

WEBINAR

Public Inspections Report On Audit Quality

2021

7th Inspections Cycle

Due to the number of participants, the chatbox will be closed, please submit questions to:

PIRlaunch@irba.co.za



Public Inspections Report On Audit Quality – 2021

WEBINAR
7th Inspections Cycle

- Webinar (Format)
- Presenters
- Question submitted via email – Q&A session at the end
- Use & Understanding the Report
- Links to PIR and other relevant information

Agenda

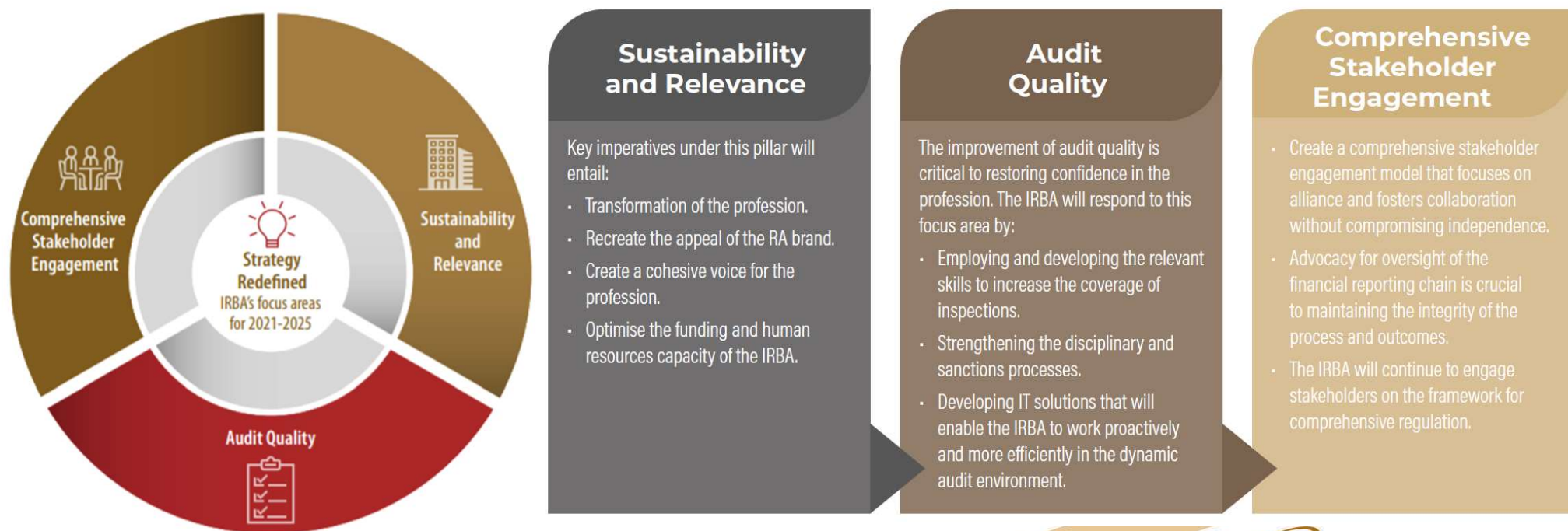
Time	Topic	Presenter	Organisation
14:00	Welcome and introduction to the new IRBA five year strategy	Imre Nagy	IRBA
14:10	Introduction to the report, key themes and results, the 8 th cycle strategy and remedial action results	Ntlambi Gulwa	IRBA
14:30	Deep dive into the results and underlying findings	Marius van der Walt	IRBA
14:45	Remediation strategies and how they assist firms to improve audit quality – achievements and challenges	Pieter Cloete	IRBA
15.00	SAICA and its support for audit quality	Thando Myoli	SAICA
15:15	Open Floor Q&A - Submit questions to PIRlaunch@irba.co.za	Coordinated by Sadhir Issirinarain	IRBA
15:50	Close and thanks	Ntlambi Gulwa	IRBA

The role of the audit regulator

To create an **ethical, value-driven financial sector** that encourages investment, confidence and **protects the financial interests of the public**



Overview of Refocused 5-year Strategy



- Redefined strategic focus areas (2021-2025)

Overview of Refocused 5-year Strategy...

Key restoring confidence projects (RC2.0):

RC2.0
2021-2025
(Strategy backed)



Financial Reporting and Governance Eco-System Gaps (Outside Mandate)



Auditing Profession – Gaps (Within Mandate)



IRBA Gaps
(Internal)

International affiliation

- International Forum of Independent Audit Regulators (IFIAR)
 - Member of Board of Directors
 - Chair of Audit Committee
 - Member of IWWG, IOSWG, SCWG, EWG
- IFIAR Core Principles
 - Independence
 - Risk Based Inspections



About the Report

- Inspections in terms of *Section 47 of the Auditing Profession Act (APA)*
- To provide insights – inspections results
- Objective of the report
- Audit firms to **reflect** on their **systems of quality**
- 3rd year and wrap up of the IRBA's 7th Cycle
- Report includes - analysis of themes, recurring findings and trends

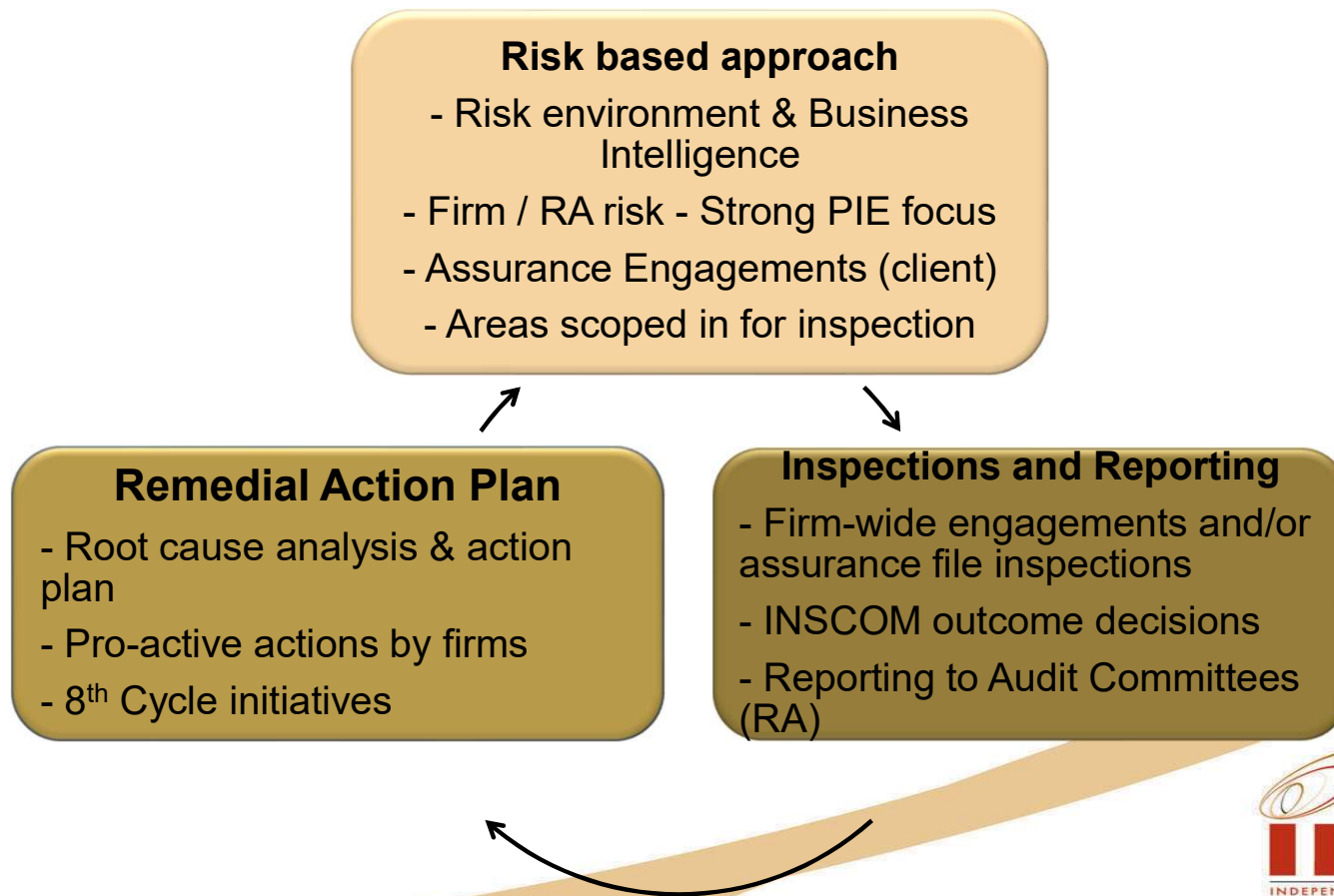


About the Report

- **Stakeholder** awareness and use:
 - Broader audience – financial reporting ecosystem (Audit committees / Directors / Regulators / Investors / Public in general etc.)
 - Understand importance of audit quality, the risks & impact
 - Address gaps in understanding audit & expectations
 - Create **conversation** & engage with their auditors



IRBA Inspections Process



INSCOM

- Composition & members
- Meetings
- Process
- What is considered when deciding on the appropriate outcome of an inspection?



Highlights on Outcomes

- Slight improvement – engagement inspections **2021**
- Concerns noted and reported:
 - Insufficient controls to prevent recurring findings
 - Independence
 - No/insufficient threat identification
 - Inappropriate / no safeguards
- EQCR process ineffective
- The desired improvement not yet achieved
- Ineffective consequence management
- Non-compliance - relevant standards / IRBA Code

Initiatives - 8th Inspection Cycle

- Pro-active in nature
- To eliminate recurring findings
- Cycle -1 April 2021 -31 March 2024
- Include:
 - Theme based inspections – over & above normal inspections
 - Early remediation process
 - Enhanced centralised BI Function database and data analytics for proactive monitoring - Focus on auditor use of technology – new IT inspectors
 - Enhanced stakeholder engagement
 - Enhanced reporting

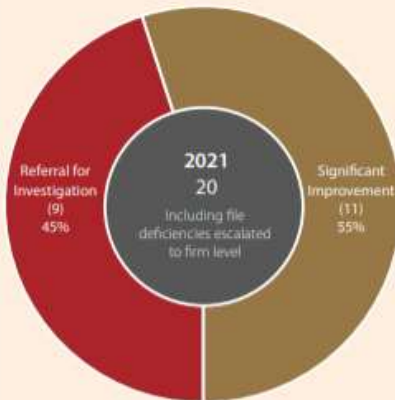
Other Initiatives

- Quality management standards – 15 December 2022
 - Continued discussions – each visit
 - Presentations –detailed plans (progress on implementation)
 - Follow questions
 - IRBA webinar – 15 February 2022
- Audit Quality Indicators
 - Report out soon
 - Data from firms –quantitative –insights on audit quality
 - Use AC or TCWG – audit clients/potential clients
 - Quantitative measures
 - 3rd year - trend

2021 Inspections Results

FIRM-WIDE INSPECTIONS

7 ISQC 1 and 13 Firm Observation Reports issued



COMMON FINDINGS

- Engagement performance (77%)
- Ethical Requirements (13%)
- Leadership Responsibilities (3%)
- Acceptance & Continuance (3%)
- Human Resources (2%)
- Monitoring (2%)

Recurring deficiencies throughout the 7th Inspections Cycle remains an area of concern for the IRBA.

Refer to initiatives adopted by the IRBA in the 8th Inspections Cycle Manual. ([IRBA Manual of Information \(April 2021\)](#))

Reasons for referral of firms

- Ethics & Independence
- Overall poor systems of quality control
- Nature and extent of file deficiencies.

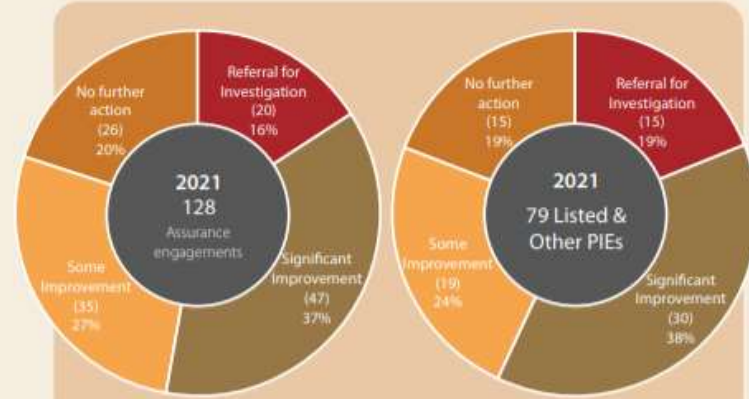
ASSURANCE ENGAGEMENT INSPECTIONS



COMMON FINDINGS

- Audit of FSL's (54%):
 - Revenue (11%)
 - Goodwill (4%)
 - Trade & other receivables (4%)
 - Audits of Groups (4%)
- Financial Statement Presentation and Disclosure (29%)
 - Material misstatements (3%)
 - Disclosure deficiencies (7%)
 - Review of Financial statements (19%)
- Audit planning (6%)
 - ROMM (3%)
 - Acceptance & continuance (2%)
- Audit Completion (8%)
 - Audit documentation (3%)
 - Evaluation of misstatements & materiality (2%)
- Audit report and auditor's opinion (3%)
 - Content / format (2%)
 - Key Audit Matters (1%)

JSE ACCREDITED AUDIT FIRMS

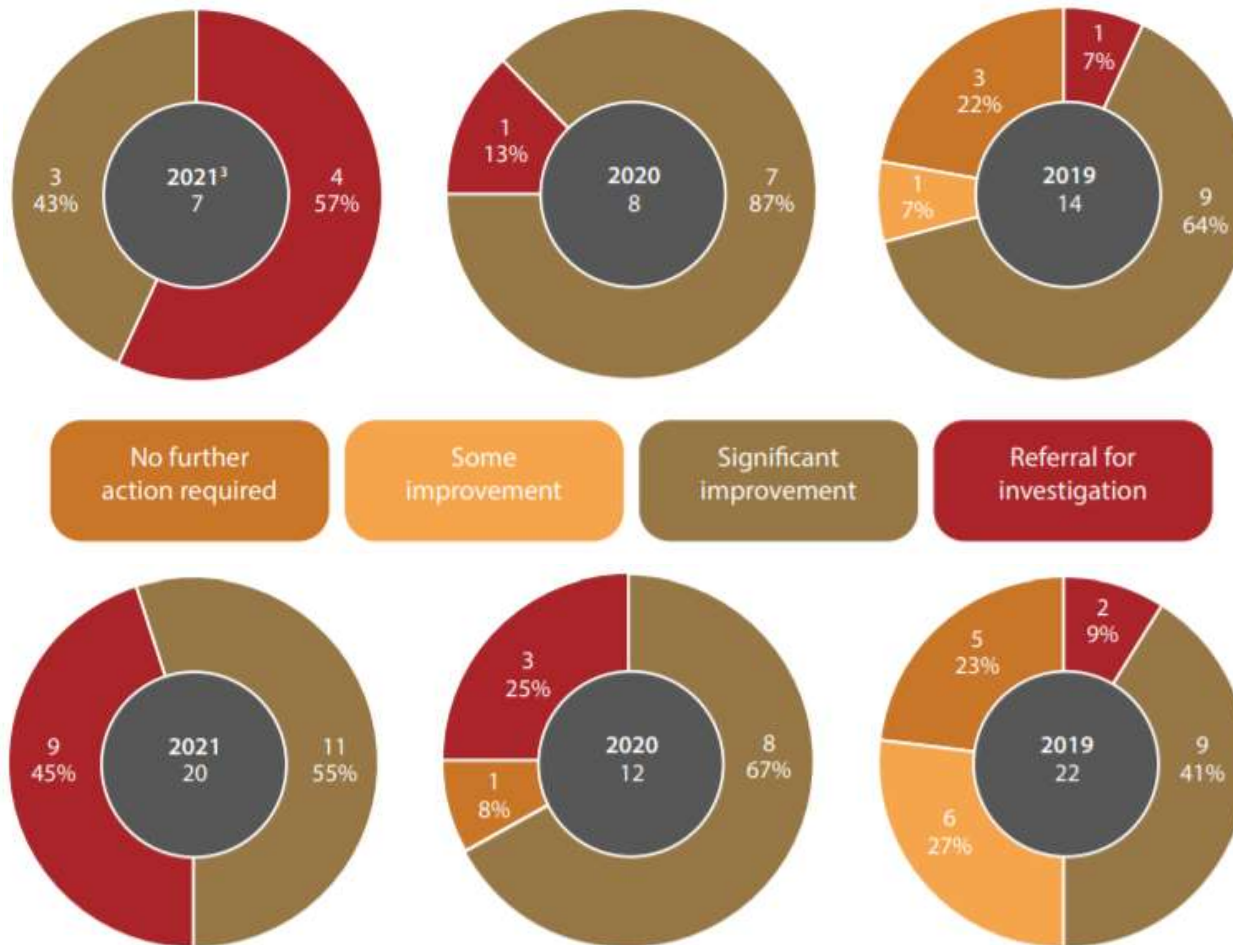


In 30% of the inspection findings, there is an underlying deficiency relating to areas requiring auditor judgement and the lack of professional scepticism.

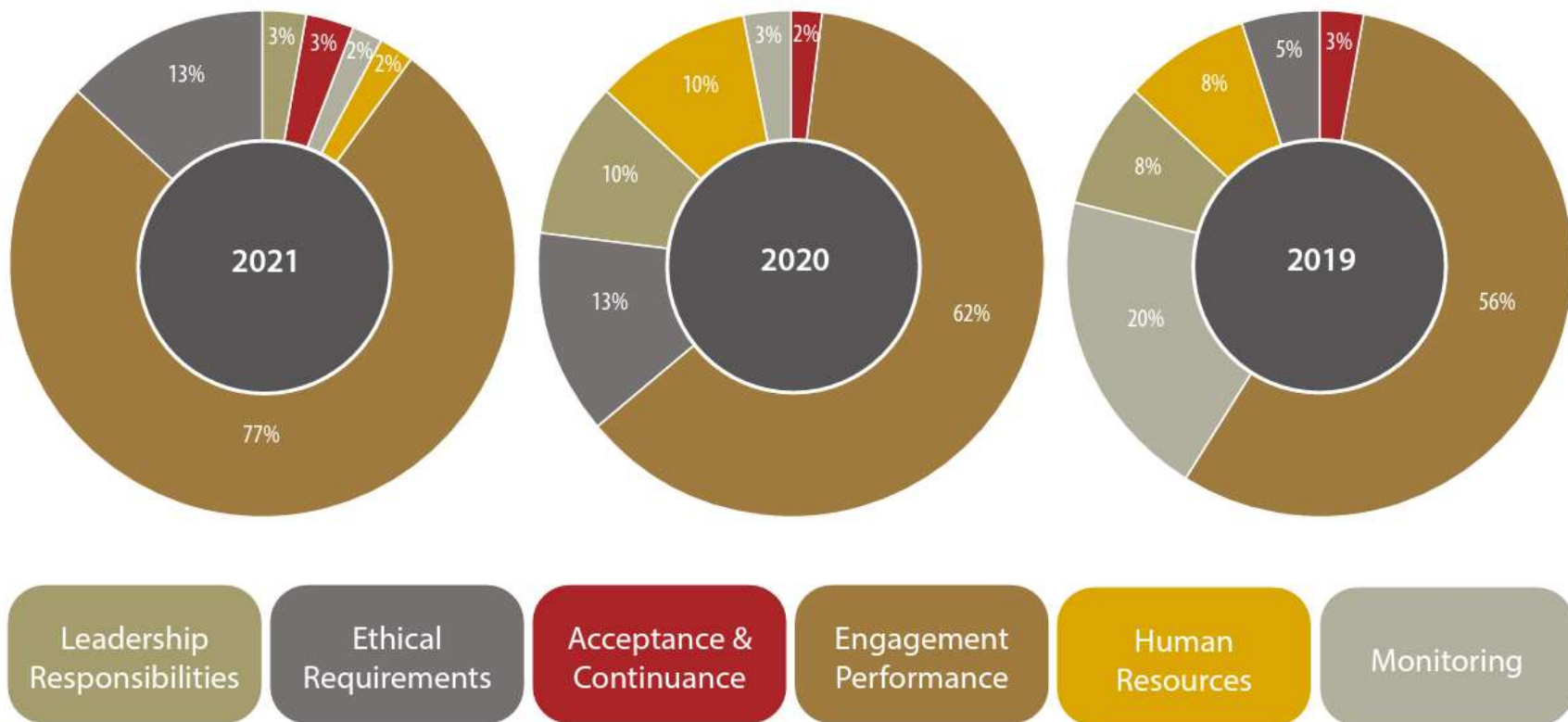
REASONS FOR REFERRALS OF RAs

- Independence
- Material misstatements, resulting in an inappropriate audit opinion
- Fundamental lack of audit evidence

Firm Inspections and File Escalations: ISQC 1



Firm Inspections and File Escalations: ISQC 1



Assurance Engagement Inspections

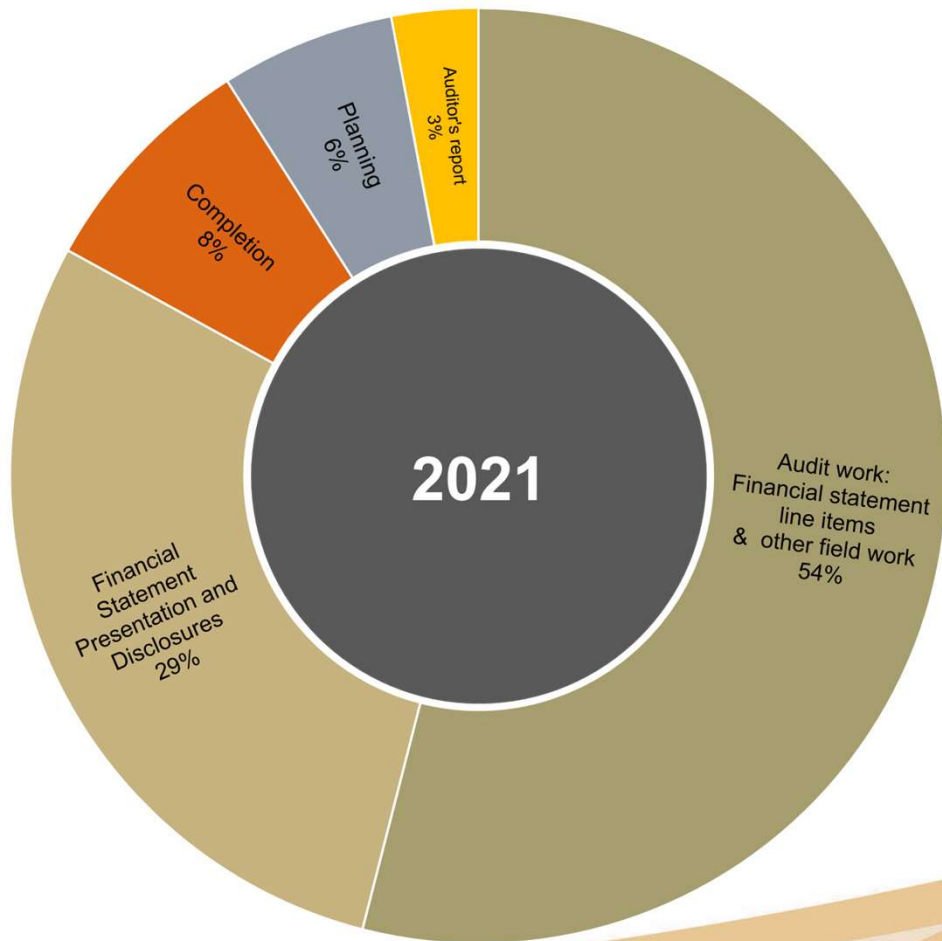
ASSURANCE ENGAGEMENT INSPECTIONS



JSE ACCREDITED AUDIT FIRMS



Assurance Engagement Inspections



Areas involving significant auditor judgement 30%

Significant accounting estimates & judgements (14%):

- Consolidation
- Measurement / Valuation of Assets
- Classification

Other areas (16%):

- Acceptance & Continuance
- Evaluation of Misstatements & Materiality
- Sampling

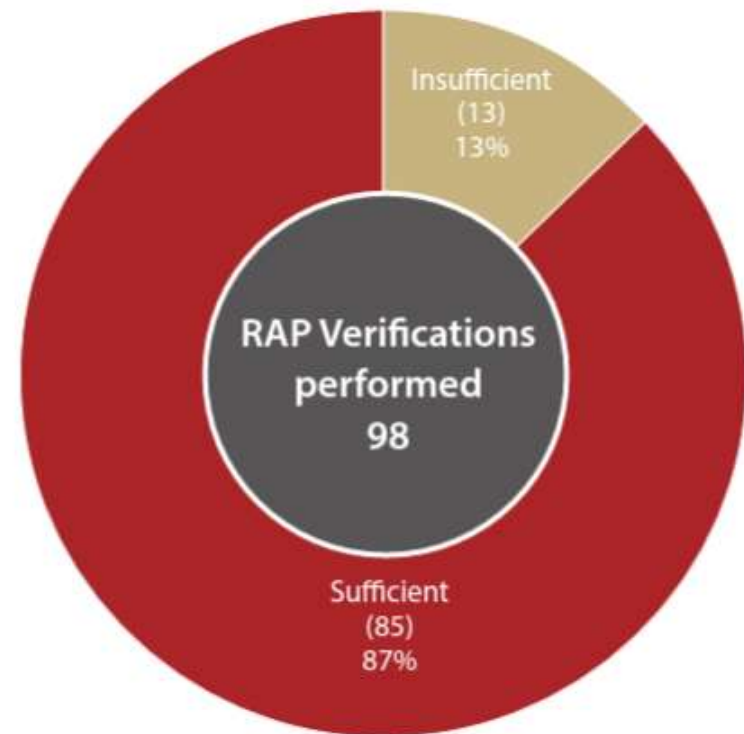
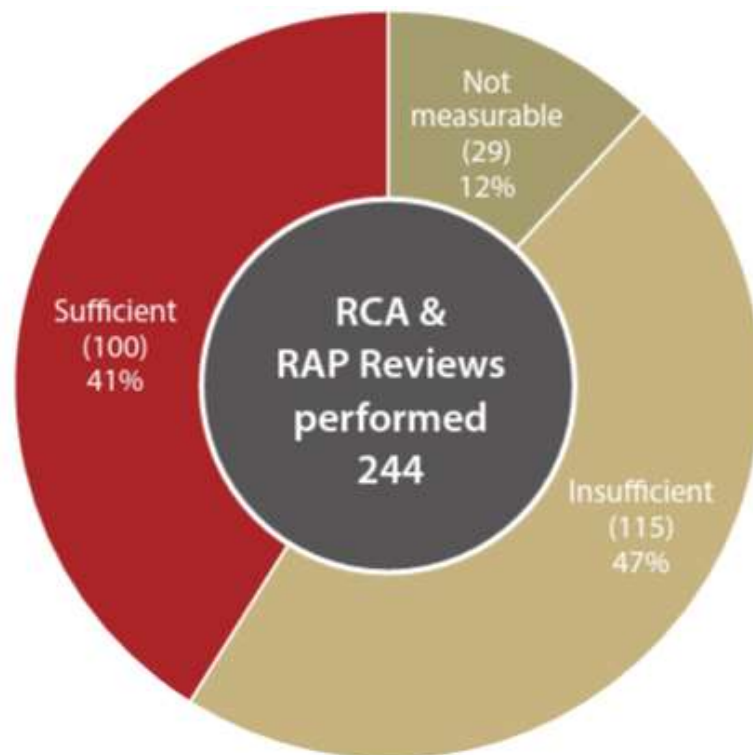
Reasons for referral:

- Independence
- Material Misstatements
- Fundamental lack of audit evidence

Remedial Action Process

- Why?
- Firms, practitioners and the Regulator play an important role in the achievement of shared objectives to **improve audit quality** and **serve the public interest**.
- Integral part of the new Quality Standards:
 - 35. The firm shall establish a monitoring and remediation process to: (Ref: Para. A138)
 - (b) Take **appropriate actions** to respond to **identified deficiencies** such that deficiencies are **remediated on a timely basis**.
- Assess deficiencies / Brainstorm with TEAM / Tools / Root cause / Action plan / Time / Responsibility
- **Risk:** *recurrence of noted deficiencies*

Remedial Action Process



Thematic deficiencies – 7th cycle

Remedial Action Process

Top 2 referrals to Investigations remains:

- **Cashflow**
- **Possible reasons for a Re-occurrence:** Traditionally low risk area / Lack of senior team member supervision & review / Audit software - Auto population of the SOCF
- **Most Likely Root Causes Identified by Firms:** Allocated to inexperienced members / IAS 7 requirements not implemented and executed
- **How Rectified By Most Firms:** Enhanced review / updated guidance and practical training
- **SUAD**
- **Possible reasons for a Re-occurrence:** Firm tools and processes not appropriate / Insufficient remediation and monitoring
- **Most Likely Root Causes Identified by Firms:** Lack of senior level involvement and review / Lack of knowledge and training
- **How Rectified By Most Firms:** Enhanced involvement and review by seniors / Practical training

Remedial Action Process

The 5 WHY's

"Reportable deficiency": Everyday example: **I was late for my meeting**

Why 1:

Why was I late for my meeting?

Answer 1: I was stuck in traffic

Why 2:

Why was I was stuck in traffic?

Answer 2: I overslept

Why 3:

Why did I oversleep?

Answer 3: My alarm did not go off

Why 4:

Why did my alarm not go off?

Answer 4: I did not change the batteries.

Why 5:

Why did I not change the batteries?

Answer 5: I did not monitor the low battery indicator

The true root cause:

Through 5 WHY'S analysis tool: *I did not monitor the low battery indicator to change the batteries, that is why I was late for my meeting*

Refer **PIR** for detail use of the tool on **Journals**

Remedial Action Process

In conclusion:

- Audit – WCGW
- Remediation – WWW
- Rectify (**ALL** applicable files) – Identification of true root causes through RCA and implementation of remedial action plans (Remember **RISK** of recurrence)
- Assurance FAQ (SAICA)
- Importance of **sufficient and appropriate documentation** for re-performance
- Importance of information and IT – REFER: **Non-authoritative Support Material Related To Technology: Frequently Asked Questions (FAQ) on Audit Planning (IAASB)**

For more information

- [7th Inspections Cycle Strategy and Process \(Version 1.2\).](#)
- [2020 Public Inspections Report.](#)
- [2019 Public Inspections Report.](#)
- [IRBA Strategic Plan 2016-2021.](#)
- [IRBA Strategic Plan 2021-2025.](#)
- [IRBA Manual of Information \(April 2021\) - 8th Inspections Cycle Strategy and Process -](#)
- Imre Nagy, Acting CEO – inagy@irba.co.za
- Ntlambi Gulwa, Acting Director: Inspections – ngulwa@irba.co.za
- Marius van der Walt, Financial Reporting Manager - MvdWalt@irba.co.za
- Pieter Cloete, Remedial Action Manager – pcloete@irba.co.za

Please email questions to the moderators at PIRlaunch@irba.co.za

QUESTION AND ANSWER SESSION