

# INTEGRATED REPORT 2019



# Contents

<b>WHO ARE WE?</b>	<b>3</b>	<b>HOW DO WE ADD VALUE?</b>	<b>18</b>
 Major Highlights Over the Year	4	 The IRBA's Current Strategic Plan and Business Model	19
 About this Report	5	 Restoring Confidence in the Auditing Profession	21
 Board Responsibility and Approval Statement	6	 Setting World-Class Standards	22
 Assurance of the Report	7	 Transforming and Monitoring the Education of Registered Auditors	28
 Our Vision and Mission	8	 Monitoring Registered Auditors' Compliance with Professional Standards	31
 Our Legislative Mandate	8	 Investigating Complaints and Non-compliance	34
 CEO's Overview of the Year under Review	9	 The Enforcement of Standards, the Code and Legislation	36
 Material Issues	11	 Operational Effectiveness	39
 How Our Governance Supports Our Strategy and Vision	13	 Stakeholder Engagement	41
		 Media Relations	50
		 Our Organisational Outlook	51
		 Our Financial Highlights	52
		 List of Abbreviations	55



WHO  
ARE WE?

# Major Highlights Over the Year

## AUDIT QUALITY

- **Audit Quality Indicators (AQIs):** The first set of AQIs that have been rolled out to JSE-accredited firms means AQI information will help audit committees to critically assess the performance and independence of their current and (if relevant) future auditors.
- **Transparency Reports:** At the IRBA's request, some firms have now started to voluntarily publish transparency reports. This will provide users with vital information on the firms' risk management practices, and quality management systems, amongst others.
- **Seventh Inspections Cycle:** This incorporates more robust risk-based inspections, involvement of firm leadership, and formal remedial action, which lead to improved audit quality.

## ETHICS

- **Revised Code of Conduct:** The IRBA published the revised Code of Professional Conduct for Registered Auditors (Revised November 2018), with an effective date of 15 June 2019.
- **Enhancements include:**
  - Improving the structure of the Code.
  - Revisions pertaining to Safeguards.
  - New Guidance for Professional Scepticism and Professionals.
  - Revisions pertaining to Offering and Accepting of Inducements.
  - Restructuring of South African Paragraphs.

## EDUCATION AND TRANSFORMATION (ET)

- **Audit Development Programme (ADP):** Since its launch in 2015, the ADP has had a gradual increase in the number of candidates. This year 31 candidates completed the programme and 170 new candidates were registered.

## INVESTIGATIONS

- **Disciplinary Action:** The Linkway Trading auditor was found guilty on all six charges, leading to the cancellation of his registration and the removal of his name from the register of auditors.
- This was the first investigation into those involved with Gupta-linked entities which was completed.

# About this Report

## OUR APPROACH TO INTEGRATED REPORTING

We are pleased to present our sixth Integrated Report, which aims to be a balanced communication to all our stakeholders, locally and internationally, on our mandate, strategy and projects to restore confidence in the auditing profession. In this report, we present performance for 2018 and 2019.

Through this report we reflect on how our strategy, governance, performance, prospects and ability to create value are affected by our resources, structure and stakeholders, considering the internal and external environments in which we operate. For the periods under review, the main focus was on how we are restoring confidence in the auditing profession, as set out in the strategy adopted by our Board in 2018.

On behalf of the Board, the CEO and the Management Committee (MANCO) provided guidance to the IRBA team that prepared this report and ensured that it is aligned with other reporting processes. The involvement of staff at all levels demonstrates vertical integration, and our process to compile the report reflects our philosophy of integrated thinking. The process followed to compile this report was also supported by the Audit and Risk Management Committee (ARMCO).

## FRAMEWORK

In preparing and presenting this report, the IRBA team was guided by the International Integrated Reporting Council's (IIRC) International Integrated Reporting <IR> Framework.

## REPORTING BOUNDARY

The IRBA is a statutory body established in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA), and is also classified as a Schedule 3A public entity in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). In this report, the principle of materiality has been applied in determining the content and extent of discussions and disclosures. For statutory disclosures, reference should be made to the IRBA's 2018/2019 Annual Report, which can be found on our website ([www.irba.co.za](http://www.irba.co.za)).

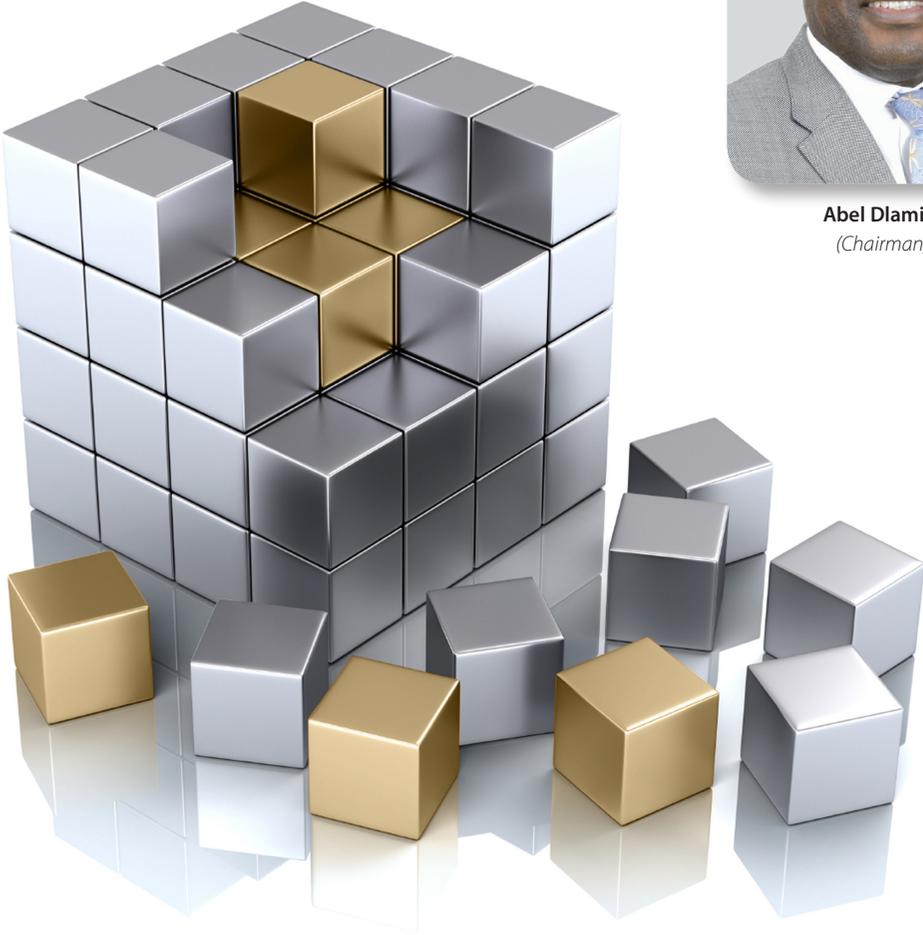
## OUTLOOK

The forward-looking statements that present the IRBA's outlook are based solely on the views and considerations of the Board and MANCO.

These statements involve risk and uncertainty, as these relate to possible events and future circumstances. Factors that could cause actual results to differ from those in the forward-looking statements include, but are not limited to:

- Global and national economic conditions;
- The regulatory environment;
- The availability of funding;
- The potential extension of the IRBA mandate;
- The status of restored confidence in the auditing profession; and
- The socioeconomic and political environment.

# Board Responsibility and Approval Statement



**Abel Dlamini**  
(Chairman)

The Board, assisted by its ARMCO, acknowledges its responsibility to ensure the completeness, consistency and integrity of this Integrated Report. The Board members applied their collective minds to the preparation and presentation of this report and have concluded that it addresses material issues and is guided by the IIRC's International <IR> Framework in its preparation and presentation.

On 11 November 2019, the Board approved the report.



**Signed by the Chairman and duly authorised by the Board.**

# Assurance of the Report

We have adopted a combined assurance model and obtained the necessary comfort that the various assurance providers have satisfied themselves that significant risks have been adequately addressed, and required controls to mitigate those risks have been established. This model is also aimed at deriving assurance that both the significant strategic and operational risks are adequately managed through the coordination of:

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

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

- The Board and its subcommittees (ARMCO, the Operations Committee and the Disciplinary Advisory Committee).
- MANCO, which owns and manages risks;
- Internal auditors;
- External auditors – the Auditor-General South Africa (AGSA); and
- Statutory committees.

There is no external independent assurance of this report.

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

# Vision, Mission and Our Legislative Mandate

## VISION

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

## MISSION

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

## OUR LEGISLATIVE MANDATE

- Our legislative mandate is to provide for the establishment of the Independent Regulatory Board for Auditors; to provide for the education, training and professional development of registered auditors; to provide for the accreditation of professional bodies; to provide for the registration of auditors; to regulate the conduct of registered auditors; and to provide for matters connected therewith.

# CEO'S Overview of the Year Under Review



**Bernard Peter Agulhas**  
(Chief Executive Officer)

The auditing profession has been under scrutiny over the past few years. This has been evidenced by:

- The growing expectation gap from the public regarding the role of auditors; and
- The negative public sentiment towards the auditing profession, the professional body as well as the regulator.

The current negative perception of the profession brought on by the unprofessional conduct of a few continues to erode trust in the auditing profession and cannot continue unabated.

To actively address this, we developed a Restoring Confidence in the Auditing Profession Strategy (Restoring

Confidence Strategy). Many of the activities and projects included in this strategy are integral steps that must be taken to demonstrate that we, and the profession, are committed to transforming and responding to the challenges we face. They are also aimed at addressing the public expectation in a more responsive way.

In this report we give insight into some of the projects we have undertaken, through our various functions, in our efforts to restore confidence in the auditing profession. We also discuss some of the challenges that we are facing as well as the initiatives we are exploring to address those challenges. While this overview highlights those challenges and initiatives, the rest of the report covers these in more detail and puts into context the role being played by each of our functions in ensuring the success of our Restoring Confidence Strategy.

## RESTORING CONFIDENCE IN THE AUDITING PROFESSION

In addition to the major highlights during the years under review depicted earlier in this report, other projects we have embarked on include:

- Significant progress in the review of the International Quality Management Standards. The International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services*

*Engagements; ISQM 2, Engagement Quality Reviews; and revisions made to the International Standard on Auditing (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements*, bring important changes to the way firms and audit teams are expected to manage the quality for audits, and reviews of financial statements or other assurance or related services engagements.

- Internally, we have focused on rebalancing our resources to enable us to respond to the demands of the market and the ever-changing auditing environment.
- Amendments to the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) that propose that the disciplinary process be simplified, without infringing on the rights of any of the parties.
- The revision of the Continued Professional Development (CPD) Policy, in line with the revised International Education Standard 7, to focus more on outcomes-based CPD.
- The proposed comprehensive regulation model, which was approved by the Board and submitted to National Treasury and the Minister of Finance.

## FOUR PILLAR STRATEGY

While our focus has been on restoring confidence in the auditing profession, we continued to implement our extended mandate of the four pillars, namely: Independence, Comprehensive Regulation, Leadership in Africa and Transformation.

### INDEPENDENCE

The Mandatory Audit Firm Rotation (MAFR) rule set down by the then Minister of Finance in June 2017 is now only four years away from the effective date of 1 April 2023. We are extremely encouraged by the early adopters, and we expect that by 2021 most listed companies would have complied well ahead of the effective date. As at 31 March 2019, 17% of JSE-listed entities had rotated their audit firms. This indicates a 94% increase, with rotations almost doubling from 18 to 35. As at September 2019, 21% of JSE listed entities had rotated their audit firms, with 41% providing MAFR as the reason.

We continue to engage with the profession and various stakeholders to discuss and find practical solutions and interventions in preparation for the implementation of MAFR. We are

# CEO'S Overview of the Year Under Review *(continued)*

confident that with the recent spike in rotations, and the increased expectations for the profession to perform its public protection role to the highest standards, we will have greater co-operation from auditors and their clients as we implement further regulatory measures to enhance independence.

## COMPREHENSIVE REGULATION

We have seen an increase in the number of high-profile investigations. While we always emphasise that not every business failure is an audit failure, it is becoming clear that auditors and the audit product must evolve to meet the expectation gap from the public. However, it is obvious that we also need to recognise that the financial reporting eco-system and corporate governance are not working as they should.

There are many lines of defence that are required and ought to be implemented by boards, audit committees and executives/management before the financial statements reach the external audit stage. The external auditors come into the financial reporting process as the last line of defence to determine whether the financial statements are fairly presented.

We continue to pursue comprehensive oversight of all the stakeholders involved in the financial reporting chain, including those charged with governance. Security exchanges and oversight structures worldwide are also taking a stronger position in responding to accounting and auditing failures from a systemic point of view.

We can no longer afford to have a financial system that is not appropriately regulated. This is critical in protecting the financial interests of the public. The IRBA will continue to support the Minister of Finance and National Treasury (NT) in the process of developing a model for the comprehensive regulation of the accounting and the auditing profession. The fight against corruption can be spurred on by regulating accountants across the financial reporting and governance eco-system; holding all those accountable through regulatory oversight; and allowing for speedy consequences for failure to execute good governance.

## LEADERSHIP (AND ENGAGEMENTS) IN AFRICA

We participated in the African Forum of Independent Accounting and Auditing Regulators (AFIAAR) meeting held in Maputo, Mozambique, in September 2018 and Mauritius, in May

2019. This followed the signing of the AFIAAR Charter in Zimbabwe, at the forum's inaugural meeting in March 2018. The Maputo meeting developed a two-year strategy that is aligned to the International Forum of Independent Audit Regulators (IFIAR) strategy. The strategy identified the following areas that AFIAAR will focus on in the next two years:

- Enhanced audit quality;
- Advocacy and outreach; and
- Data (knowledge) management and information sharing.

We continued to support and engage with our African counterparts, and have hosted members from Botswana, Namibia and Zimbabwe for learning opportunities with our Investigations, Inspections and Standards departments. We also continue to have members from these countries as observers at our statutory committee meetings.

## TRANSFORMATION

During the years under review, we worked on various initiatives to raise awareness of the audit profession. We have seen the impact of MAFR on transformation where opportunities have opened up for more black firms to enter the market. There has also been a number of mid-tier audit firm mergers and consortiums formed as firms prepare themselves for the 2023 effective date for MAFR.

We continue to engage with the Association of Women Chartered Accountants (AWCA) and the Association for the Advancement of Black Accountants of South Africa (ABASA) on measures to transform the profession. We are also signatories to the Chartered Accountancy Profession Charter (CA Charter), which sets minimum transformation targets for the profession.

In addition, our Education and Training Department hosted career days, Audit Development Programme workshops and presentations to firms on the transformation survey outcomes in an effort to attract more transformation candidates to become registered auditors (RAs).

We are confident that as we implement our projects, we will achieve the important goal of restoring confidence to a once trusted auditing profession.

We are also confident that, if all stakeholders work together in an effort to restore trust in the profession, we will respond to the public's expectation that auditors, the institute and the regulator deliver on our responsibility to protect investors and the public.

# Material Issues

Material issues are those that would have significant impact on the IRBA's ability to create value and include both risks and opportunities.

MATERIAL ISSUE: AUDIT QUALITY		
WHY IT IS A MATERIAL ISSUE	RISK/OPPORTUNITY	RESPONSE
<p>Creating an environment that supports high audit quality is important in achieving our mandate to protect investors and the public.</p>	<ul style="list-style-type: none"> <li>● Loss of confidence in the profession should Audit Quality decline.</li> <li>● Building trust in the profession should Audit Quality improve.</li> </ul>	<ul style="list-style-type: none"> <li>● Contributing to the creation of an environment that is supportive of high audit quality spans across all functions of the IRBA, including ensuring that competent RAs enter and remain within the profession.</li> <li>● Internationally comparable standards have been adopted for the local environment.</li> <li>● RAs are monitored for their compliance with professional standards and, where necessary, are investigated and appropriately disciplined for non-compliance.</li> <li>● During the year under review, many of the projects that we worked on across all functions aimed to contribute to strengthening the environment to ensure that it is supportive of high audit quality.</li> <li>● Increased involvement of leadership in the firm's Audit Quality.</li> </ul>

MATERIAL ISSUE: SUSTAINABILITY AND LOSS OF CONFIDENCE IN THE PROFESSION		
WHY IT IS A MATERIAL ISSUE	RISK/OPPORTUNITY	RESPONSE
<ul style="list-style-type: none"> <li>● Our mandate is to protect the financial interests of the investing public by regulating RAs. Significant changes in our operating environment have resulted in greater scrutiny, by the public, of RAs and the profession.</li> <li>● The auditing profession has come under great scrutiny in recent years due to events that have made stakeholders question the relevance and effectiveness of the role of the auditor.</li> </ul>	<ul style="list-style-type: none"> <li>● The financial impact of audit failures on investors and the public.</li> </ul>	<ul style="list-style-type: none"> <li>● The activities and projects included in the Restoring Confidence Strategy are either completed or still in progress. The project plan, containing deadlines for each activity and project, is monitored on a regular basis.</li> <li>● In addition to the projects on restoring confidence in the auditing profession (page 21), we have been carrying out extensive engagements with the public and other stakeholders (page 41 – 49) to address the expectation gap.</li> <li>● We report regularly to the public on the status and progress of Restoring Confidence projects.</li> </ul>

# Material Issues (continued)

MATERIAL ISSUE: RELEVANCE AND SUSTAINABILITY OF THE IRBA – REGULATORY APPROACH AND EXPANDING OUR INFLUENCE		
WHY IT IS A MATERIAL ISSUE	RISK/OPPORTUNITY	RESPONSE
<ul style="list-style-type: none"> <li>Our regulatory approach in response to our operating environment requires regular reconsideration to ensure that we are meeting our mandate and, at the same time, not impeding the workings of an efficient economy. Changes in our operating environment have resulted in greater scrutiny by the public with regard to the value of the IRBA.</li> <li>The current environment has put increased pressure on us to deliver on our mandate with limited resources.</li> </ul>	<p>Using the current crises to revisit our strategy and operations to be a more proactive regulator.</p>	<ul style="list-style-type: none"> <li>Ongoing education of the public on the role of an RA, the value of an audit and the role of the IRBA.</li> <li>Reviewing of business processes to ensure effective operations that respond to the public expectation.</li> <li>Preparing a plan on the capacity required to meet the current demands.</li> <li>Recruit employees with the required skills-set to cover resource requirements.</li> <li>Rebalancing our limited resources to respond to the public's expectations.</li> <li>Special funding request submitted to NT, and there is continuous engagement for funding to cover the resource requirements.</li> <li>Researching the implementation of a new funding model.</li> <li>Reviewing the APA, primarily to strengthen the powers of the IRBA.</li> </ul>

MATERIAL ISSUE: TRANSFORMATION		
WHY IT IS A MATERIAL ISSUE	RISK/OPPORTUNITY	RESPONSE
<ul style="list-style-type: none"> <li>The profession does not represent the demographics of South Africa; and, as the regulator, it is important that we ensure that barriers to transformation are addressed.</li> </ul>	<p>Opportunities which arise from diversity, both race and gender, are missed.</p>	<ul style="list-style-type: none"> <li>Signatory to the CA Charter.</li> <li>Conducted transformation workshops to identify barriers to transformation.</li> <li>Raising awareness of the profession.</li> <li>Limitations to increase access to the profession, e.g. MAFR.</li> </ul>

# How our Governance Supports our Strategy and Vision

Our Board is comprised of non-executive members who are appointed by the Minister of Finance for a two-year term that is renewable once. The nomination process is in accordance with the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA). The Board members are appointed based on their skills and experience, while there is a focus on independence and public protection.

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

## THE BOARD AND MANAGEMENT

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

### THE BOARD MEMBERS DURING THE YEAR UNDER REVIEW WERE:

ABEL DLAMINI CA (SA) – *CHAIRMAN*

His second and final term commenced on 10 May 2017.

MARTIE JANSE VAN RENSBURG CA (SA) – *DEPUTY/ACTING CHAIRMAN*

Her first term commenced on 10 May 2017.

JOE LESEJANE CA (SA), FCMA, CD (SA) – *CHAIRMAN OF OPSCOM*

His first term commenced on 1 December 2016. Resigned with effect from 30 May 2018.

NKABANENG TEBOGO MASHILE CA (SA)

Her first term commenced on 10 May 2017.

MATSHEPO MORE CA (SA)

Her first term commenced on 1 December 2016. Term ended 30 November 2018.

MOHAMAD IQBAL MOTALA (B.PROC) – *CHAIRMAN OF OPSCOM*

His first term commenced on 10 May 2017.

ZUZIWE NTSALAZE CA (SA) – *CHAIRMAN OF ARMCO*

Her first term commenced on 10 May 2017.

MADODA ALFRED PETROS

His first term commenced on 10 May 2017.

THIRU PILLAY CA (SA) – *CHAIRMAN OF ARMCO*

His second and final term commenced on 10 May 2017. Resigned with effect from 30 June 2018.

### MANAGEMENT DURING THE YEAR UNDER REVIEW COMPRISED THE FOLLOWING:

BERNARD PETER AGULHAS CA (SA) – *CHIEF EXECUTIVE OFFICER*

He was appointed in June 2003.

IMRAN VANKER CA (SA), RA – *DIRECTOR STANDARDS*

He was appointed in May 2014.

ROBERT ZWANE CA (SA) – *DIRECTOR EDUCATION AND TRANSFORMATION*

He was appointed in October 2016. Resigned with effect from 30 September 2018.

IMRE NAGY CA (SA), RA – *DIRECTOR INSPECTIONS*

He was appointed in February 2013.

JILLIAN BAILEY CA (SA), RA – *DIRECTOR INVESTIGATIONS*

She was appointed in November 2015.

JANE O'CONNOR BA, LLB – *DIRECTOR LEGAL*

She was appointed in June 1986. Resigned with effect from 31 July 2018.

WILLEMINA DE JAGER CA (SA), FCMA – *DIRECTOR OPERATIONS*

She was appointed in May 2009. Resigned with effect from 31 July 2018.

NITASHA NAICKER CA (SA) – *DIRECTOR OPERATIONS*

She was appointed in October 2018.

NADINE KATER B.COM, MBA – *DIRECTOR EDUCATION AND TRANSFORMATION*

She was appointed in September 2019.

REBECCA MOTSEPE LL.B, LL.M – *DIRECTOR LEGAL*

She was appointed in September 2019.

# How our Governance Supports our Strategy and Vision *(continued)*

## BOARD RESPONSIBILITIES

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

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

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

In line with the provisions of Section 20(2) of the APA, and to help it further discharge its duties, the Board is also assisted by the following statutory committees:

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

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

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

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

<b>PRINCIPLE 1:</b>	<p><b>LEADERSHIP</b> – The Board should set the tone and lead ethically and effectively.</p> <p>The Board members hold one another accountable for decision-making and act in a way that displays the ethical characteristics stated in King IV. The chairman of the Board has been tasked with monitoring this as part of his duties. Also, performance assessments of individual Board members are conducted.</p>
<b>PRINCIPLE 2:</b>	<p><b>ORGANISATIONAL ETHICS</b> – The Board should ensure that the organisation's ethics are managed effectively.</p> <p>Our guiding values are independence, integrity, objectivity, commitment, transparency and accountability. Our Code of Conduct is applicable to employees and is also part of contractual arrangements with parties in the supply chain. Behavioural competency evaluations of employees also include an assessment of ethical conduct, and a consequence management system is in place to address breaches.</p>

<b>PRINCIPLE 3:</b>	<p><b>RESPONSIBLE CORPORATE CITIZENSHIP</b> – The Board should ensure that the organisation is a responsible corporate citizen.</p> <p>We strive to integrate responsible corporate citizenship as part of the way we do things, and performance measures in respect thereof are shared across functions and departments. The Board oversees and monitors (using agreed-upon performance indicators and targets) our status as a good corporate citizen in areas such as compliance, stakeholder perceptions and employment equity in line with our Strategic Plan. Compliance is monitored by the compliance officer. Quarterly reports are submitted to MANCO, ARMCO and the Board.</p>
<b>PRINCIPLE 4:</b>	<p><b>STRATEGY AND PERFORMANCE</b> – The Board should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.</p> <p>The Board steers and sets our direction, purpose and strategy. MANCO has been delegated with the formulation of the Strategic Plan. During the process, risks and opportunities, resources and relationships, among others, are considered. Through the Board and the relevant committees there are ongoing assessments and responses to any negative consequences for the economy and public interest in general.</p>
<b>PRINCIPLE 5:</b>	<p><b>REPORTING</b> – The Board should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.</p> <p>This report and the Annual Report provide users with a holistic, clear, concise and understandable presentation of our performance in terms of sustainable value creation in the economic, social and environmental context within which we operate. To further refine our performance regarding this principle, we actively solicit input from key users of our reports to enhance our reporting.</p>

<b>PRINCIPLE 6:</b>	<p><b>PRIMARY ROLES AND RESPONSIBILITIES OF THE BOARD</b> – The Board should serve as the focal point and custodian of corporate governance in the organisation.</p> <p>These roles and responsibilities are documented in the Board Charter, reflected in the work plan and executed through the duties and decision-making with which Board members are tasked.</p>
<b>PRINCIPLE 7:</b>	<p><b>COMPOSITION OF THE BOARD</b> – The Board should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.</p> <p>In January 2018, the Board approved a skills matrix for the Board and Statutory Committees. During the period under review, the Board, with OPSCOM, considered its composition in terms of balance of power, skills, experience, diversity, independence and knowledge, including whether all this enables it to effectively discharge its role and responsibilities. As a result of this consideration, the Board identified that there was a need for more diversity to add depth to discussions. A Request for Nominations was published in the Government Gazette to ensure a variety of submissions. The Board nomination process is currently underway.</p>



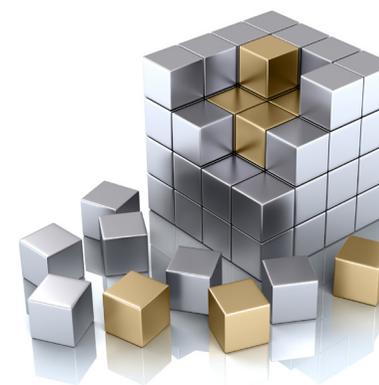
## How our Governance Supports our Strategy and Vision *(continued)*

<p><b>PRINCIPLE 8:</b></p>	<p><b>COMMITTEES OF THE BOARD</b> – The Board should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.</p> <p>Membership of the committees is as recommended in King IV. The composition of the committees and the distribution of authority between the respective chairs and other individuals lead to neither the chairs nor any other individual(s) being able to dominate decision-making or cause undue dependence on such individual(s).</p>
<p><b>PRINCIPLE 9:</b></p>	<p><b>EVALUATION OF THE PERFORMANCE OF THE BOARD</b> – The Board should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.</p> <p>This appraisal is conducted once during the two-year term of the Board. An external Board evaluation was conducted. A detailed delegation of authority is in place. The CEO does not have work commitments outside the organisation. Refer to page 13 for the executive structure, including the role and relevant qualifications of each executive member. We appointed a Board Secretary with the requisite knowledge and experience. An assessment of the performance of the Board Secretary is conducted annually by the CEO. The CEO is satisfied that the Board Secretary and the functions that she oversees are performing well.</p>

<p><b>PRINCIPLE 10:</b></p>	<p><b>APPOINTMENT AND DELEGATION TO MANAGEMENT</b> – The Board should ensure that the performance evaluations of the Board, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness.</p> <p>Assessments of the performance of the CEO and management are conducted annually. It is the opinion of the Board that it, and its structures, should function in an integrated manner. The Board, with the assistance of the Board Secretary, continues to take a holistic view of its charter. The Board is satisfied with the performance of the CEO, management and the Board Secretary</p>
<p><b>PRINCIPLE 11:</b></p>	<p><b>RISK GOVERNANCE</b> – The Board should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.</p> <p>The Board sets the approach for risk governance within the IRBA. ARMCO has been tasked to assist the Board with the governance of risk and has approved a risk management policy. As risk management permeates all aspects of the operations of the organisation, risk is overseen at executive level and continuously assessed by the accounting authority.</p>

<p><b>PRINCIPLE 12:</b></p>	<p><b>TECHNOLOGY AND INFORMATION GOVERNANCE</b> – The Board should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.</p> <p>The Board assumes responsibility for the governance of technology and information by setting the direction for how technology and information should be approached and addressed in the organisation to achieve its strategic objectives. Information governance documents and policies for technology and information are in place and have been approved by ARMCO, which has been delegated with the responsibility over information technology governance. The IRBA's response to the Fourth Industrial Revolution and Disruptive Technologies has been considered in its next Five Year Strategy.</p>
<p><b>PRINCIPLE 13:</b></p>	<p><b>COMPLIANCE GOVERNANCE</b> – The Board should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.</p> <p>Compliance with all applicable laws is governed by the Board in a way that allows us to achieve our strategic objectives and be an ethical and good corporate citizen. There were no regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations. Compliance is reported on at ARMCO and Board meetings.</p>
<p><b>PRINCIPLE 14:</b></p>	<p><b>REMUNERATION GOVERNANCE</b> – The Board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.</p> <p>The Board ensures that we remunerate fairly, responsibly and transparently so as to promote the achievement of our strategic objectives and positive outcomes in the short, medium and long terms. A remuneration policy is in place and annual benchmarking of the CEO and staff salaries is performed.</p>

<p><b>PRINCIPLE 15:</b></p>	<p><b>ASSURANCE</b> – The Board should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.</p> <p>This report gives information on assurance provided. The disclosure by ARMCO on internal financial and reporting controls is also included in this report. A Combined Assurance Plan was approved by the Board in May 2018.</p>
<p><b>PRINCIPLE 16:</b></p>	<p><b>STAKEHOLDERS</b> – As part of its decision-making in the best interests of the organisation, the Board should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.</p> <p>We have identified key stakeholder groupings as well as their legitimate and reasonable needs, interests and expectations. Stakeholder relationship programmes have been developed to ensure continual engagement. Also, strict requirements and processes have been developed for the dissemination of content to our stakeholders. Our stakeholder engagements are recorded on page 41 – 49.</p>



HOW DO  
WE ADD  
VALUE?



# The IRBA's Current Strategic Plan and Business Model

Our Strategic Plan for the period 2015/2016 to 2020/2021 was approved in March 2015. A new strategy is in the process of being developed to, among others, address and respond to emerging challenges in the auditing profession in the next five years.

Stakeholder relationships constitute an underlying principle that permeates everything we do. In preparing the Strategic Plan, it was important to ensure that our internal stakeholders were part of the process for it to be truly and fully integrated. This ensured that everyone in the organisation was able to associate with and support the strategy.

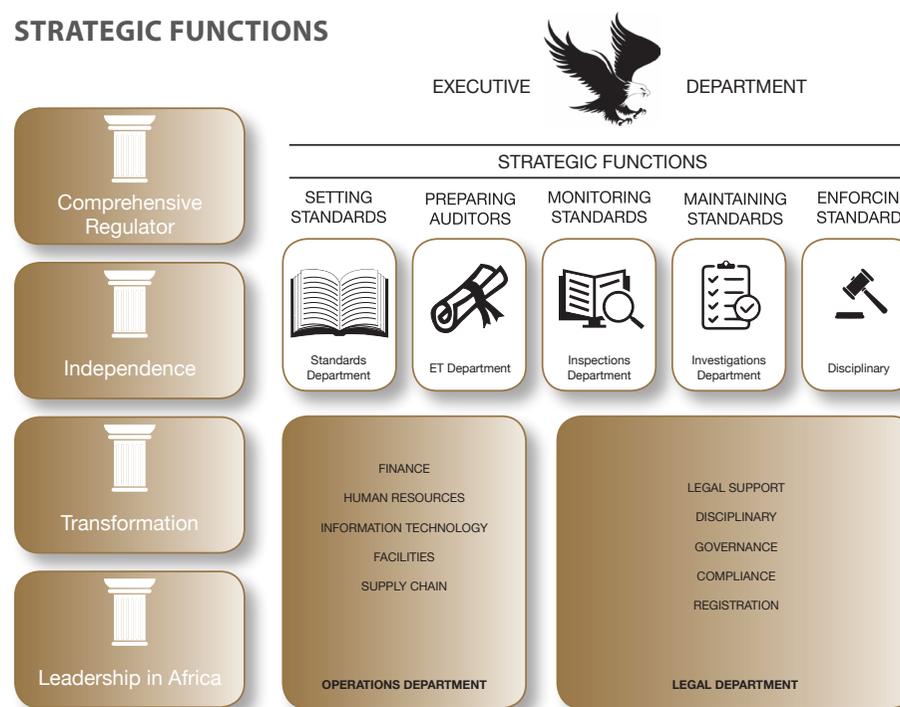
Although the Strategic Plan builds on our legislative mandate, it also includes strategic focus areas to strengthen our regulatory processes. However, these focus areas, which we refer to as Programme 2 – The Four Pillar Strategy, might not arise from the IRBA's founding legislation

from which our Programme 1 strategic focus areas are drawn. Nevertheless, they support government's national priorities, which are in line with the recommendations of the World Bank's Report on the Observance of Standards and Codes: Accounting and Auditing (ROSC A&A). In that way, our overall strategy is aligned to the state's policy outcomes and the goal of protecting the financial interests of the public through the regulation of RAs.

An important consideration for our strategy for the next five years is to determine how the four pillars and initiatives to restore confidence can now be embedded in the IRBA strategy. This is further discussed in our future outlook.

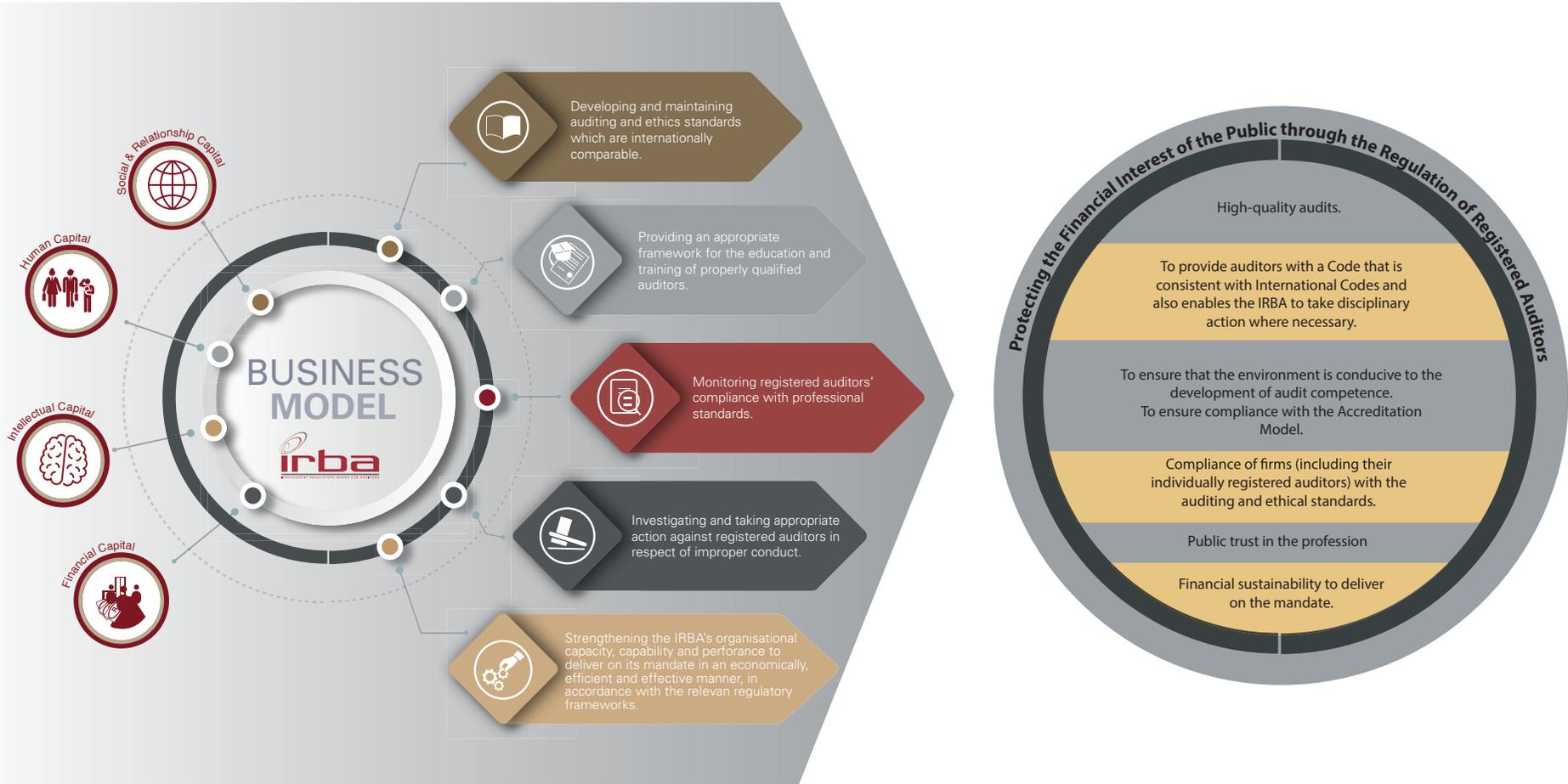
Our Strategic Functions are presented as follows:

## STRATEGIC FUNCTIONS



# The IRBA's Current Strategic Plan and Business Model (continued)

Our business model illustrates how we protect the financial interest of the public through the regulations of Registered Auditors.



# Restoring Confidence in the Auditing Profession

Our Restoring Confidence Strategy includes a number of activities and projects that demonstrate that we, and the profession, are committed to transforming and responding to public expectation.

The key thematic areas for our restoring confidence initiatives include the following:

- Business process review of certain functions.
- Comprehensive Regulation.
- Mandatory Audit Firm Rotation.
- Audit business models.
- Audit firm governance.

- Strengthening audit committees.
- Training, skills and competencies of auditors.
- Auditor behaviour.
- Audit product and quality.

## CURRENT AND NEW RESTORING CONFIDENCE PROJECT INITIATIVES

The table below shows which current and new projects will affect our stakeholders, the profession and the audit product.

INDIVIDUAL AUDITORS	FIRMS	THE AUDIT PRODUCT	THE USER	THE PUBLIC	THE PROFESSION
Review of the curriculum/ADP/skills/competencies	Appropriate sanctions	AQIs	Address secondary listing oversight	Address secondary listing oversight	Review the monitoring of the accredited body
CPD and lifelong learning programmes	Transparency reports	ISQC1 Review	MAFR	MAFR	
Appropriate sanctions	ISA 220 Review	Engagement partner accountability	Transparency reports	Amendments to the APA	
Instil quality as a culture and value	ISQC 1 Review	Review of standards related to recent cases	Strengthen audit committees	Comprehensive Regulation	
Appropriate sanctions	Audit-only firms to increase independence	New Code of Conduct	Address governance issues	Education – What is audit? What is the role of an auditor?	
	Leadership, culture and governance		Address the expectation gap	Address the expectation gap	
	Remedial action process				
	Firm methodology review				

We are confident that our progress with these projects and initiatives will restore confidence and trust in the profession, as most of these projects and initiatives have commenced or have been completed.

# Setting World-Class Standards

Important focus areas for us with regard to setting standards, as required by our mandate and achieved through our two statutory committees (the CFAE and the CFAS), are to:

- Determine what constitutes improper conduct by RAs by developing rules and guidelines for professional ethics, including a code of professional conduct (CFAE); and
- Develop, maintain, adopt, issue or prescribe auditing pronouncements (CFAS).

Through setting standards that are internationally comparable and responsive to our local environment, we believe that the activities assigned to the Standards Department contribute to the organisation’s initiatives to restore confidence in the auditing profession.

## INITIATIVES, ACTIVITIES AND CHALLENGES

### INTERNATIONAL STANDARDS ADOPTED IN SOUTH AFRICA

South Africa adopts the entire suite of International Standards issued by the International Auditing and Assurance Standards Board (IAASB). Also, the country has adopted the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), which has been published as the IRBA Code (Revised November 2018), with additional requirements for RAs in South Africa.

Refer to the IRBA website for more on the auditing standards.

Refer to the IRBA website for more on the Code of Professional Conduct.

### RESTORING CONFIDENCE IN THE AUDITING PROFESSION

The three key projects that have commenced and will continue throughout 2019/2020, in relation to standards, are:

- The issue of the IRBA Code (Revised November 2018), together with outreach on the Code, including an emphasis on ethics, the bedrock of the profession. The IRBA Code (Revised November 2018) includes: (i) a new layout, which aids with understandability and its enforceability; (ii) an enhanced and robust conceptual framework that requires RAs to have deeper ethical reasoning and decision-making; and (iii) substantial amendments to relevant

and topical areas. The strengthening of the IRBA Code (Revised November 2018) is aimed at ensuring that ethics is given the due consideration it requires.

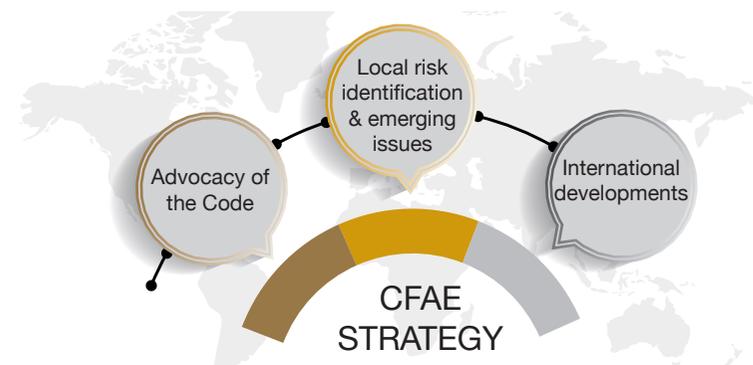
- Involvement, at an international level, with regard to developing and commenting on the IAASB’s exposure drafts of the International Standard on Quality Management (ISQM) 1 and ISQM 2, as well as revisions made to the International Standard on Auditing (ISA) 220 (Revised).
- The development of Audit Quality Indicators (AQIs) for audit firms to report on.

### ROLE OF STATUTORY COMMITTEES

The CFAE’s main objectives revolve around:

- Advocating for the implementation of the IRBA Code;
- Monitoring international developments and their effect on the South African environment;
- Identifying risks and emerging issues; and
- Identifying and implementing projects that are aimed at restoring confidence in the auditing profession.

Refer to the IRBA website for more on the CFAE.



On the other hand, the CFAS is focused on:

- Developing and maintaining high-quality local auditing and assurance pronouncements, including the development of local implementation guidance;
- Considering and responding to developments in the IAASB International Standards, and considering the adoption of new and revised International Standards;
- Monitoring jurisdictional legislative and regulatory requirements and working together with stakeholders; and
- Developing auditing pronouncements relevant to jurisdictional needs.

Refer to the IRBA website for more on the CFAS.



## ACTIVITIES OF THE CFAE AND THE CFAS

### CFAE

For 2018/2019, as in 2017/2018, nine projects were planned and completed. The ones undertaken in 2018/2019 are listed below.

#### *International Developments in Ethics Standards*

Comment letters were submitted on all exposure drafts issued by the IESBA as follows:

- IESBA Consultation Paper: IESBA Strategy and Work Plan, 2019-2023.
- IESBA Consultation Paper: Professional Scepticism: Meeting Public Expectations.

#### *High-Quality Local Ethics Standards*

Issue on exposure of the revised IRBA Rules Regarding Improper Conduct.

- Issue on exposure of the amendments to the IRBA Code on Second Opinions.
- Issue of the final amendments to the IRBA Code on Offering and Accepting Inducements.
- Issue of final amendments to the IRBA Code relating to the application material included in the IESBA Code on Professional Scepticism and Professional Judgment.
- Issue of the final amendments to the IRBA Code relating to the Use of Safeguards in the IESBA Code – Phase 1 and Phase 2.
- Issue of the final amendments to the IRBA Code relating to Improving the Structure of the IESBA Code – Phase 1 and Phase 2.
- Issue of the revised IRBA Code (Revised November 2018). This is another initiative to restore confidence in the auditing profession.

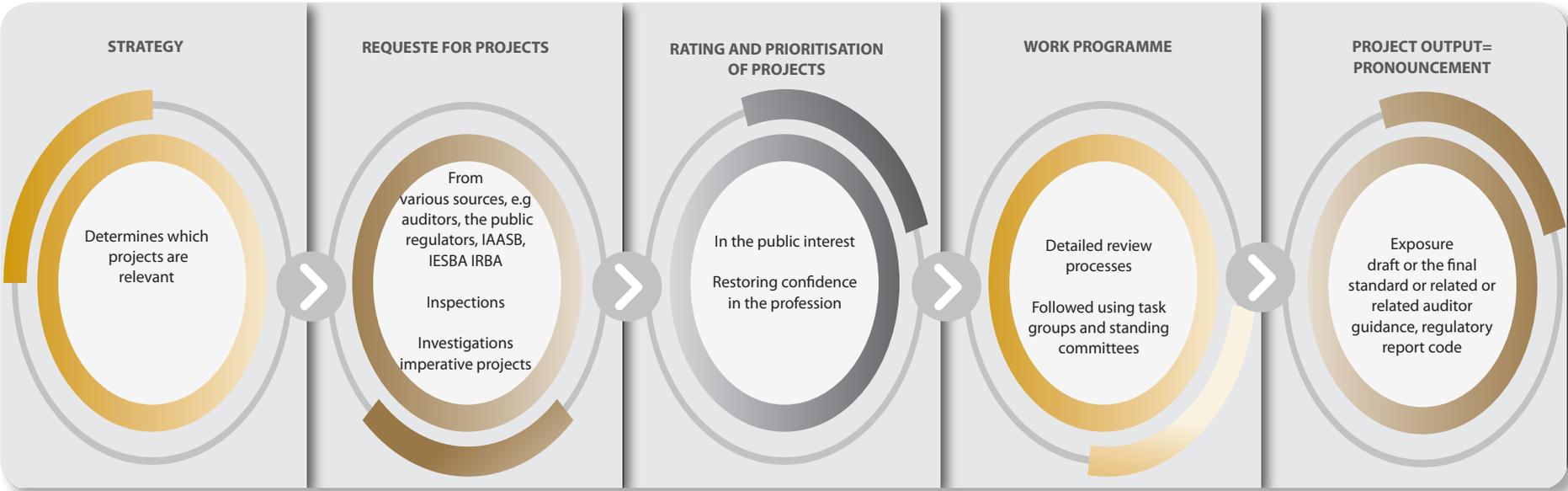
Refer to the Accountancy SA magazine for the article titled "Unpacking the Revised and Restructured Code"

# Setting World-Class Standards *(continued)*

## CFAS

A due process is followed by the CFAS to decide on which projects to consider, prioritise and implement, as well as to ensure an output of high-quality and relevant pronouncements that include auditing standards, practice statements, guides and staff practice alerts.

Refer to the IRBA website for the CFAS' due process policy and its status and authority of pronouncements



For 2018/2019, 15 projects of varying sizes were planned and completed, compared to seven large projects (in terms of time, resources and effort) for 2017/2018. Those that were undertaken in 2018/2019 are listed below.

#### **International Developments in Auditing Pronouncements**

- Comment letter submitted to the IAASB on the proposed revised ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement.
- Comment letter submitted to the IAASB on the proposed revised International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements.

#### **High-Quality Local Auditing and Assurance Pronouncements**

Issue on exposure of the revised South African Auditing Practice Statement (SAAPS) 3, Illustrative Reports.

- Issue on exposure of the revised SAAPS 4, Letters of Specific Inquiry to the Entity's External Legal Practitioner Regarding Litigation and Claims Involving the Entity.
- Issue on exposure of the revised Guide for Registered Auditors on Auditing in the Public Sector.
- Issue of the final South African Assurance Engagements Practice Statement (SAAEPS) 1, Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria.

**Refer to the Accountancy SA magazine for the article titled "Back to Basics – External Confirmations from Financial Institutions"**

We regard this project as breaking new ground as it provides guidance on the application of International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, to assurance engagements on sustainability reports.

- Issue of the final revised Guide for Registered Auditors on Access to Working Papers.
- Issue of the final revised illustrative assurance reports, engagement letters and guidance notes on sustainability reports.

#### **Regulatory Auditing and Assurance Guides and Reports**

- Issue on exposure of the revised Guide for Registered Auditors on the Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements (Section 19(4)) of the Financial Advisory and Intermediary Services Act, 2002, and the related illustrative assurance report.
- Issue on exposure of the Guide for Registered Auditors on Assurance Engagements in terms of the Agricultural Produce Agents Act, 1992, and the related illustrative assurance reports.
- Issue on exposure of the revised Guide for Registered Auditors and of the final revised Guide for Registered Auditors on Assurance Engagements on the Annual Financial Statements and Annual Statutory Returns of a Medical Scheme and related illustrative audit and assurance reports.
- Issue of the final illustrative Banks Act Regulation 46 auditor's reports.

#### **2019/2020 CFAS Work Programme's Focus on Restoring Confidence in the Auditing Profession**

In support of our projects to restore confidence in the auditing profession, the CFAS has approved the following for commencement during 2019/2020:

- A project to develop guidance for auditors in the South African environment on their responsibilities relating to fraud in the audit of financial statements.
- A project to develop guidance for auditors in the South African environment on related parties, including those parties linked to an audit client, but not necessarily related parties as defined in the International Standards.
- A project to develop guidance on joint audits for auditors in the South African environment.

# Setting World-Class Standards *(continued)*

## **Interaction with the Public Sector**

The AGSA participates in the CFAS, CFAS standing committees and task groups. The Public Sector Standing Committee, which is a standing committee of the CFAS, has been established to develop guidance to be provided to private sector auditors that audit in the public sector. In addition, other CFAS pronouncements contain a public sector perspective, providing specific guidance relating to public sector considerations.

## **OUTLOOK**

In the upcoming year, standards-related activities will feature prominently in our projects to restore confidence. Through our Standards Department, we will also continue to support the CFAE and the CFAS to ensure that high-quality international and local ethics as well as auditing and assurance pronouncements are developed and issued.

Meanwhile, the IAASB is in the process of finalising its Strategy for 2020-2023 (IAASB Strategy) and its Work Plan for 2020-2021 (IAASB Work Plan), which is expected to be approved for issue at its December 2019 board meeting. The IAASB's Strategy will influence the development of our strategy from a standard-setting perspective. The following aspects of the proposed IAASB Strategy, as reflected therein, are expected to influence the IRBA's strategy:

- The IAASB's goal: "Sustained trust in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements, through delivery of robust global standards that are in the public interest and capable of consistent and proper implementation".

**As a result of this collaboration, the following guides have been issued:**

- **Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has opted not to perform the audit.**
- **Guide for Registered Auditors: Guidance on performing audits on behalf of the AGSA.**
- **Guidance for Auditing in the Public Sector.**
- **Auditing in the Public Sector and Audit of Predetermined Objectives.**

**Refer to the IRBA website for more information.**

- The IAASB's strategic actions: "(i) Develop and Maintain the IAASB's International Standards and Supporting Materials that provide a foundation for high-quality audit, assurance and related services engagements; (ii) Innovate Our Ways of Working to Strengthen and Broaden Our Capabilities and Capacity to Do the Right Work at the Right Time; and (iii) Maintain and Deepen our Relationships with our Stakeholders to Achieve Globally Relevant, Progressive and Operable Standards". The IAASB's Strategy will equally influence the development of the CFAS strategy.

Similarly, the IAASB's Work Plan will also influence the CFAS Strategy and Work Plan. Broadly, the IAASB's time and effort in 2020/2021 will focus on:

- Initially completing projects already underway.
- Activities to support the effective implementation of the recently issued, or completed, new and revised ISAs, and quality management standards.
- Information gathering and research to inform new projects to commence in the period.
- Monitoring the environment and the timely analysis of new and evolving issues that may affect standards, and related activities thereafter as needed.
- Developing a Framework for Activities.
- Outreach.

On the other hand, the IESBA has finalised and issued its Strategy for 2019-2023 (IESBA Strategy) and its Work Plan for 2019-2023 (IESBA Work Plan). Likewise, the IESBA's Strategy will influence the development of our strategy from a standard-setting perspective. As such, the following aspects of the proposed IESBA Strategy, as reflected therein, are expected to influence the IRBA's Strategy:

- "The IESBA's vision is for the Code to be a foundation of strong ethical principles, values and standards to underpin trust in the global accountancy profession in a dynamic and uncertain world, and to enable the profession to act in the public interest".

- Strategic themes: “(i) Advancing the Code’s relevance and impact, through maintaining a global Code fit for purpose in the evolving environment, and further raising the bar on ethics; (ii) Deepening and expanding the Code’s influence, through increasing global adoption and effective implementation of the Code; and (iii) Expanding the IESBA’s perspectives and inputs, through proactively engaging and seeking cooperative avenues with stakeholders”.

The IESBA’s Strategy will equally influence the development of the CFAE strategy.

Similarly, the IESBA’s Work Plan will also influence the CFAE’s Strategy and Work Plan.

Specifically, both planned and expected projects that are contained in the IAASB’s and IESBA’s Work Plans will influence the projects on the CFAS and CFAE Work Plans as follows:

- We will participate in and comment on planned IAASB and IESBA standard-setting projects.
- We will perform our own information gathering, research and outreach to inform the needs of our stakeholders.
- We will identify and close the gaps between planned and expected IAASB and IESBA projects and those projects identified as essential in the South African standard-setting environment so that the needs of our stakeholders are met.



# Transforming and Monitoring the Education of Registered Auditors

Section 7 of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) includes functions that we have to undertake with regard to the education, training and professional development of RAs. In fact, part of our mandate is to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession. As such, the Education and Transformation Committee (EDCOM) and our Education and Transformation Department (ET) are tasked with ensuring that these objectives, which are essential to restoring and upholding confidence in the profession, are achieved. To do this, there are key focus areas that these two stakeholders need to pay attention to, as discussed below.



Figure 1 – Key activities of the ET Department

## INITIATIVES, ACTIVITIES AND CHALLENGES

### FUTURE RA COMPETENCY FRAMEWORK

In 2017, we, together with the South African Institute of Chartered Accountants (SAICA), commissioned a study into the competencies of the future CA (SA) and RA. The objective of the study was to identify the competencies of the future RA and then adapt our education models to ensure that our RAs remain relevant and competent. During the years under review, the research team, led by a prominent academic, carried out a series of focus group sessions, extensive surveys and interviews to identify these competencies. Once the research process has been completed, the proposed competency framework will be made available for public comment.

### MONITORING OF THE ACCREDITED PROFESSIONAL BODY

SAICA is currently the only professional body that we have accredited. Monitoring the professional body and its relevant programmes against our institutional and programme requirements, as per our accreditation model, is central to achieving our objectives. In this regard, and as part of our initiatives to restore confidence in the profession, there is an increased focus on strengthening our monitoring approach.

During the year under review, SAICA submitted its annual self-evaluation and regular formal reports in response to our institutional and programme requirements for continuing accreditation. The institutional requirements include:

- Continuous Professional Development;
- Discipline and Ethical Conduct of Members;
- Financial and Operational Viability;
- Register of Members;
- Representivity in the Profession;
- Other Technical Support and Guidance; and
- Other Recognition Agreements with Other Professional Bodies.

Monitoring of the programme requirements includes a focus on the professional body's own monitoring processes, especially for the academic programme and the training element of the professional development programme.

On completion of the review, EDCOM concluded that SAICA's programmes were of an appropriate standard for continued accreditation. Areas we have identified for improvement, and those identified by SAICA through its self-evaluation, will be the focus of our monitoring processes.

### **AUDIT DEVELOPMENT PROGRAMME**

The number of candidates registering on the ADP has increased annually since its inception in 2015. During the years under review, 170 (2018: 13) new candidates joined the programme, including 33 candidates from the AGSA. In the same period, 31 (2018: 9) candidates completed the programme successfully.

We undertook ADP workshops that were hosted across the country to raise awareness of the programme and encourage more candidates to register, with a specific focus on transformation candidates. These workshops also facilitated discussions on specific aspects of the programme, such as the preparation and submission of the Portfolios of Evidence (POEs). The level of engagement during these workshops was encouraging and it presented opportunities to discuss other topical areas affecting the profession.

Monitoring activities at audit firms is an important feature of the ADP. Through this process, firms are monitored to ensure that their environments are conducive to the development of the required audit competence. In addition, this allows for the independent validation of the POEs submitted by candidates.

During the years under review, we completed 44 (2018: 48) ADP monitoring visits to different audit firms across the country. Monitoring activities include the monitoring of firm policies as well as the monitoring of engagement files. Key findings that have emerged from these monitoring visits include:

- Deficiencies in HR practices, including lack of formal processes for performance appraisal and employee training and development. Our monitoring visits have also revealed that several firms do not have an established framework against which competencies of employees are assessed.
- Insufficient consideration of the audit client's integrity and the capability of the engagement team to perform the audit when making client acceptance or continuance decisions.
- Insufficient documentation of audit planning and considerations relating to risk assessment and risk assessment due to fraud.
- Lack of assessment of the independence of staff at both the firm and engagement levels.
- Lack of evidence supporting the engagement partner's review of key sections of the audit file.
- Inappropriate application of the firm's Engagement Quality Control Review (EQCR) policy where engagement files that should be reviewed have not been reviewed.
- Lack of policies and procedures for the lockdown of audit files to ensure that the files are archived within 60 days of signing the auditor's report.

Through follow-up visits, we monitor whether these findings have been appropriately addressed.

We continue to strive towards increasing both the number of candidates registering on the programme as well as those successfully completing the programme. It is also imperative to continue to improve the quality of the ADP, with an increased focus on the transformation of candidates on the programme. As part of the initiatives to restore confidence in the profession and to ensure that the ADP continues to meet strategic objectives, a comprehensive post-implementation review of the programme will be conducted during the 2019/2020 financial year.

### **PROFICIENCY INTERVIEWS**

Proficiency interviews may be conducted as part of the RA registration process. The purpose of these interviews is to assess the level of audit proficiency of registering RAs. During the years

# Transforming and Monitoring the Education of Registered Auditors *(continued)*

under review, we conducted four (2018: 15) proficiency interviews. The common recommendation following most of these interviews was that the prospective RA should draft a practice plan and a quality manual as well as update their CPD. This is specifically for those RAs starting their own audit practices.

Going forward and as part of our projects to restore confidence, the process undertaken for proficiency interviews is being strengthened to fortify the quality RAs on our register.

## REGISTERED AUDITOR COMPETENCE

### CONTINUING PROFESSIONAL DEVELOPMENT

A significant highlight during the years under review was the issue of the revised standard on CPD by the International Accounting Education Standards Board (IAESB), International Education Standard 7, Continuing Professional Development, (IES 7 Revised). This development was prompted by the increase in the number of audit failures that have highlighted the need for the professional competence of professional accountants and RAs to be strengthened. In line with these revisions, we have developed a new CPD Policy (effective 1 January 2020), with which all RAs will be required to comply. This was issued together with guidance for RAs on its application. The new CPD Policy requires that the framework below be followed to identify and complete CPD activities.

In addition, we annually monitor the CPD records of a sample of RAs and tax practitioners. During the years under review, the majority of those reviewed (>70%) had complied with the CPD requirements in the current CPD Policy. Follow-up procedures are being performed to address non-compliance with CPD requirements.

## TRANSFORMATION

Given that one of our strategic pillars is to influence the advancement of transformation in the profession, funds have been set aside specifically for this purpose.

Going forward, the strategic focus on transformation will be revisited to identify improvement areas and aspects where we can make the most impact.

## OUTLOOK

In the upcoming year, we will continue with the projects that are already underway and referred to above as part of fulfilling our mandate, and to bolster our overall efforts to restore and strengthen confidence in the profession.

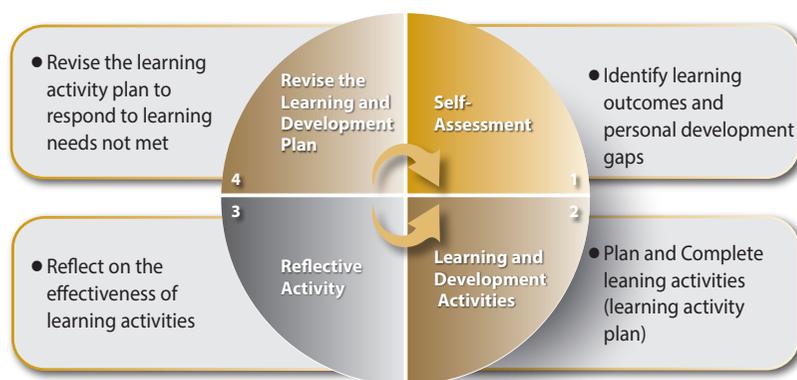


Figure 2 – CPD Framework

# Monitoring Registered Auditors' Compliance with Professional Standards

In terms of Section 47 of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA), we have to, among others, inspect or review the practices of RAs, which is a crucial regulatory function that gives effect to our mandate and strategy to protect the public interest.

## INITIATIVES, ACTIVITIES AND CHALLENGES

### THE INSPECTIONS CYCLE

The inspections, which are undertaken by our Inspections Department, are performed in three-year cycles and the first year of our Seventh Cycle was 2018.. (Further details on the Seventh Cycle Strategy and Process can be accessed on the IRBA website at <https://www.irba.co.za/guidance-to-ras/inspections/the-act-and-manual-of-information>.)

A risk-based approach is followed when selecting auditing firms and engagement files for inspection, which is in line with international best practice. This approach is also applied to determine the scope of the inspection in terms of the sections to be inspected within an audit file. The selection of audit firms and engagement files is biased towards higher-risk audit areas and specific risk indicators, where any deficiencies in these areas could potentially create risks to the public, if not identified or appropriately responded to by the RA.

The number of inspection reports issued during the years under review is as follows:

	2019	2018
Inspections performed and reported:		
Engagement inspections	102	188
Firm inspections	14	11

The 2018 Public Inspections Report, which is available on the IRBA website (<https://www.irba.co.za/guidance-to-ras/inspections/reports>), highlights common firm and engagement file inspections themes as well as feedback on the remediation process.

Recent inspections results indicate continued negative trends that are indicative of systemic quality control deficiencies at some audit firms. The deficiencies require urgent attention by firm leadership as these recurring negative results are a growing concern.

The Inspections Committee (INSCOM) escalated to the Board systemic audit quality concerns identified at six large network firms, following the Sixth Cycle inspections. As part of the IRBA's proactive approach to promote audit quality through transparency and a focus on leadership, the Board has delegated to the Director Inspections the responsibility to communicate the Board's concerns to the different levels of firm leadership, where there are indications of systemic audit quality deficiencies, and seek a proactive response in writing.

The Director has visited the leadership and written responses have been received.

A further proactive response was to fast-track new firm-wide inspections and prioritise robust remedial action interventions at these firms.

It appears that the Board's interventions have had a positive impact by alerting leadership to take responsibility and drive audit quality within their firms. We will continue to monitor the firms' improvement on a regular basis and prompt ongoing engagement with leadership to achieve consistent sustainable high audit quality through the firms' quality management processes, culture and tone at the top. Also, INSCOM is committed to acting more proactively through its decisions, robust and focused Remedial Action Process and escalating identified firms with observed systemic deficiencies to the Board for it to consider any further action it deems necessary to protect the public interest and reputation of the profession.

### MONITORING AND THE CURRENT ENVIRONMENT

In response to the current environment, we continued to focus on audit engagements with a higher public interest exposure, such as audits of public interest entities and state-owned companies. This, however, resulted in the performance of fewer inspections which took longer to complete, due to a broader inspections scope to address potential systemic risks. Focus was placed on the audit quality of risk-based selected components within selected audit

# Monitoring Registered Auditors' Compliance with Professional Standards *(continued)*

engagement files, in line with our objective to put quality before quantity. Besides the focus on audit firms and engagements with greater public interest, the inspections process also incorporates an element of unpredictability, i.e. the random selection of audit firms and engagement files.

As part of the actions taken to address the trend of negative results, we have taken a strategic view to focus more on the role of the firm's leadership in the Seventh Cycle. Inspection reports are addressed to firm leadership of the firms, and not only to the individual partners responsible for the selected engagement files, to drive a proactive firm-wide response that will impact all engagement partners rather than the specific partners inspected. For each engagement file inspection performed at an audit firm, an executive summary report is compiled and issued to firm leadership. The executive summary report is an easy-to-read document that provides a high-level view of the themes identified for each inspection performed at the firm. This report aims to aid audit committee members to engage in robust dialogue with audit firms on specific themes affecting a firm's audit quality.

Our mandatory Remedial Action Process plays a critical role in identifying the most appropriate follow-up action where deficiencies have been reported. These actions may include a follow-up on the Root Cause Analysis and the Remedial Action Plan; verifying specific action required by INSCOM; and/or they could trigger a specific follow-up inspection or a follow-up during the next firm-wide inspection.

We engaged with SAICA regarding the compilation of a Frequently Asked Questions document on the following issues: approval of financial statements by the entity; the dating and signing of the auditor's report and the related documentation thereof; when information to be used as audit evidence involves the work of experts; using the work of other auditors; and ISA 450 (Evaluation of misstatements identified during the audit).

We also liaised with the Companies and Intellectual Property Commission (CIPC) and the Johannesburg Stock Exchange (JSE) on financial reporting matters. In addition, we have a representative on the Financial Reporting Technical Committee (FRTC) of the Financial Reporting Standards Council (FRSC). This supports our focus on financial reporting during the inspections process.

## INVOLVEMENT AT AN INTERNATIONAL LEVEL

We are a founding member (and currently a board member) of the International Forum of Independent Audit Regulators (IFIAR), a globally recognised body of over 50 independent audit regulators.

The Director Inspections represents the IRBA as a member on IFIAR's Inspections Workshop Working Group (IWWG). Every year representatives from the Inspections Department attend and present at the annual IFIAR Inspections Workshop. The workshop is central to the IFIAR's aim to enhance investor protection by improving audit quality globally and through these workshops, provides a unique opportunity for Inspections staff to meet and discuss inspection processes, learn from each other, leverage off each other's experience as well as compare their practices and methodologies. This information sharing leads to a better understanding of the members' respective oversight regimes and the identification of enhanced practices in performing risk-based inspections at audit firms. It also promotes greater consistency across audit regulators.

We participate in the annual IFIAR Inspections Survey. This survey, which reflects on both the firm and engagement level inspection outcomes of six global network audit firms, is an effective benchmark against which countries can compare themselves. The latest survey report and other inspection related information can be accessed on the IFIAR website at [www.ifiar.org](http://www.ifiar.org).

## OBJECTIVES OF INSPECTIONS

- To protect the public and the reputation of the profession.
- To inspect the design and implementation of an audit firm's system of quality control and compliance.
- To monitor RAs' compliance with the relevant professional standards, pronouncements and codes in the performance of the assurance function.
- To focus on firm leadership and the remedial action so as to promote consistent and sustainable high audit quality.

## FOCUS ON NEW STANDARDS THAT ADDRESS RISK AREAS

In response to key themes identified during inspections globally and locally, standard setters responded by updating a number of standards pertaining to these areas. Our inspections generally focus on the implementation of these new standards as they become effective or are adopted early. These include:

- *Risk: Insufficient or inappropriate risk identification and risk assessment*

Response: The exposure draft on ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, has been modernised to meet evolving business needs, including information technology. It also addresses how auditors use automated tools and techniques, which comprise data analytics, to perform audit procedures.

- *Risk: Lack of professional scepticism and challenging management conclusions on areas of judgement*

Response: ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, ensures that the standard continues to keep pace with the changing market and fosters a more independent and challenging sceptical mindset in auditors. It becomes effective for the audit of financial statements for periods beginning on or after 15 December 2019.

- *Risk: Financial reporting disclosure misstatements and inappropriate accounting*

Response: The Inspections team will be monitoring the release of results prepared under these new standards and will also inspect engagement files where the application of IFRS 9 and IFRS 15 has been audited in 2019. Other significant changes are expected to arise from the application of IFRS 16, Leases, effective for periods beginning on or after 1 January 2019; and IFRS 17, Insurance Contracts, effective for periods beginning on or after 1 January 2021.

## OUTLOOK

Some of the measures that we have put in place and tasked the Inspections Department with during the 2019/2020 financial year, as we collectively continue with our initiatives to restore confidence, include the following:

- A business process review of all functions to ensure effective operations that respond to the public expectation, which includes the rebalancing of the department's capacity and the new Seventh Cycle.
- Inspecting the tenure disclosure rule as a precursor to Mandatory Audit Firm Rotation (MAFR) in full to address independence and lack of professional scepticism.
- The development of Audit Quality Indicators (AQIs) to be used by audit firms, those charged with governance and the IRBA as a tool to assess the quality and independence of audit firms and external auditors.
- Real-time proactive monitoring and a Remedial Action Process.
- A review of the annual firm declarations process.
- Leadership focus (including engaging with the Board where there are systemic deficiencies).

# Investigating Complaints and Non-Compliance

Our investigations function, underpinned by the successful implementation of the World Bank's Report on the Observance of Standards and Codes: Accounting and Auditing (ROSC A&A) recommendation to establish a discrete and independent Investigations Department, forms the cornerstone of our regulatory framework. In line with the recommendation, the department has distinguished itself through the enforcement of a robust process characterised by the application of transparent, fair, effective and consistent principles.

Through this function, we enforce compliance with the professional standards and the Code of Conduct by administering sanctions against RAs who act improperly. Our objective is to promote public confidence through the regulation of the audit profession and the way in which improper conduct is addressed.

INVESTIGATIONS PROCESS	
Receipt of complaint	a) a) Complainant; or
	b) b) Mero motu (self-initiated).
Investigation	Gather evidence in relation to the complaint.
Investigating Committee	Consider evidence and make recommendations to the Disciplinary Advisory Committee.
Disciplinary Advisory Committee	Ultimately decides on the outcome of the matter.
Outcome	a) Not guilty; or
	b) Consent order (monetary fine); or
	c) Disciplinary hearing.

## INITIATIVES, ACTIVITIES AND CHALLENGES

### INVESTIGATIONS

During the years under review, 138 (2018: 112) new investigations were initiated. We attribute this increase to our expanding public presence due to strategic exposure initiatives.

Although we finalised more matters in 2017, there has been a significant rise in the number of investigations in progress. This is due to, not only the increased number of matters initiated, but also to the fact that matters are increasing in complexity.

This upward trend has also highlighted a challenge with regard to sourcing professionals with the right technical skills, experience, ethical standards and dedication. It is nonetheless our objective to fill the vacancies with individuals who have the requisite attributes, while also complying with the country's transformation and equity laws.

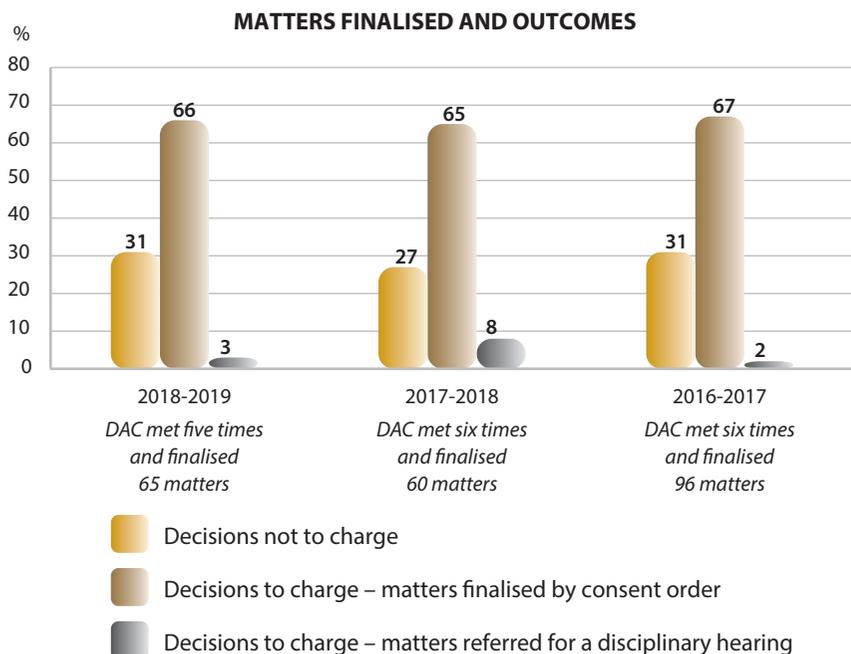
There was also an increase in high-profile/public interest entity matters initiated, which required more time, resources and effort to investigate. As at year-end, 34% of the investigations in progress comprised high-profile/public interest entity matters.

In line with the Board's strategic imperative that high-profile/public interest entity matters be prioritised for investigation, the department has realigned its workload accordingly. Although we are prioritising these matters, we also aspire to complete all other matters as soon as possible, in accordance with due process.

Meanwhile, INVESCO met six times during the year under review and DAC met five times. The table below provides details regarding the matters finalised through DAC and the outcomes of those matters.

#### RECURRING THEMES

- Incorrect audit opinions.
- Sufficient appropriate audit evidence not obtained.
- Independence issues.
- Audits of attorney trusts poorly done.
- Professional competence and due care not exercised.
- Reportable irregularities not reported.



### AMENDMENTS TO THE AUDITING PROFESSION ACT, 2005 (ACT NO. 26 OF 2005) (APA)

To elaborate on the amendments previously mentioned, we are seeking several changes that will address the low level of fines. In addition, the amendments will remove restrictions on obtaining critical information for investigations, with the power to subpoena information as well as search and seizure powers.

We are confident that the intended regulatory reforms are well timed interventions that will address the renewed calls for regulatory intervention to reduce the vulnerability of the investing public. Equally important is that these reforms will provide the IRBA, generally, and our investigations function, specifically, with increased enabling authority to uphold the professional reputation of the auditing profession.

### SANCTIONS

An enhanced approach to sanctions was implemented.

In addition to monetary sanctions, we enforced the following:

- Specific publication of findings and names of RAs, where matters settled by consent order related to a public interest entity;
- Specific publication of findings and names of RAs in matters where the RA was a repeat offender;
- Specific publication of findings and names of RAs in all matters that went for a disciplinary hearing; and
- Imposed non-monetary sanctions, such as training.

### OUTLOOK

Our main focus in terms of the investigations function is to strengthen the Investigations Department by increasing capacity, despite a lack of sufficient funding to recruit additional investigators. The funding challenge, however, is one that we are seeking solutions to through exploring alternative sources of funding.

We will also continue to prioritise and work towards finalising high-profile/public interest entity investigations in the next year, in line with the Board's strategic intent.

In addition, our Investigations Department will continue to participate in relevant international initiatives and network with other audit regulators to strengthen our investigations and adjudication of alleged improper conduct by RAs.

**The Financial Matters Amendment Bill can be found on [www.irba.co.za](http://www.irba.co.za).**

# The Enforcement of Standards, the Code and Legislation

Our main responsibilities as a regulator include the enforcement of auditing standards and taking disciplinary action against RAs who fall foul of the IRBA Code (Revised November 2018) and prescribed standards.

## INITIATIVES, ACTIVITIES AND CHALLENGES

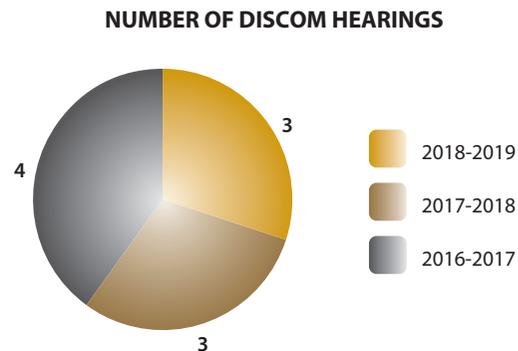
### DISCIPLINARY ACTIONS

An RA charged with improper conduct by the IRBA may be subjected to a disciplinary hearing where the Disciplinary Advisory Committee (DAC) refers the matter to the Disciplinary Committee (DISCOM). The DISCOM drives the disciplinary process against the RA, in accordance with the provisions of Sections 50 to 51 of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA).

During the years under review, the DISCOM dealt with three matters, one of which has been part-heard and are continuing.

In the third matter, the committee found the RA guilty of six charges and ordered the cancellation of the RAs registration and the removal of his name from the IRBA's register. The practitioner was ordered to pay a contribution towards the IRBA's costs, and the practitioner's name, the name of his firm, a summary of the charges, findings and sanction imposed were circulated in an IRBA publication.

The number of disciplinary hearings before the DISCOM over the past three years were as follows:

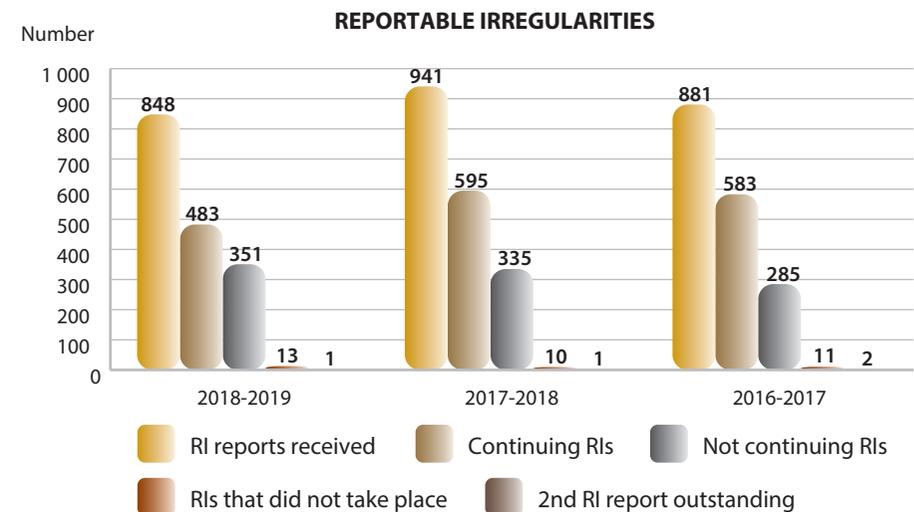


### REPORTABLE IRREGULARITIES (RIS)

A RA has a statutory duty to report any unlawful act or omission committed by a person responsible for the management of an entity for which the RA is engaged. Such acts include those that may result in material financial loss, are fraudulent and may result in a material breach of that person's fiduciary duty to the entity. The RI provisions are regarded as a form of whistleblowing by the RA to bring certain transgressions to the attention of an appropriate regulator.

The duty to report RIs is particularly important because of the duty owed by a RA to society to provide more than just an opinion on the financial state of an entity.

During the year under review, the number of RIs processed by the IRBA in relation to previous years is shown below.



Of the 483 continuing RIs received, the percentage occurrence and the regulators to whom these were reported is set out in the table below.

CONTRAVENTION CATEGORY	PERCENTAGE	APPROPRIATE REGULATORS
Non-compliance regarding financial statements and/or accounting records, i.e. financial statements not prepared within the allotted timeframe, accurate accounting records not kept, etc.	35,58%	The South African Revenue Service (SARS), CIPC, the Financial Sector Conduct Authority (FSCA).
Tax and VAT-related contraventions, i.e. non-submission of tax returns, failure to register for VAT, non-payment of PAYE, etc.	28,53%	SARS.
Other Companies Act contraventions, i.e. reckless trading, unauthorised financial assistance to directors, etc.	13,95%	CIPC.
Contraventions of the Estate Agency Affairs Act, i.e. agents trading without valid Fidelity Fund Certificates, trust creditors exceeding trust moneys, etc.	5,17%	The Estate Agency Affairs Board.
Suspected fraud/theft and contraventions of PRECCA.	3,76%	The Directorate for Priority Crime Investigation, the Financial Intelligence Centre (FIC).

CONTRAVENTION CATEGORY	PERCENTAGE	APPROPRIATE REGULATORS
Contraventions of the Pension Funds Act, i.e. statutory valuations not performed, non-compliance with fund rules, etc.	1,72%	FSCA.
Other, i.e. contraventions of various Law Society Rules, the Sectional Title Schemes Management Act, the JSE's Listing Requirements, the Trust Property Control Act, etc.	11,29%	Various Law Societies, the Community Schemes Ombud Service, the JSE, the Master of the High Court.
	<b>100,00%</b>	

#### NON-COMPLIANCE WITH LAWS AND REGULATIONS

In July 2017 the IESBA pronounced a new section of the Code of Ethics for Professional Accountant for those who may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing professional services. The section sets out the framework of actions to be taken in the public interest by professionals when they become aware of a potential illegal act committed by a person.

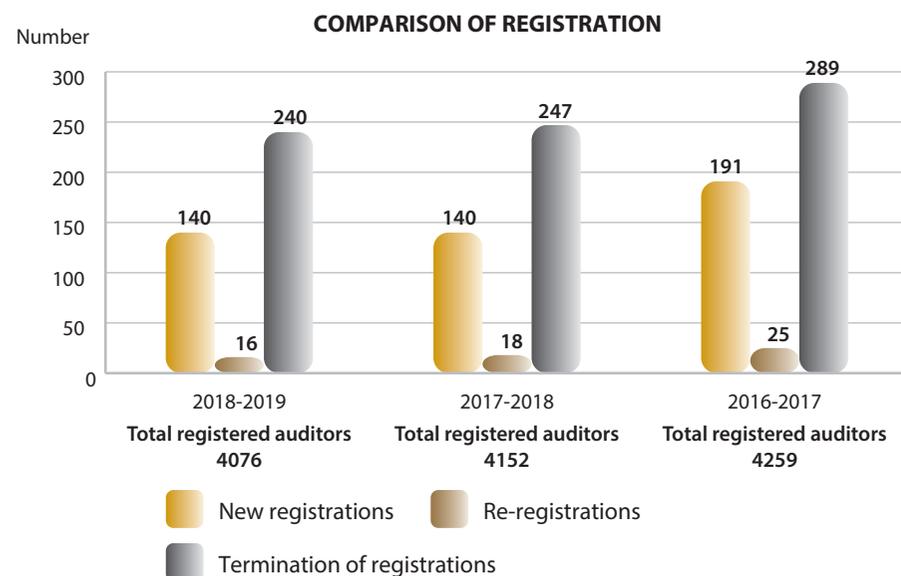
We adopted the standard in our amendments to the IRBA Code of Professional Conduct.

#### REGISTRY

We must, as one of our core functions, manage the new registration and re-registration of individuals and firms as RAs and also co-ordinate the renewal of registrations, in terms of the APA.

# The Enforcement of Standards, the Code and Legislation *(continued)*

Below is a comparison of registration figures over the past few years.



We implemented some changes in our processes in relation to new registrations, re-registrations and the renewal of registrations. Consequently, we have now included fit and proper criteria for individuals seeking admission/re-admission to or retention on the register of auditors. Also, we now have further processes to verify the ownership and shareholding of existing audit firms and those seeking admission to the register of audit firms. These changes form part of our initiatives to restore confidence in the profession.

## OUTLOOK

The finalisation and the outcome of the disciplinary matters mentioned above is a positive indication that we are actively endeavouring to restore confidence in the auditing profession. We are confident that the sanctions will deter RAs from neglecting their duties to protect the financial interests of investors and the public at large.

In reviewing our requirements for the admission of individuals to the profession, we have also identified areas where the registrations process needs even further strengthening.

With the refining of the fit and proper criteria, we will ensure that only those individuals who meet this measure, in the true sense of the phrase, will be permitted to enter practice or continue practising in the profession.

The proposed amendments to the APA also includes provisions to simplify the disciplinary hearing process, without affecting the rights of any individual. This will contribute to completing disciplinary hearings in a shorter timeframe, and respond to the public's expectation that transgressions are dealt with timeously.

# Operational Effectiveness

Compliance, accountability and proper management of revenue, expenditure, assets and liabilities are some of the important measures that we use to assess our operational effectiveness. The measurable indicator of how well these measures are functioning is a clean auditor's report, which we have obtained for the past nine consecutive years.

For us, a clean auditor's report entails three areas: an unqualified report relating to the annual financial statements; compliance with applicable laws and regulations, specifically the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the supply chain management process; and the usefulness and reliability of performance information.

## INITIATIVES, ACTIVITIES AND CHALLENGES

### FUNDING OPTIONS

As already mentioned, we have been looking at alternative ways to supplement the funding we receive in the form of a government grant, prescribed fees and levies from RAs and firms, and monies that may accrue to us from any other legal source. To this end, management has established a task team to investigate alternatives, and its research is underway.

### INTERNAL AUDIT SERVICES

After months of struggling to find and appoint internal auditors who meet the required criteria, internal auditors were appointed in the year under review. The difficulty with appointing internal auditors was mainly due to the stringent principle of independence to which we adhere. As the audit regulator, we have to lead by example and adhere to the standards that guide the profession.

## HUMAN RESOURCES

With a staff complement of 80, we have put in place various frameworks that are aimed at not only retaining talent, but also ensuring that employees see the organisation as an employer of choice. We have a Performance Management Framework as well as an Employee Reward Programme. The latter is aimed at competing for talent, retaining competent employees, motivating individual and team performance, achieving the most effective returns and ensuring appropriate equity levels.

Regarding equity, our target is to have 70% black employees; we are currently at 68%. With the assistance of the Employment Equity Forum, which consists of staff members representing all relevant designated groups, this set target should be achieved in due course.

# Operational Effectiveness (continued)

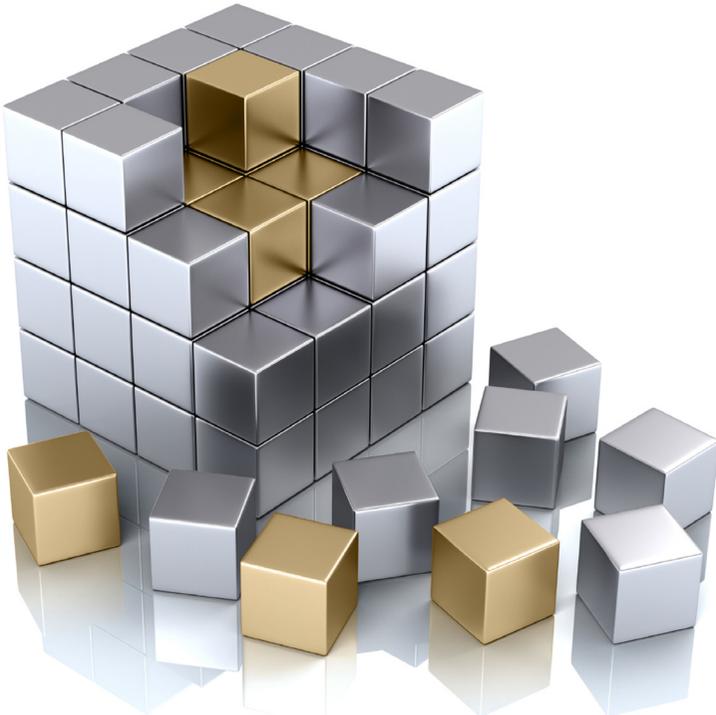
## OVERVIEW OF EMPLOYEE STATISTICS

TOTAL	MALE	FEMALE	AFRICAN	COLOURED	INDIAN	WHITE	NON-SA	DISABLED
80	33	47	35	6	14	24	1	2
100%	41%	59%	44%	8%	15%	29%	1%	2%

## OUTLOOK

During the year under review, we had to deal with the consequences of reputation loss as a regulator and in the profession at large. On the positive side, some of the projects aimed at restoring confidence are already starting to bear fruit. For instance, despite our financial and human resources constraints, some of the high-profile investigations conducted were completed in time, with sanctions that have sent a strong message to the market.

One of the challenges, though, has been the financial strain of conducting investigations and disciplinary hearings. Also, there has been a slight decrease on our register of RAs. All this is now putting more pressure on us to work hard on finding alternative ways and sources to fund our functions and activities, which will be a priority going forward.



# Stakeholder Engagement

## STAKEHOLDER ENGAGEMENT

The role of stakeholder relations has become even more critical over the past couple of years. As a result, we have enhanced this role as the need to respond to the challenges faced by the profession has intensified.

We regard ongoing engagements with stakeholders as an integral part of our business and a crucial ingredient in building collaborative and constructive relationships.

In addition, we rely on stakeholders to work together with us to restore confidence in financial reporting and the auditing profession in order to protect the financial investments of the public and help grow the economy.

Through our activities and the regulation of the auditing profession, we influence the reliability and sustainability of the South African economy, which, in turn, promotes investment and job creation.

The table below reflects the broad range of stakeholders with which we engaged during this year, the nature of those relationships, the risks being addressed and the value derived from those relationships.

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
Legislative Authority Parliament Minister of Finance National Treasury	Oversight of our mandate.	Implement the mandate. Economic stimulation. Build investor confidence. Restore confidence in the auditing profession.	Lack of understanding of our mandate. Inability to deliver on the mandate. Perceived to be ineffective. Independence perceived as compromised.	Strengthen the IRBA through legislative changes. Support for the IRBA to be adequately resourced. Secure sustainable funding.	Consultations on proposed amendments to the APA. Increased engagement with government.	Legislators are better informed and understand the role of the IRBA in protecting the financial interests of the public.  The engagements have also resulted in the fast-tracking of the amendments to the APA and IRBA's request for more resources to strengthen our investigations and disciplinary capacity being explored by the National Treasury.

# Stakeholder Engagement (continued)

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
Registered Auditors and Audit Firms	Ensure an ethical, competent and globally respected profession.	<p>To be registered.</p> <p>High-quality audit and ethics pronouncements.</p> <p>Monitor compliance.</p> <p>Investigations and sanctions to maintain independence and the credibility of the profession.</p> <p>Action taken against errant auditors.</p>	<p>Unregulated profession/self-regulation.</p> <p>Credibility of the profession compromised.</p> <p>Profession perceived to be part of a corrupt system.</p> <p>Inadequate audit product.</p> <p>Poor audit quality and unethical behaviour.</p> <p>Lack of independence.</p>	<p>Increased number of audit firms implicated in business failures.</p> <p>Increased number of investigation matters.</p> <p>Unsatisfactory audit quality, as reflected in the Public Inspections Report, and a lack of improvement.</p> <p>Reputation of the profession at its lowest.</p> <p>Concerns about slow transformation.</p> <p>Leadership responsibility.</p>	<p>Implementation of the strategy to restore confidence in the auditing profession.</p> <p>Formulated a set of AQIs to assist audit committees.</p> <p>Made significant progress in the review of ISQM 1 and ISQM 2.</p> <p>The Seventh Inspections Cycle focuses more on leadership accountability.</p> <p>Published the new IRBA Code (Revised November 2018).</p>	<p>Engagements with the profession are more positive and yielding better outcomes.</p> <p>More firms have voluntarily issued transparency reports, following the call from the IRBA.</p> <p>Firms participated in the call for information on the AQI project. We will use the information received to develop an AQI report that will be shared with audit committees through the Audit Committee Forum.</p> <p>The profession has launched the South African Audit Profession Trust Initiative (SAAPTI), which intends to identify proactive responses to the challenges faced by the auditing profession.</p>

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
AGSA	<p>Contribute to quality audits in the public sector.</p> <p>Review AGSA Quality Monitoring in terms of the Memorandum of Understanding.</p>	<p>Collaboration on technical audit and assurance issues.</p> <p>Guidance issued to RAs conducting audits on behalf of the AGSA.</p> <p>Independent assessment of the AGSA's Engagement Quality Monitoring Process.</p>	<p>Risk of audit failures in public sector engagements performed by RAs.</p> <p>Reputation of the auditing profession negatively affected.</p> <p>Quality of audits performed by RAs in the public sector, not acceptable to the AG.</p>	Public protection and guidance issued to RAs.	<p>Collaboration in restoring confidence in the auditing profession.</p> <p>Support provided by our Inspections Department to the AGSA's quality function.</p> <p>Support for the technical committee through the CFAS and cooperation in standard-setting activities.</p>	<p>Working together with the office of the Auditor-General to enhance the quality of public sector auditing in South Africa.</p> <p>Issued the following joint guidance for auditors in the public sector:</p> <ul style="list-style-type: none"> <li>● Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019).</li> <li>● Guidance on Performing Audits where the AGSA has opted not to perform the audit.</li> <li>● Guidance on performing audits on behalf of the AGSA.</li> </ul>

# Stakeholder Engagement (continued)

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
<p>International Standard Setting Bodies (IAASB, IESBA, IAESB)</p>	<p>Influence the development of international standards, which are adopted in SA.</p>	<p>Expertise in technical areas.</p> <p>Submission of comments on exposure drafts and discussion papers.</p> <p>Facilitate the adoption, implementation and monitoring of new and revised standards issued.</p> <p>Lessons learnt on how South Africa managed the current crisis faced by the profession.</p>	<p>Quality of pronouncements issued may be inappropriate for our jurisdiction.</p> <p>Local implementation guidance may be required.</p>	<p>Our expertise in standard setting has been acknowledged and recognised globally.</p>	<p>Our CEO and staff members serve on various standard-setting boards and influence the international process through their expertise and technical knowledge.</p>	<p>We made significant progress in the review of quality standards. ISQM 1 will replace the International Standard on Quality Control (ISQC) 1; ISQM 2 will cover EQCR; and the revised ISA 220 will deal with quality on audits. The proposals bring important changes to the way professional accountancy firms are expected to manage quality – for audits, reviews and other assurance and related services engagements.</p> <p>We have also strengthened our inspections process to align it with requirements in ISQM 1 and ISQM 2. Inspection procedures have been updated to include additional focus areas on firm quality, governance and independence.</p>

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
						In November 2018, we published the revised IRBA Code (Revised November 2018), which was effective as of 15 June 2019. This followed the adoption of the amendments made to the IESBA Code issued during 2018.
International Audit Regulators (IFIAR)	Share knowledge, benchmark and collaborate.	Shared expertise and weaknesses identified. Participation in international meetings and workshops on audit regulation. Views on developments in global auditing standards. Lessons learnt on how South Africa managed the current crisis in the profession.	Misaligned inspection processes and compliance monitoring. Decline in audit quality at audit firms and continued regress on inspection results. Proactive response not achieved.	Our expertise in regulation recognised globally. Concerns about global trends of declining audit quality. Impact of regulators in sustaining confidence in regulatory functions.	Participating on boards, working groups and other international structures.	Our Restoring Confidence Strategy was shared with IFIAR members as an example of restoring confidence in the auditing profession globally.

# Stakeholder Engagement (continued)

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
Regional Partners	<p>Good governance on the continent.</p> <p>Encourage independent audit regulation on the continent.</p>	<p>Share expertise in technical areas and standard setting.</p> <p>Assistance with the process of establishing independent audit regulators, including legislative changes.</p> <p>Form a regulators' body to align regulation on the continent.</p>	<p>Non-aligned profession on the continent.</p> <p>Delays in implementing audit regulation.</p>	<p>Establish a regional body to represent the views of audit and accounting regulators.</p> <p>Cooperation among different countries on matters related to independent audit regulation and good corporate governance practices on the continent.</p>	<p>One of the founding members of the AFIAAR, with South Africa as the deputy chair.</p> <p>Strengthening corporate governance on the continent through exchange programmes with other countries.</p> <p>Hosting external inspectors and investigators, and sharing knowledge and processes.</p>	<p>AFIAAR members use the IRBA as a benchmark for independent regulation in order to address reforms in their own jurisdictions.</p> <p>Hosted learning experience programmes for Namibia, Botswana and Zimbabwe delegates.</p>
Accredited Professional Bodies	<p>Source of the pipeline of RAs.</p> <p>Setting competency requirements.</p> <p>Monitoring accreditation compliance.</p> <p>Cooperation in efforts to restore confidence in the profession.</p>	<p>Accreditation and monitoring.</p> <p>Technical knowledge and advice.</p> <p>Influencing and issuing of Education, Ethics and Assurance Standards.</p>	<p>A few CA (SA) will choose to register as RAs.</p> <p>Knowledge, skills and competencies inappropriate for RAs.</p> <p>Transformation in the CA (SA) and auditing profession remains a challenge.</p> <p>Lack of oversight over CAs (SA) proving to be a challenge in the market.</p> <p>Quality of RAs decrease.</p>	<p>The auditing and accounting profession remains under the spotlight for scandals involving CAs (SA).</p> <p>Restoring confidence in the auditing profession remains a key focus area for SAICA.</p>	<p>We continue with our engagements with the CEO and executive staff of SAICA.</p> <p>We have strengthened our monitoring and continue to engage with SAICA on its disciplinary process.</p> <p>We participate in or observe SAICA committees that serve to improve the quality of work delivered by SAICA members.</p>	<p>Strengthened monitoring of SAICA.</p> <p>Enhanced collaboration with SAICA on matters related to disciplinary hearings.</p> <p>Maintaining quality of RAs.</p>

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
Other Local Regulators and Enforcement Agencies	Share knowledge, benchmark and collaborate on mandates and enforcement.	Expertise and guidance. Aware of investigations and disciplinary actions. Communication of RIs reported.	Weaknesses in the financial reporting chain remain unaddressed. Ineffective monitoring. Ineffective enforcement. Regulations that are difficult to implement or enforce. Enforcement not achieved. RIs not reported timeously.	The state of the profession and the role of accountants in business failures.  Cooperation and sharing of information to achieve different mandates of protecting the public.	Signed Memoranda of Understanding to facilitate collaborations.	We have, thus far, signed Memoranda of Understanding with other regulators and professional bodies, such as the FIC, the CIPC, the Public Accountants and Auditors Board of Namibia and the Association of Certified Fraud Examiners (ACFE), for the sharing of information within the legislative prescripts.

# Stakeholder Engagement (continued)

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
Investors and the Public	Create awareness of the role of the IRBA and educate investors and the public about the value of the IRBA and audit in the financial markets.	<p>Expertise and guidance.</p> <p>Hold RAs accountable for the quality audits.</p> <p>Inspection outcomes and reports (transparency).</p> <p>Enforcement of the IRBA mandate – especially investigations and disciplinary actions.</p>	<p>Failing to meet the expectations of the market.</p> <p>Lack of understanding of the audit function.</p> <p>IRBA perceived to be ineffective.</p> <p>RAs perceived to be part of a corrupt system.</p> <p>Inability to evaluate audit firms' audit quality.</p>	<p>Expectation gap on the role of auditors and an ineffective regulator.</p> <p>The role of auditors in business failures.</p> <p>Measuring audit quality.</p> <p>Lack of oversight over other role players in the financial reporting chain.</p>	<p>Education and creating awareness of our role and our legislative mandate.</p> <p>Proactive communication and messaging on matters affecting the public.</p> <p>Improve public perception and address the expectation gap on the role of auditors and what the public expects the auditor to do.</p> <p>Transparency.</p>	<p>We engaged with investor representatives through the Public Investment Corporation, the Chief Financial Officers Forum, the Audit Committee Forum and individual company directors.</p> <p>The MAFR rule used by investors to effect change as part of their shareholder activism.</p> <p>South African investors recommended to serve on international structures which represent investors.</p>

STAKEHOLDER GROUP	WHY WE ENGAGE	WHAT THEY NEED FROM US	RISKS, IF NEEDS ARE NOT MET	WHAT WERE THE ISSUES RAISED	HOW WE RESPONDED	VALUE DERIVED FROM THE ENGAGEMENTS
Local and International Media	<p>Inform and create awareness of the IRBA's mandate and branding.</p> <p>Address public concerns regarding the auditing profession.</p>	<p>Credible and timely information and responses.</p> <p>Create awareness on the work of the IRBA.</p>	<p>Inaccurate media reports.</p> <p>Brand reputation.</p> <p>Ill-informed public and undue expectations of the profession.</p> <p>Negative public perception of the profession and the regulator.</p>	<p>We are deemed as ineffective and not transparent by the media due to the lack of awareness of our role and processes.</p>	<p>Educating and creating awareness about our role and our legislative mandate.</p> <p>Proactive communication and messaging on matters affecting the public.</p> <p>Sharing information and progress on Restoring Confidence projects and initiatives.</p>	<p>Improved public perception and effective engagement with the media.</p>
Staff	<p>Informed staff.</p> <p>Consistent and professional service orientation.</p>	<p>Ongoing communication and consultation.</p> <p>Ability to raise concerns and address expectations.</p> <p>Equity in remuneration and training opportunities.</p>	<p>Low productivity.</p> <p>Lack of commitment to the mandate.</p> <p>Ill-informed staff.</p>	<p>Lack of information and commitment to the values and mandate of the IRBA.</p>	<p>Actively engage staff on our role and mandate and keep them informed at all times.</p> <p>Monthly staff meetings, staff wellness programmes and quarterly newsletter to engage staff.</p> <p>Management Forum meetings held with managers for project development and implementation.</p>	<p>A committed staff complement.</p> <p>Attracting and retaining high quality staff.</p>

# Media Relations

The information below addresses media coverage and social media exposure of both the IRBA and the audit profession.

<b>April 2018</b>	<p>We issued a press statement that focused on the direct damage to the profession that was being caused by a few errant auditors, and we called for rational decision-making.</p> <p>Social media was active around a number of current affairs topics: the Ntsebeza Enquiry; the Nkonki collapse and resignation of its CEO; the Deloitte disciplinary hearing into African Bank; the VBS Bank scandal; KPMG's response to VBS; the concept of audit-only firms; the AGSA cancelling the KPMG and Nkonki contracts; and an update on the amendments to the APA.</p>
<b>May 2018</b>	<p>We announced our intention to review the KPMG turnaround strategy; promoted our actions to restore confidence in the auditing profession; and publicised the progress regarding amendments to the APA.</p>
<b>July 2018</b>	<p>Media coverage was driven by significant social media exposure around the Linkway/Wessels hearing and sanctions against auditors that had been concluded in the preceding quarter. Requirements for transparency reports were announced at the end of July and were well received by the market.</p>
<b>August 2018</b>	<p>For Women's Day, the CEO spoke as a panellist at an AWCA event. This received positive social media response as the CEO promoted our view on gender diversity in transformation and the important role of women on boards. Further, reports around the early adoption statistics of MAFR showed, as expected, that many companies were rotating auditors well ahead of the effective date.</p> <p>News reports and social media activity centred on the cabinet's decision to progress the amendments to the APA and refer them to Parliament.</p>

<b>October 2018</b>	<p>We presented the Annual Report, leading to public discourse that we required funding for additional investigators. In the days that followed, questions arose around our effectiveness, given our resource restraints.</p>
<b>December 2018</b>	<p>The Deloitte hearing into African Bank resumed.</p> <p>Cabinet approved the amendments to the APA for a referral to the Parliamentary process.</p>
<b>January 2019</b>	<p>As a result of the ongoing broadcast of the Zondo Commission, there was public criticism about the perceived lack of speed from the regulator in acting against accountants and auditors.</p>
<b>February 2019</b>	<p>The market sentiment turned positive as the IRBA was seen to be acting on restoring confidence in the auditing profession through the amendments to the APA.</p>
<b>March 2019</b>	<p>Negative sentiment increased as a result of delays to the APA amendment process.</p>
<b>April 2019</b>	<p>The market reacted positively to the release of up to date statistics on voluntary early rotation of audit firms.</p>
<b>June 2019</b>	<p>Media coverage was driven by the unfolding Tongaat Hulett's reporting crisis and resulted in significant social media commentary on the state of the profession.</p>
<b>October 2019</b>	<p>Reporting is positive around the IRBA's initiatives and its efforts to restore confidence and reaches a new high in volume of positive reports over the preceding 12 months.</p>

# Our Organisational Outlook

Our country has a serious skills deficit, and this is affecting economic growth. To improve this situation, all organisations need to play an active role. As the IRBA, we are committed to strengthening the training of auditors so that the process incorporates competencies that will respond to the demands of the 4th Industrial Revolution, among others. With regard to stimulating economic growth, we are also looking at ways to help boost investor confidence. The IRBA is cognisant of these priorities and seeks to embed them in the new strategy that will be developed within the upcoming year.

In the context of the audit profession, loss of investor confidence has been attributed to numerous audit scandals that continue to unfold. We have rolled out the Restoring Confidence Strategy to resuscitate our financial markets, which continues to be tainted by audit scandals, particularly among listed companies.

Moreover, the recent debacles in the auditing profession have highlighted some of the gaps in our auditing legislative framework. As such, Parliament has indicated that the amendments to the APA would be considered urgently within the upcoming year. This urgency was mainly fuelled by the issues that surfaced at companies such as EOH Limited, Ayo Technologies, Tongaat Hulett and Resilient REIT, where the role of auditors has been questioned by the public.

As part of the Restoring Confidence Strategy, we will prioritise the implementation of the following measures:

- Transparency reporting for major audit firms;
- Developing AQIs;
- Strengthening our oversight;
- An increase in the level of sanctions; and
- The adoption of the International Code of Professional Conduct.

Restoring confidence in the auditing profession will require us to enhance our capacity, particularly in relation to the prosecution of high-profile cases which will require additional funding. We will prioritise the adoption of a new funding model within the financial year in order to address the financial constraint we currently face.

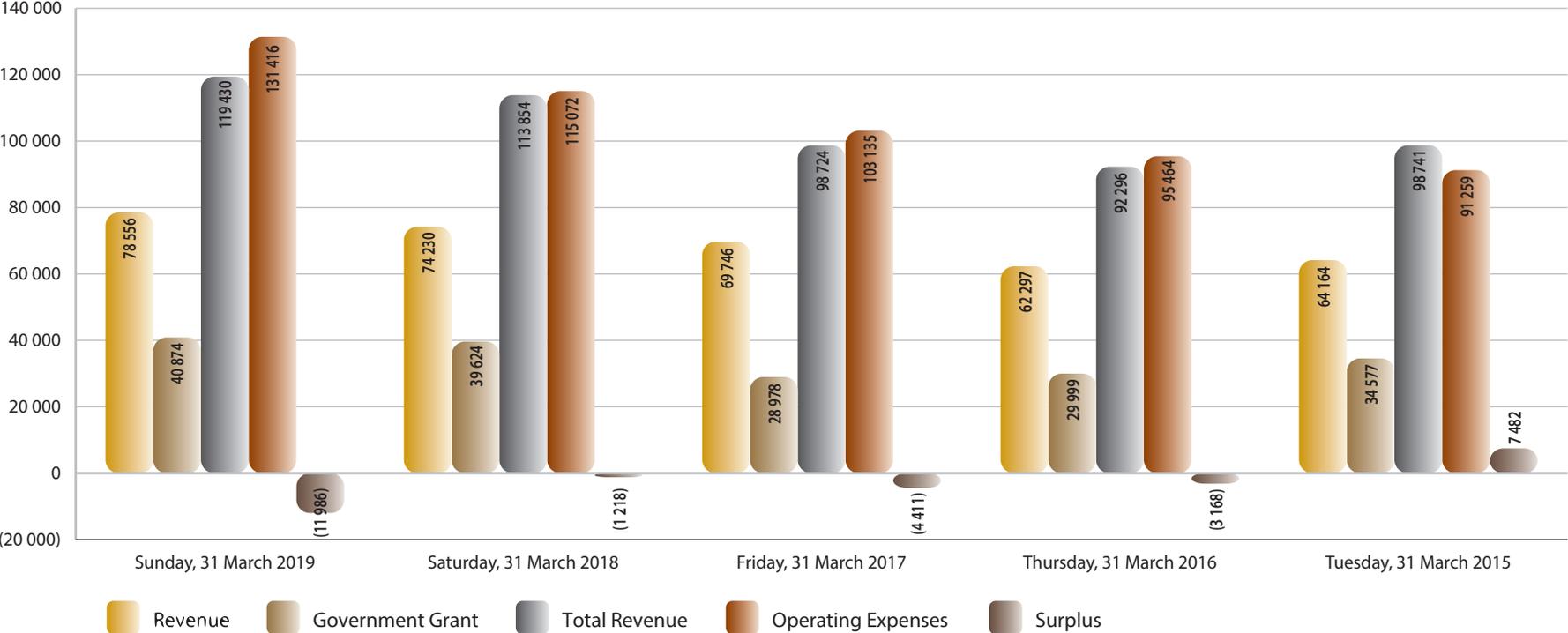
Meanwhile, we see the profession's launch of the South African Audit Profession Trust Initiative (SAAPTI) as a positive step. This is a voluntary initiative that has been established by the audit profession of South Africa. Its mandate is to identify proactive responses to the concerns that are prevalent in the local financial markets, including the role of the profession in adding value to such markets. The initiative has also been tasked with recommending an appropriate responsive plan that will lead to rebuilding trust in the auditing profession, and then ensuring that the plan is appropriately executed.

As we draw closer to April 2023, we will be focusing on monitoring the implementation of MAFR and liaising closely with audit committees and auditors. We anticipate a surge in the number of companies that will be rotating auditors within the next financial year.

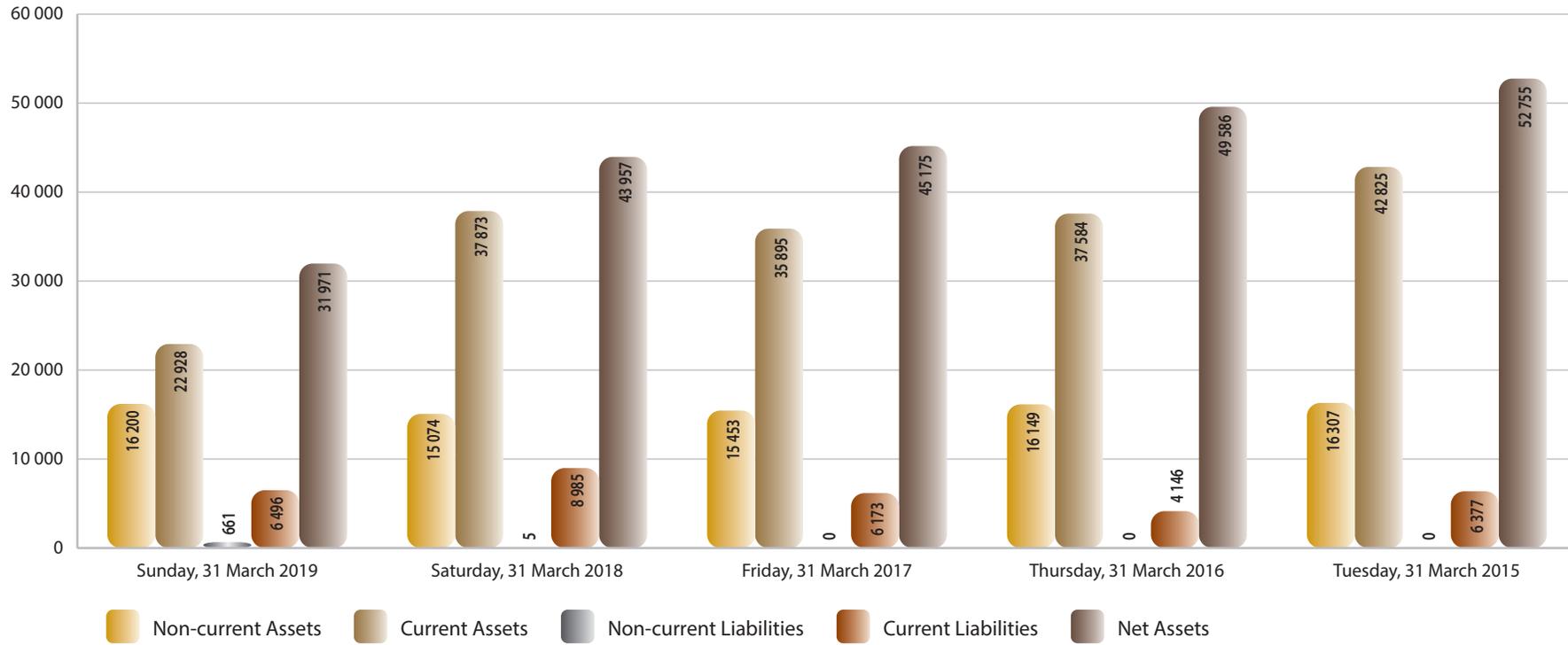
Finally, we remain positive that there will be a turnaround in the current negative sentiment towards the profession, and that the initiatives from all stakeholders, working collaboratively, will restore the confidence and trust in our profession and the financial market.

# Our Financial Highlights

## FINANCIAL PERFORMANCE



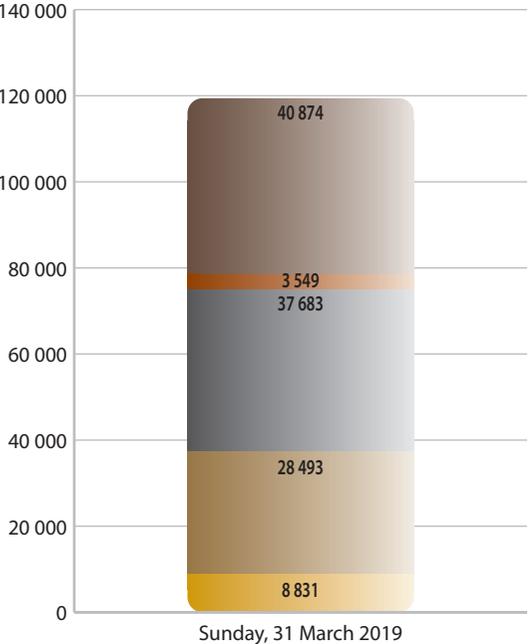
## FINANCIAL POSITION



# Our Financial Highlights (continued)

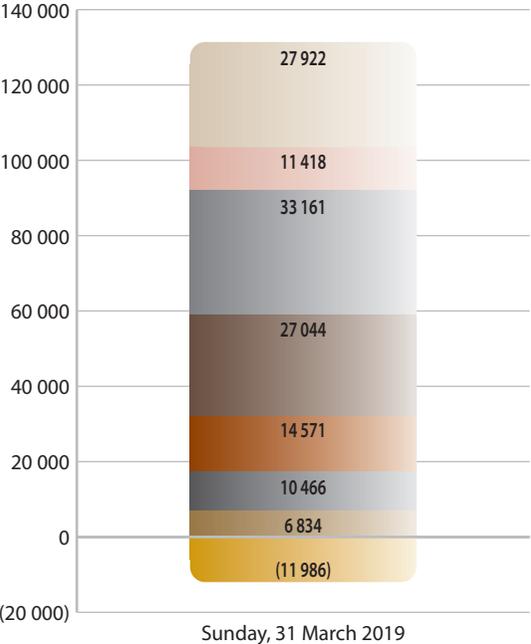
## APPLICATION OF FUNDS

### INCOME SOURCE



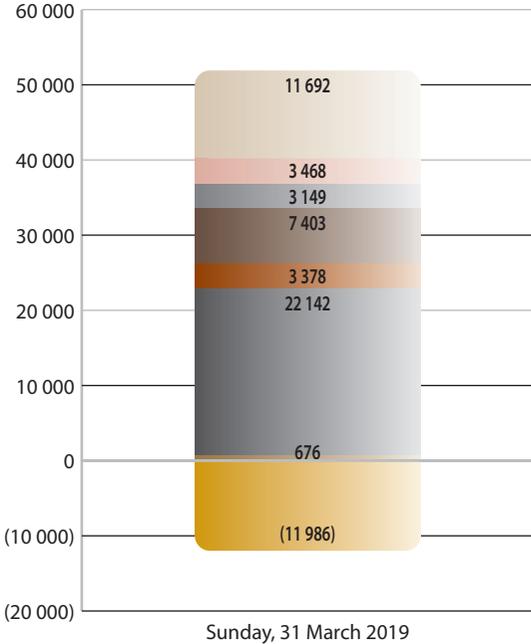
- Government Grant
- Other
- Audit Firms
- Registered Auditors
- Training and Students

### FUNCTION



- Surplus
- Infrastructure and Support, including ICT
- Executive and Governance
- Legal and Registration
- Inspection
- Investigations
- Standards and Ethics
- Education and Transformation

### ACTIVITIES



- Surplus
- Other Costs
- Board and Statutory Committees
- ICT
- Facilities
- Fixed Term/Relief Staff
- Enforcement Costs
- Raising Awareness and Branding

# List of Abbreviations

<b>ABASA</b>	Association for the Advancement of Black Accountants of South Africa
<b>ADP</b>	Audit Development Programme
<b>ACFE</b>	Association of Certified Fraud Examiners
<b>AFIAAR</b>	African Forum of Independent Accounting and Auditing Regulators
<b>AGSA</b>	Auditor-General South Africa
<b>APA</b>	Auditing Profession Act, 2005 (Act No.26 of 2005)
<b>ARMCO</b>	Audit and Risk Management Committee
<b>AWCA</b>	African Women Chartered Accountant
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>CA (SA)</b>	Chartered Accountant (South Africa)
<b>CA Charter</b>	Chartered Accountancy Profession Charter
<b>CFAE</b>	Committee for Auditor Ethics
<b>CFAS</b>	Committee for Auditing Standards
<b>CIPC</b>	Companies and Intellectual Properties Commission
<b>CPD</b>	Continuing Professional Development
<b>DAC</b>	Disciplinary Advisory Committee
<b>DISCOM</b>	Disciplinary Committee
<b>EDCOM</b>	Education and Transformation Committee

<b>FIC</b>	Financial Intelligence Centre
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IAESB</b>	International Accounting Education Standards Board
<b>ICT</b>	Information and Communication Technology
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IFAC</b>	International Federation of Accountants
<b>IFIAR</b>	International Forum of Independent Audit Regulators
<b>INSCOM</b>	Inspections Committee
<b>INVESCO</b>	Investigating Committee
<b>IRBA</b>	Independent Regulatory Board for Auditors
<b>MAFR</b>	Mandatory Audit Firm Rotation
<b>NT</b>	National Treasury
<b>PAFA ACOA</b>	Pan African Federation of Accountants – Africa Congress of Accountants
<b>PFMA</b>	Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
<b>PIC</b>	Public Investment Corporation
<b>PRECCA</b>	Prevention and Combating of Corrupt Activities Act, Act 12 of 2004
<b>SAAPT</b>	South African Auditing Profession Trust Initiative
<b>SARS</b>	South African Revenue Service











**Physical Address:** Building 2, Greenstone Hill Office Park  
Emerald Boulevard, Modderfontein, 1609

**Postal Address:** PO Box 8237, Greenstone 1616

**Telephone:** 087 940 8800

**RP:** 50/2020

**ISBN:** 978-0-621-48170-9

**Title of Publications:** IRBA Integrated Report

**[www.irba.co.za](http://www.irba.co.za)**

