies of a similar nature being reported.

A referral for an investigation does not negate the responsibility on the part of the firm and/or its partners to implement prompt remedial/corrective action. The INSCOM may decide that a specific follow-up inspection be performed on a firm and/or an engagement partner, to determine if they remediated the previously reported deficiencies.

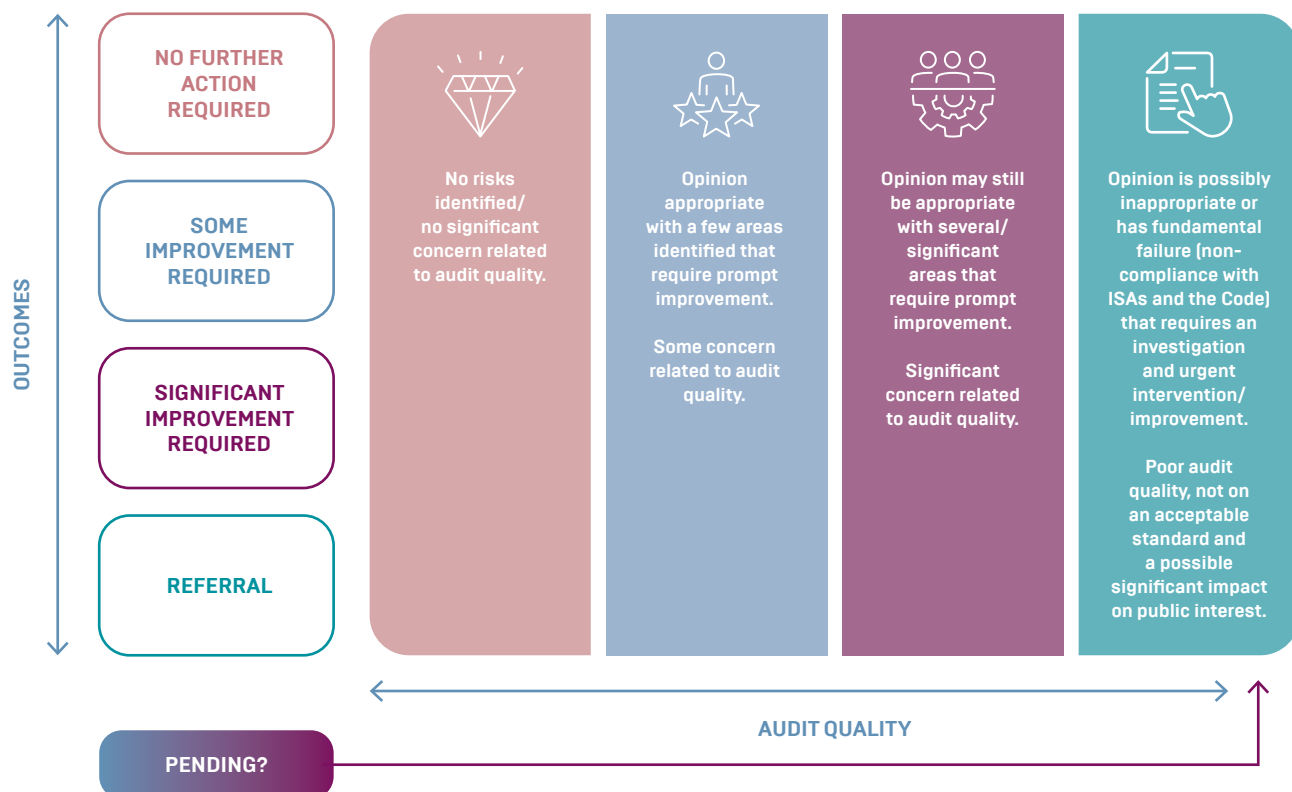
However, follow-up inspections might not necessarily be performed on the same assurance engagement or engagement partner previously inspected at the

firm. If during any inspection, including a follow-up inspection, previously reported reportable deficiencies of a similar nature are raised with no or little improvement, this will be viewed in a serious light.

The INSCOM may decide not to finalise its decision on the overall outcome of the inspection, and may request the firm/engagement partner to take specific actions or meet certain conditions before a final decision on the outcome of the inspection is made. This can be, for example, to submit supporting evidence or information on a specific matter within a prescribed timeframe for evaluation by the committee (Pending Decision: Specific action/conditions). Failure to meet any of the committee's requested actions or specific conditions may result in a referral to the Investigations Department for an investigation, leading to possible further disciplinary action.

In addition, the committee may implement more proactive and strict decisions, where deemed necessary, including:

- Conditional results that require specific proactive action by firms;
- Being subjected to a more robust and focused remedial action process; and/or
- Escalating a poor performing firm with systemic failures to the Board, for it to take appropriate action to protect the public interest. Such action may include withdrawing the firm's registration, escalating concerns to all structures of leadership, as well as requesting and monitoring the audit firm's turnaround strategies and plans on a regular basis.





9.11. Reporting

Preliminary Inspections Report

A PIR is issued to the firm/engagement partner and discussed, followed by an opportunity to provide succinct and complete written comments (which must, as far as possible, be supported by accompanying documented evidence). These must be submitted separately on the firm's letterhead (PDF version), together with a separate MS Word version (to allow for anonymisation) within the prescribed timeframe. Firms/practitioners should not wait for the final formal report before responding.

The written comments to the PIR are the only opportunity available to the firm/practitioner to formally respond in writing. The comment letter must be numbered exactly in the same way as the PIR on reportable deficiencies and must be signed by the relevant engagement partner and the firm's appointed quality control representative (or equivalent). The firm/engagement partner's comment letter will then be attached to the formal inspections report and its content should, as far as possible, be anonymised.

The PIR is subjected to the IRBA's internal quality control process. While it is also subject to change, in some cases additional reportable deficiencies may be raised later in the process; and when that is the case, that will be duly discussed and communicated.

Formal Inspections Report

The final formal inspections report – including the INSCOM's decision on any required action/conditions; the inspection scope; key themes and risks; any firm-level reportable deficiencies; and any engagement-level reportable deficiencies, with the firm/engagement partner's written comment letters attached – will be formally reported to the firm leadership by the Director Inspections, since firm leadership is ultimately responsible for ensuring consistent, sustainable high-quality audits and the remediation of deficiencies at their firms. All inspections reports will be directed to the firm's Chief Executive Officer (or equivalent).

The firm/engagement partner is expected to study the report and address any required action/conditions as soon as possible; and, where required, start the process to identify the root causes and implement remedial/corrective action on all subsequent audits and then monitor this progress. The report, which is anonymised as far as possible, is written with the users in mind, and these may include the firm leadership, engagement partner/team, the INSCOM, audit committees and other regulators.

Since quality management is an ongoing process at the firm, a firm/engagement partner may receive multiple inspections at different times during an inspections cycle. In addition, separate formal inspections reports will be issued to the firm/engagement partner after every visit and these will supersede or supplement any reports previously issued; and they, in turn, can also be superseded as a result of subsequent inspections. Any report issued to the firm/engagement partner will clearly describe the scope, assurance engagement(s), disclaimer, reportable deficiencies, responses and decisions by the INSCOM.

The scope of an inspection visit may not necessarily be the same every time and could, or not, include a firm-level inspection; so, the formal report should be read in the applicable context. As a result, any previous firm report (particularly the firm executive report) and the related INSCOM decision letter remain relevant to the extent that the previously reported deficiencies would have been subjected to the firm's internal quality improvement process and successfully remediated.

Special Paragraphs

The INSCOM, from time to time, deems it necessary to focus a firm/engagement partner's attention to specific matters, including matters that are not necessarily reported as a finding in the formal inspections report. These specific messages are communicated together with the formal inspections report in the form of special paragraphs. They do

not constitute additional reportable inspection deficiencies, but are other matters or general observations that the committee deems important to bring to the firm's attention.

Reportable deficiencies (if any) are reported in the formal inspections report that forms the basis of the INSCOM's decision on any required action/condition, and they should be read with any special paragraphs that are stated in the formal inspections report. Special messages to the firm/engagement partner will be considered in subsequent inspections and might lead to reportable deficiencies, if not addressed appropriately.

Public Inspections Report

Annually, we issue a Public Inspections Report that provides an analysis of key findings and themes arising from inspections performed during a particular year. These reports are available on the IRBA website and auditors are encouraged to analyse them and proactively identify and address similar reported deficiencies that might exist in their respective firms.

The objective of the reports is to promote audit quality at a broader level by highlighting significant themes arising from firm-wide and individual assurance engagement file inspections. Each report is aimed at auditors and those responsible for quality management systems within firms as well as other relevant stakeholders such as audit committees, investors, oversight bodies, company directors and financial accountants that are responsible for the integrity of financial information. The intention is

to assist these stakeholders – audit committees, in particular – in their respective roles by encouraging robust discussions regarding matters that affect audit quality.

The IRBA encourages firms and practitioners to reflect on these results, to strengthen their own audit quality processes, including proactive remediation initiatives to improve audit quality. Also, the IRBA will analyse the results to measure the effectiveness of audit firms' remediation processes, and enhance its firm-level inspections reports in a manner that allows firms and stakeholders to be more responsive to inspection results.

9.12. Evidence-based Reconsiderations

A firm/engagement partner that believes the INSCOM's decision should be reconsidered, due to the committee's initial decision not being based on sufficient documented evidence or related information available at the time, may submit a written request to the Director Inspections. This must be clearly headed as a "request for reconsideration" and should be submitted within 30 calendar days from the date of the formal inspections report. Only if sufficient evidence-based documentation is presented that warrants a change to the INSCOM's original decision will the anonymised request be tabled before the committee at its next meeting. The committee's final decision will be communicated to the firm/engagement partner in writing by the Director Inspections.

REMEDIAL ACTION PROCESS

In a continuous effort to meet the IRBA's objectives and improve audit quality, the Inspections Department will continue to drive a formal Remedial Action Process during the 9th Inspections Cycle with firm leadership and relevant engagement partners. Inspected firms/engagement partners that have received inspections reports with reportable deficiencies are required to analyse all the reportable deficiencies and submit to the IRBA a Root Cause Analysis and an action plan within 30 calendar days from the date of the formal inspections report, with a written undertaking that the firm will address all deficiencies that were reported on all of its audits going forward.

After a reasonable time allowing for the firm and the engagement partner to implement corrective measures, an inspection, including a follow-up inspection, may be performed to look into previously reported reportable deficiencies and assess the effectiveness of the remedial/corrective action undertaken by the firm. This process can be highly effective and yield the necessary improvements, if firm leadership assumes ultimate responsibility for quality and approaches the remediation process constructively by developing and implementing appropriate remedial action plans and strategies, based on effective root cause analyses.

Firms and engagement partners must recognise that the remediation of reportable deficiencies forms

part of a firm's process of continuous improvement. Further, remediation should happen continuously on all internal and external reportable deficiencies and not only when deficiencies are identified during the IRBA inspections.

The IRBA's remedial action process feeds back into the Business Intelligence and inspections processes for follow-ups, to determine whether the firm remediated previously reported deficiencies in terms of its Root Cause Analysis and Remedial Action Plan. A failure to remediate reportable deficiencies throughout may indicate that the firm's system of quality management is ineffective, which may result in a firm-level inspection finding. Such reportable deficiencies, which the regulator and stakeholders see in a very serious light, may be raised based on a firm's failure to cooperate with the IRBA, demonstrating an inability or reluctance to remediate, promptly and effectively, previously reported inspection reportable deficiencies, as required by the standards and the IRBA's remedial action process.

Therefore, it is critical for firm leadership to set the correct tone at the top, while promoting an internal culture of high audit quality that is supported by prompt and effective remediation of identified root causes and deficiencies, based on structured problem-solving principles.

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INSPECTIONS TEAM

All staff that are involved in performing inspections are suitably qualified and experienced full-time employees of the IRBA.

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INSPECTIONS COMMITTEE

The committee consists of a maximum of eight suitably qualified and experienced members, who are not directly or indirectly involved in public practice and are not members of the IRBA's Investigating Committee, Disciplinary Advisory Committee or Disciplinary Committee. Its function is to independently participate in the inspections process by:

- Monitoring the progress of the inspections cycle;
- Considering whether the inspections reports and recommendations are consistent and of an appropriate quality (on an anonymous basis);
- Determining the outcome of inspections; and
- Providing guidance to and advising the Inspections Department on its strategy, challenges and contentious matters.

The committee meets at least four times in a calendar year, and these sessions are closed to the public and RAs, without exception, due to confidentiality requirements.



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FEES

Specific fees are charged, in addition to the normal fees the IRBA charges, for the following:

- Any ad-hoc work the Inspections Department performs involving external stakeholders (not RAs), based on the actual time spent – at an hourly rate that is determined and gazetted by the Board from time to time – and disbursements recovered at cost.
- Cancellation fees may be charged where the audit firm/engagement partner cancels scheduled inspections at short notice, without an acceptable reason that can be corroborated. The cancellation fee must be reasonable in relation to the size of the firm or the RA's assurance portfolio, and be subject to the Director Inspections' discretion and approval.

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CONFIDENTIALITY

The confidentiality requirements of Section 47 of the APA are strictly respected and enforced by all staff within the Inspections Department.

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OTHER

The department will collaborate with the IRBA's Education and Transformation Department to assess an RA's Continuing Professional Development (CPD) compliance. Also, it will monitor the inspections outcomes at audit firms, to evaluate whether there is a need for CPD monitoring as part of the resources component in ISQM 1.

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DISCLAIMER

The content of this document is subject to change and is for information purposes only. The IRBA does not accept any responsibility or liability for any claim of any nature, whatsoever, arising out of or relating to this document.





Physical address:

Building 2, Greenstone Hill Office Park,
Emerald Boulevard, Modderfontein, 1609

GPS Co-ordinates:

26° 7'0"S, 28° 8'54"E

Postal address:

PO Box 8237, Greenstone, 1616

Telephone: 010 496 0600

Email: board@irba.co.za