



## **2021-2025 STRATEGIC PLAN**

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### **MID-TERM PROGRESS REPORT**

## **EXECUTIVE AUTHORITY STATEMENT**

The auditing profession has faced many challenges recently, and these have led to the questioning of auditors' integrity both locally and globally.

Still, auditors remain a key stakeholder in protecting the interests of the investing public and are a link in attracting much needed investments to the country. To grow and create jobs, our economy relies on the integrity of our economic markets and financial services industry. As a consequence, regulators and governments, worldwide, are looking at the developments within the auditing profession with a keen eye.

The Independent Regulatory Board for Auditors' (IRBA) Strategic Plan for 2021-2025 aims to assist with restoring confidence and enhance the status of the auditing profession in the country. The implementation of the various initiatives within the Restoring Confidence project will continue for the next few years, while the regulator and the profession navigate the current challenges.

Locally, we have to work hard to return to our high global ranking status as a country and as the auditing profession.

I would like to thank the Board and the management of the IRBA for their commitment to rebuilding trust in the profession and for considering this fundamental role in the development of the latest strategy.

Restoring confidence in the auditing profession will take collective courage and commitment from all stakeholders. As the Executive Authority, I support this mid-term progress report on the IRBA's activities and provide my commitment to ensuring further implementation drives.

**Minister of Finance**

## **ACCOUNTING AUTHORITY STATEMENT**

The Board, which is the IRBA's Accounting Authority, participated in and guided the strategic planning process, while being mindful of local and global developments in the auditing profession, particularly those that have occurred since June 2017. These developments include various business failures, corporate corruption scandals, capital market losses and reputational damage to the accounting and auditing profession. The Board also considered the economic, political and financial sector developments since 2018, as well as the future outlook for the auditing profession and regulation. Against this backdrop, we have also been reminded of one of the state's priorities, which is to "clean up" the financial sector.

As such, the Board has identified a number of policy priorities that it wishes the IRBA executive to address. These are aligned to the public and national interests and are aimed at ensuring the sustainability and relevance of the profession and the regulator.

The IRBA's mandate comprises:

1. Setting competency requirements for auditors;
2. Issuing standards and a code of ethics; and
3. Monitoring compliance and disciplining auditors, when necessary.

The execution of this mandate promotes that the financial interests of investors are protected and high-quality audits are delivered, which, in turn, provides confidence in and reliance on financial statements and consequential investment. Ultimately, investment stimulates the financial markets and creates employment, which is a national imperative for the country.

Therefore, while the IRBA's mandate is limited to protecting the investing public, an outcome of the successful execution of its mandate will ultimately benefit the wider public.

The Board endorses this mid-term progress report on the 2021-2025 Strategic Plan.

**Fulvio Tonelli**

**Chairperson**

## **PART A: OUR MANDATE**

### **1. CONSTITUTIONAL MANDATE**

The IRBA subscribes to the principles of co-operative government and inter-governmental relations. It is independent and subject to the Constitution and the laws of the Republic of South Africa. As an independent regulator, it must be impartial, exercise its powers and perform its functions without fear, favour or prejudice, and always do so in the public interest.

Independent regulation of the auditing profession by the IRBA results in:

- A positive impact on the auditing profession through inspections, standard setting and ethical requirements.
- Monitoring of audit quality, which enables it to identify weaknesses, risks and challenges in the profession.
- Taking action against registered auditors found guilty of improper conduct.
- Participation in global standard-setting and oversight activities, to maintain an objective and independent approach to standard setting and regulation. This is to respond to identified weaknesses in auditing standards in order to strengthen these standards.
- Educating stakeholders on the role of auditing and auditors in contributing to a positive effect on capital markets, ensuring that investors' trust in the independence of auditors and the strength of regulation are enhanced.

#### **Constitutional Principles**

For the IRBA to achieve its constitutional mandate, maintaining its sustainability, relevance and audit quality is critical. Therefore, the regulator commits to the following relevant constitutional principles:

- Ensuring that the IRBA is effective, transparent and accountable.
- Respecting the constitutional status, institutions, powers and functions of government in other spheres.
- Exercising its powers and performing its functions in a manner that does not encroach on the geographical, functional or institutional integrity of government in another sphere.
- Co-operating with other government departments and institutions in mutual trust and good faith by fostering friendly relations as well as assisting and supporting these entities, as allowed within the limitations of the Auditing Profession Act 26 of 2005, as amended.
- Informing other regulators, institutions and government entities of, and consulting with them on, matters of common interest.
- Co-ordinating its actions and legislation with others.
- Adhering to the Public Finance Management Act.
- Ensuring that in the procurement of goods or services, it does so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective.

**2. LEGISLATIVE AND POLICY MANDATES**

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

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

The regulator continues to support the national initiative regarding transformation, in relation to its employment and procurement policies. It also takes advantage of opportunities to appoint and procure the services of women and people with disabilities, with more efforts being needed to obtain more resources from the latter target group.

The Strategy addresses the IRBA’s mandate with reference to two programmes:

- Programme 1: The current mandate, which arises from the Auditing Profession Act, as amended; and
- Programme 2: The extended mandate, which includes sub-programmes that are designed to co-ordinate specific interventions to address issues and challenges in the profession, in the current economic environment and in response to government’s priorities for economic growth. These proposed interventions for 2021-2025 will allow the IRBA to contribute significant added value to government’s efforts to grow the economy, while also being critical success factors in support of delivering effectively on its own primary mandate.

**3. INSTITUTIONAL POLICIES AND STRATEGIES GOVERNING THE FIVE-YEAR PLANNING PERIOD**

**3.1. National Development Plan (NDP) (2011)**

The IRBA is subject to and complies with the NDP, which is government’s long-term vision for the country. The plan provides a broad strategic framework to guide key government choices and actions, and it also focuses on the critical capabilities needed to transform the economy and society.

Therefore, the IRBA must support government’s policy objectives. Although it is not in a position to contribute to all of these, there are some outcomes in which it can play a role, as noted below.

Outcome and Government Priority Information	How the IRBA Can Contribute to the Selected Outcome
1. Improved quality of basic education	The IRBA has engaged with government departments that are responsible for basic and higher education to address the issue of maths literacy. While this is more relevant to the financial industry, it could also improve higher education, and that will, in turn, influence the quality of overall education.
4. Decent employment through inclusive growth	The regulator has no direct effect on job creation. Its indirect impact is by creating a stronger economic environment through building confidence in, and reliance on, audit reports issued by registered auditors. Confidence attracts investment and investment creates employment.

5. A skilled and capable workforce to support an inclusive growth path	The IRBA provides an appropriate framework for the qualification, education and training of auditors as well as their ongoing competence, including the training of registered candidate auditors through the Audit Development Programme (ADP). Also, its transformation initiatives ensure that equal opportunities are provided for anyone to enter the auditing profession.
6. An efficient, competitive and responsive economic infrastructure network	<p>High-quality audits have a direct impact on the credibility of the financial markets through the provision of reliable information, which provides confidence to investors to do business in SA. As such, the existence of a strong, independent and internationally respected audit regulator is essential in achieving government's objectives.</p> <p>Additionally, the implementation of the Mandatory Audit Firm Rotation rule that becomes effective on 1 April 2023 will contribute towards a more competitive audit environment.</p>
9. A responsive, accountable, effective and efficient local government system	<p>The competencies in the accounting and auditing profession can contribute towards strengthening governance and accountability in local government.</p> <p>The Auditor-General South Africa has now placed trainees on the ADP.</p>
10. Environmental assets and natural resources that are well protected and continually enhanced	<p>The regulator has been an active role-player in developing standards that contribute to the promotion of sustainability projects and strategies.</p> <p>It also continues to play a role in emerging forms of external reporting, both locally and globally.</p>
11. Create a better South Africa and contribute to a better and safer Africa and world	<p>Our objectives include creating a framework and principles to contribute to the protection of the public, who rely on the services of registered accountants and auditors that carry out their duties competently, fearlessly and in good faith.</p> <p>A particular strategic focus is also placed on the enhancement and improvement of overall reporting, governance and regulatory practices on the African continent, and has resulted in South Africa becoming a founding member of the African Forum of Independent Accounting and Auditing Regulators.</p> <p>Consequently, the IRBA's focus is not only to stay abreast of international developments in the auditing profession, but also to influence developments through active participation.</p>
12. An efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship	The regulator continues to support government through the use of strategies and processes that are derived from its own efficiencies and knowledge.
13. A comprehensive, responsive and sustainable social system	<p>Our role in the greater economy is to create continuing value, as an embedded protector of confidence in the sustainability of the system, thereby contributing to the protection of the South African public.</p> <p>The ultimate introduction of a comprehensive regulatory model, together with the IRBA's strategic focus on being a responsive, proactive and relevant</p>

	regulator, will contribute towards an all-inclusive, responsive and sustainable social system.
14. A diverse, socially cohesive society with a common national identity	The regulator is influencing the advancement of transformation in the profession and within the organisation through its employment and recruitment policies as well as its procurement practices.

### 3.2 NDP Five-Year Implementation Plan

This plan provides a medium-term roadmap that will form the basis for developing five-year institutional plans that will guide the realisation of NDP priorities. It is compiled in accordance with the Revised Framework for Strategic Plans and Annual Performance Plans<sup>1</sup>, which was introduced by the Department of Planning, Monitoring and Evaluation to further improve government planning systems and processes, as well as institutionalise development planning in government and public entities.

### 3.3 IRBA Strategy to Restore Confidence in Support of the NDP

#### 3.3.1 Goal

The goal is for the IRBA to be seen as an effective and impactful regulator that can influence the behaviour of auditors and other role-players in the financial reporting system to:

- Increase audit quality;
- Improve ethics and independence; and
- Increase the quality and transparency of audit firm practices.

#### 3.3.2 Strategy

To be a regulator that uses its voice and position to:

- Increase audit quality through its monitoring;
- Educate shareholders, users and the public on the audit product, quality and improvement initiatives/measures; and
- Act swiftly to discipline and apply sanctions to errant auditors.

Therefore, strategically, the IRBA must advance those activities, projects and engagements that contribute to restoring the reputation of auditors and accountants. In addition, it must use its voice and media profile to share achievements in a way that will restore confidence in the relevance of audit, audit quality as well as the integrity and ethics of the professionals.

#### 3.3.3 Objectives

- Build credibility for the IRBA as a proactive regulator and for the profession as a whole (accounting and auditing).

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<sup>1</sup> Replaces the Framework for Strategic Plans and Annual Performance Plans (2010).

- Demonstrate relevance and responsiveness (to changes/market expectations) by initiating improvements.
- Increase audit firm transparency.
- Align auditor behaviour and integrity with ethics requirements.
- Improve the quality of audit opinions and audits, and address investor expectations.
- Manage the public's (private and public sectors) expectations in the auditor's role.
- Promote stability and growth in capital markets.



## **PART B: OUR STRATEGIC FOCUS**

### **1. VISION**

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

### **2. MISSION**

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

### **3. VALUES**

As the overall custodian of the auditing profession in South Africa, the IRBA acknowledges the importance of the mandate assigned to it by Parliament, and all its registrants and staff subscribe to the core values that are briefly highlighted below.

#### **3.1. Independence, Integrity and Objectivity**

It is imperative that we are not just independent of the auditing profession in our composition and membership, but also reflect independence in the perception of our key stakeholders through our actions and behaviour. Therefore, it is important that we act with integrity and objectivity in our deliberations, decisions and actions.

#### **3.2. Commitment to Public Interest**

We recognise the scope and extent of our mandate in respect of both the public and the profession; and undertake to execute and deliver on this mandate with diligence and commitment, in terms of our vision.

#### **3.3. Transparency and Accountability**

As a public entity in the overall delivery structure of the South African government and a beneficiary of public funds, we promote transparency in our interactions with the relevant stakeholders; and we also recognise our accountability to the Parliament of South Africa and the Minister of Finance as our Executive Authority.

## **PART C: MEASURING OUR PERFORMANCE**

### **1. IMPACT STATEMENT**

Confidence and trust in the financial markets through high-quality audits and ethical behaviour, which will stimulate economic investment, create employment and protect the public.

## 2. PROGRESS ON THE ACHIEVEMENT OF OUTCOMES

### 2.1 Table of Outcomes, Indicators and Targets

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
High-quality audits	Target dates met for issuing audit pronouncements, audit reports and comment letters.	85% of target dates met	100% of target dates achieved. Target: 10 Actual: 10 Achieved: Yes	Target: 17 Actual: 17 Achieved: Yes	85% of target dates met	100% of target dates met	Committee for Auditing Standards Project Timetable	
To provide auditors with a Code that is consistent with International Codes and one that enables the IRBA to take disciplinary action, where necessary	Target dates met for issuing additional guidance on ethical issues, comment letters and Code amendments.	85% of target dates met	100% of target dates achieved. Target: 6 Actual: 6 Achieved: Yes	Target: 5 Actual: 5 Achieved: Yes	85% of target dates met	100% of target dates met	Committee for Auditor Ethics Project Timetable	
To ensure that the environment is conducive to the development of audit competence	The number of monitoring visits completed.	40 visits	Target: 40 Actual: 44 Achieved: Yes	Target: 42 Actual: 46 Achieved: Yes  <i><u>Explanation for the deviation:</u> The actual is above target, due to additional visits performed to finalise Portfolios of Evidence (PoEs) for Recognised Prior Learning</i>	42 visits	12 visits	ADP monitoring visit reports and acknowledgement of the monitoring visit letter from the firm	

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
				<i>candidates who submitted PoEs. This also includes revisits that had to be conducted based on the monitoring intensity outcomes for firms already inspected.</i>				
To ensure compliance with the Accreditation Model	The number of Final Monitoring Reports (FMRs) to be submitted to the accredited professional body within 10 working days after the Education and Transformation Committee's (EDCOM) third quarterly meeting.	1 report	Target: FMRs submitted within 10 working days of the EDCOM's Q3 meeting, which was on 19 November 2020, while the target date was 3 December 2020.  Actual: FMRs were submitted to the South African Institute of Chartered Accountants (SAICA) on 3 December 2020.  Achieved: Yes	Target: Submit the FMRs to SAICA by 9 December 2021, after the EDCOM's approval, which was on 25 November 2021.  Actual: FMRs were submitted to SAICA on 8 December 2021.  Achieved: Yes	2 reports	N/A	FMRs approved by the EDCOM	
Increased awareness of the registered auditor	The number of IRBA	6	Target: 6  Actual: 17	Target: 8  Actual: 12	8	2 initiatives	Transformation reports submitted to the EDCOM	

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
profession among Black trainees	transformation initiatives held.		Achieved: Yes  <i>Explanation for the deviation: Synergies created with the ADP Reloaded projects and greater engagement with transformation stakeholders presented opportunities for additional initiatives.</i>	Achieved: Yes  <i>Explanation for the deviation: The actual is above target and this is due to additional stakeholder engagements.</i>				
To ensure that registered auditors are complying with the Continuing Professional Development (CPD) Policy	Analysis of the CPD monitoring results.	2 CPD monitoring reports	Target: 2 Actual: 2 Achieved: Yes	Target: 2 Actual: 2 Achieved: Yes	2 CPD monitoring reports	0 report	CPD monitoring report	The CPD reports will be prepared in Q3.
Compliance of firms (including their individually registered auditors) with the auditing and ethics standards	The number of planned inspections completed.	128 inspections	Target: 128 inspections Actual: 125 inspections performed Achieved: No	Target: 121 Actual: 121 Achieved: Yes	105 Inspections	55 inspections	Inspections Plan	To improve on staff retention and recruitment practices for the Inspections department. An appropriate vacancy factor is now incorporated in the planned inspections

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
			<p><i><u>Explanation for the deviation:</u> The target was based on a pre-COVID-19 scenario. The national lockdown adversely affected the Inspections Department's capacity and timeframes during the first two quarters. It similarly had an adverse impact on the firms' abilities to access and submit information, causing delays and the rescheduling of a number of planned inspections.</i></p>					<p>and the targets to also consider the complexities and size of files in the industries that are focus areas for the period</p>
<p>Take appropriate action against registered auditors in respect of improper conduct</p>	<p>The number of investigations completed per annum.</p>	<p>64 completed investigations</p>	<p>Target: 91 Actual: 62 Achieved: No</p> <p><i><u>Explanation for the deviation:</u> With respect to the</i></p>	<p>Target: 64 Actual: 79 Achieved: Yes</p> <p><i><u>Explanation for the deviation:</u> We were successful in recruiting</i></p>	<p>To be determined annually in April.</p>	<p>50 investigations</p>	<p>Excel database of matters</p>	

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
			<p><i>plan, 34 matters were completed, 17 were not proceeded with, and 18 planned ones have been tabled before the Investigating Committee and will be completed in the next financial year. The remaining 22 planned matters were not addressed in this financial year, due to insufficient available resources.</i></p> <p><i>Also, 28 matters that were not in the plan were completed in this financial year. Of these, 12 were from the previous financial year and were completed in the current year; and there were 16 additional matters</i></p>	<p><i>additional investigators, which has resulted in more investigations being completed than originally planned.</i></p>				

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
			<i>allocated and completed in the current year, due to a change in resource allocations.</i>					
Disciplinary processes concluded swiftly and costs effectively managed	Disciplinary strategy approved and fully implemented, in line with the implementation plan.	Develop and adopt a disciplinary strategy and an implementation plan.	Target: Development and adoption of a disciplinary strategy and an implementation plan.  Actual: A disciplinary strategy and an implementation plan developed.  Achieved: Yes	Target: Disciplinary strategy implemented, in line with the plan.  Actual: Disciplinary strategy implemented, in line with the plan.  Achieved: Yes <sup>2</sup>	Disciplinary strategy fully implemented and matters scheduled for hearings, in line with the approved plan.	N/A	<ul style="list-style-type: none"> <li>• Approved disciplinary strategy and implementation plan.</li> <li>• The 2021/2022 and 2022/2023 disciplinary strategy implementation plan.</li> <li>• The 2023/2024 approved disciplinary hearing plan.</li> <li>• Quarterly reports to the Enforcement Committee and the Operations Committee/Board on matters scheduled for hearings or finalised.</li> </ul>	
Financial sustainability to	A clean audit report regarding financial	Clean audit report	Target: Clean audit report	Target: Clean audit report	Clean audit report	Clean audit report for the 2021/2022 financial year-end	Audited annual financial statements	

<sup>2</sup> The approved 2021/2022 implementation plan considered the items that were relevant to redefining processes, the capacitation of staff and committee members, compliance with the Auditing Profession Act amendments, and cost savings. Of the 26 planned deliverables, 25 were successfully delivered, while the remaining one has not been delivered on yet, as the opportunity to do so did not arise in the current financial year. Similarly, the approved 2022/2023 implementation plan took into consideration items that are relevant to redefining processes, achieving consistency in disciplinary processes, as well as the continued capacitation of committee members and the management of disciplinary costs.



Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
deliver on the mandate	statements, compliance and performance information.		Actual: Clean audit report Achieved: Yes	Actual: Non-compliance finding on Supply Chain Management (SCM)  Achieved: No  <i><u>Explanation for the deviation:</u> A material finding was raised on the non-compliance of management to prevent the reoccurrence of irregular expenditure.<sup>3</sup></i>				
Increased procurement and effective payments to promote empowered businesses	Percentage of small, medium and micro enterprise (SMME) payments effected within 30 days, in line with National Treasury's procurement strategy.	97%	Target: 97% Actual: 97% Achieved: Yes	Target: 100% Actual: 97.12% Achieved: No  <i><u>Explanation for the deviation:</u> Some invoices were not processed for payment within 30 days, due to a temporary breakdown in workflow management controls. Since then, controls have been enhanced</i>	100%	100%	Payment reports from the accounting system	

<sup>3</sup> The findings related to non-compliance with laws and regulation, and the annual financial statements were unqualified.

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
				<i>to ensure a timely processing of payments.</i>				
Increased procurement and effective payments to promote empowered businesses	Percentage of contracts awarded to SMMEs and small businesses.	12%	Target: 12% Actual: 27% Achieved: Yes  <i><u>Explanation for the deviation:</u> During the year, SCM implemented additional internal efficiencies to source goods and services from SMME service providers.</i>	Target: 14% Actual: 26.05% Achieved: Yes  <i><u>Explanation for the deviation:</u> During the first quarter, SCM implemented additional internal efficiencies to source goods and services from SMME service providers.</i>	14%	32%	Payment reports from the accounting system	
Transformation of management control achieved according to the relevant Broad-based Black Economic Empowerment (B-BBEE) codes	Achievement of the score calculated according to the B-BBEE scorecard.  The maximum score is 20.	16	Target: 16 Actual: 17 Achieved: Yes	Target: 17 Actual: 14.79 Achieved: No  <i><u>Explanation for the deviation:</u> The target was not met, mainly due to the CEO and</i>	17	15	BEE reports	

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
				<i>Director Operations vacancies.<sup>4</sup></i>				
Transformation of staff achieved according to the approved Employment Equity Plan	Achievement of the employment equity target according to the approved Employment Equity Plan.	73% Black 26% White 1% Other	Target: 73% Black 26% White 1% Other Actual: 76% Black 22% White 2% Other Achieved: Yes, as the higher actual is in line with the EE Plan that recommends having more Blacks. Yes, if considering that the EE Plan stipulates that there should be less Whites.	Target: 76% Black 23% White 1% Other Actual: 78% 21% 1% Achieved: Yes (Expected outcome is 76% or more) Yes (Expected outcome is 23% or less) Yes	76% Black 23% White 1% Other	Actual: 77% Black 20% White 3% Other	HR Employment Equity Reports.	

<sup>4</sup> The target relates to the management control section of the BEE scorecard, whereby only by appointing employment equity candidates onto the positions of CEO and Director Operations can it be met.

Outcome	Outcome Indicator	2019/2020 Baseline	Actual 2020/2021	Actual 2021/2022	2024/2025 Target	Actual Achievement as at 30 September 2022	Data Sources – Refer to the Technical Indicator Descriptions	Improvements Required for the Remainder of the Planning Period
			<p>No, as the actual is higher than what is the desired target, as further explained below.</p> <p><i><u>Explanation for the deviation:</u> It has been challenging to identify suitable candidates for certain positions. Consequently, non-South African candidates were appointed, after an exhaustive process was followed.</i></p>					

## 2.2 Explanation of the Achieved Performance Over the Mid-Term Period

The IRBA is on track to achieve most of its targets, assuming that we are fully resourced – both financially and from a staff capacity perspective.

### a) Progress Made Towards the Achievement of the Impact Statement

The role that the IRBA plays in protecting the financial interests of the public cannot be overemphasised. Therefore, we approached our strategic planning in 2021 after considering the profession’s reputational crisis and negative public sentiment towards the regulator, the auditing profession as well as the broader financial reporting and governance ecosystem. We have had engagements with internal and external stakeholders that have been aimed at working together to rebuild trust in the auditing profession and respond to the expectations of the public. This collective dialogue has enabled us to reflect on priorities, reconstruct the IRBA’s strategy and, more importantly, undertake projects that will truly enable the elevation of the confidence needed in the auditing profession.

Our three strategic focus areas for 2021-2025 are as follows:



It was against the revised strategy backdrop and the situational analysis conducted by management team that the Restoring Confidence 2.0 (RC2.0) project was conceived. Its ultimate objective is to restore confidence in the auditing profession through undertaking high-priority projects that will have a positive impact on:

- The broader financial reporting and governance ecosystem;
- The auditing profession; and
- Our people, processes and platforms as a regulator.



It is envisaged that out of this process an enhanced and fit-for-purpose IRBA and auditing profession will emerge. Using the three strategic focus areas for 2021-2025 as a foundation, the RC2.0 Project was divided among three distinct (but interrelated) workstreams that are briefly outlined below.

- Workstream 1: Financial Reporting and Governance Ecosystem

The focus is on identifying gaps in the financial reporting and governance ecosystem. This gap analysis will be facilitated through driving the IRBA's comprehensive stakeholder engagement strategy to identify reform projects in collaboration with our stakeholders, to address identified gaps that have an impact on the profession and audit quality. There is broad support from our stakeholders, including those that we do not regulate, but who share a collective objective to protect the public interest.

- Workstream 2: Auditing Profession

This is focused on improving audit quality, as a critical success factor in rebuilding confidence in the profession and in the IRBA. This entails performing a gap analysis on the auditing profession and the audit regulator, and then implementing key audit reform projects to address these gaps. Several key projects have been delivered or are in the process of being implemented to enhance audit quality and integrity in the auditing profession.

- Workstream 3: IRBA Internal Process

The focus is on improving the sustainability and relevance of the IRBA. This internal gap analysis is intended to assist the IRBA in undertaking projects that are aimed at developing our people, redefining our business processes, proposing alternative funding models and harnessing the efficiencies to be gained from technology.

The groundwork is advanced on all these workstreams. Part of the restoring confidence efforts will be to take ownership of the narrative about the IRBA and the profession through visible and transparent stakeholder engagements.

### Audit Quality Improvements

In the past few years, a global review of quality control standards has been underway, with South

Africa being one of the first countries to adopt the International Auditing and Assurance Standards Board's (IAASB) suite of Quality Management standards in 2021. Our Board, in fact, encouraged an early adoption of the standards, which became effective on 15 December 2022. The standards focus on improving audit firm quality management systems and the engagement quality reviews, while also elevating the responsibility of engagement partners and quality reviewers.

The application of these standards will go a long way towards improving audit quality in real time, if properly implemented and monitored by the firms themselves.

There were many other initiatives that we launched during the current strategic period and these include:

- The collection and publication of Audit Quality Indicators and the publishing of Transparency Reports by audit firms, as tools to strengthen the work of audit committees;
- A review of the registered auditor competency framework and the ADP processes, which led to the launch of the ADP Reloaded initiative;
- Amendments to the IRBA Code of Professional Conduct for Registered Auditors, with new ethics provisions;
- Changes to the inspections process, to include proactive initiatives under the 8<sup>th</sup> Inspections Cycle, themed inspections, continued focus on audit firm leadership and governance;
- Enhanced and centralised business intelligence; and
- The improved implementation of remedial action processes to encourage firms to embark on prompt and effective internal improvement programmes.

### **Gaps in the Financial Reporting and Governance Ecosystem**

The financial reporting chain consists of the preparers of the financial statements; the internal auditors who look at risks and controls; the audit committees that oversee audit and risk; and the boards that are responsible for corporate governance. Auditors often arrive after the end of the financial year, after the fact, when potential misdeeds or errors have already occurred.

These parties, though, are not all regulated to the same degree as auditors. So, when a failure occurs and investors want recourse, they naturally turn to the IRBA. As the regulator, we are mandated to investigate, to determine if a corporate failure is also an audit failure. The reality, however, is that this is not always true.

We have already identified three possible gaps: lack of inclusion of the other financial role-players in a regulatory framework; the need to strengthen and formalise corporate governance; and the extended absence of a South African accounting standards setter since 2018, a challenge that was recently addressed by the Department of Trade, Industry and Competition.

The IRBA has started conversations around these key areas with stakeholders in the broader financial ecosystem, to see where role-players can collectively start to make changes in the public interest. Our research will not be complete without the participation of, and collaboration with, all other players, including preparers of financial statements, those charged with governance, assurance providers, other regulators, non-public interest entity regulators, investors, shareholders, legislators, the Auditor-General South Africa and the public.

By strengthening the broader system, we can significantly reduce the risk of mismanagement and fraud, and increase and restore trust in the entire reporting system. With the lines of defence operating as they should, the auditor's role will carry a lesser burden of overall risk.

### **New Brand and a Revived Focus**

We have taken some solid steps to align the IRBA to our new vision. The IRBA has embarked on a project to reposition the IRBA and RA brand. The RA profession has seen numerous scandals in recent years that have negatively impacted the brand perception as a desirable career choice and trustworthiness of the profession. For the sustainability of the profession and to ensure that the best talent is attracted and retained by the RA profession, the IRBA developed and a long-term brand and marketing strategy is being implemented.

The rebranding is happening in unison with other initiatives. The new brand journey seeks to refresh the IRBA from the inside and is supported by many internal continuous improvement initiatives. It is at an advanced stage of formulating a new value proposition that will see the regulator positioning itself as more engaging and with focused marketing efforts that will reset its image and that of the profession, increasing the attractiveness of the latter, while attracting and retaining the right calibre of audit professionals. It will also help us to build a culture of excellence and high performance, as well as drive an increased level of engagement with our key stakeholders.

### **Financial Sustainability and Relevance**

Besides improving the efficiency of the IRBA through process improvements and building a people-centred culture of high-performance, we are also looking at alternative funding models. Due to fiscal and economic constraints, the annual government grant allocation remains mostly static and does not increase in line with inflation over the Medium Term Expenditure Framework period. This adversely affects the IRBA's ability to fund its strategic mandate, operational growth and inflationary pressure.

Consequently, we have embarked on a priority project to conduct a business analysis and formulate proposals for a revised funding model. This does not mean that there will be no funding from auditors, but the IRBA will have alternative revenue on which to expand its operations, to allow us to fulfil the many more roles we are expected to play.

### **Strengthened Regulator Arising from the Act Amendments**

The amendments to the Auditing Profession Act 26 of 2005, through the Auditing Profession Amendment Act 5 of 2021, have enhanced the efficiency and effectiveness of the IRBA's investigating and disciplinary processes; strengthened its independence from the profession; strengthened the reportable irregularities and registration processes; and addressed the management and sharing of information that is within the IRBA's control. All these are important areas in the restoration of confidence in both the IRBA and the profession.

We have completed the implementation plan, with various activities having been implemented to operationalise the amendments. We have seen the impact of the amendments, as our disciplinary process has been made more efficient by the appointment of a panel of Disciplinary Committee members, which allows us to constitute more than one disciplinary hearing at a time. For first time in the IRBA's history, and recently, we were able to host two disciplinary hearings simultaneously. This is a major step for us, as it means more effective and speedy resolutions to matters.



The Board has also made recommendations to the Minister of Finance on the upper limits of sanctions, as envisaged by the Act. While the upper limits are significant, auditors need not focus on that. Rather, their main focus should be on doing the right thing and always doing their audits well, as there is no sanction for a good solid audit.

## **Investigations**

The IRBA has filled almost all its additional investigator positions. As such, it has made positive inroads into the backlog reduction of matters awaiting investigation. Our ultimate goal is to achieve a position in which we conduct investigations in real time, with complaints being allocated immediately for investigation.

Building trust in the profession, the auditor, the audit product and the regulator will take a collective effort. It is time to take back our pride in our contract with society and do the right thing every time. We must never forget that we serve the public interest; therefore, we recognise that we are public servants and servants of our citizens and country.

### **b) Progress Made So Far Towards the Achievement of the Five-Year Targets for the Outcome Indicators**

The IRBA has made significant progress towards achieving its strategic objectives. Additional staff capacity has been approved and implemented by the Board in both the Inspections and Investigations departments. The outcomes, outputs and achievement of targets are reflected in the table above. The targets for most strategic outcomes were achieved, unless otherwise indicated with reasons.

The IRBA's performance over the past two-and-a-half years has been affected by challenges with attracting and retaining suitably qualified staff, while experiencing financial constraints and navigating the effects of the COVID-19 pandemic.

### **c) Challenges That May Have Affected the IRBA's Performance in Achieving the Five-Year Targets**

As stated above, the key challenges are:

- Attracting and retaining suitably qualified staff; and
- Insufficient funding.

The pandemic changed the working environment dynamics and workforce behaviour. Thankfully, though, the IRBA adjusted remarkably well to the pandemic, with a minimal impact on our performance.

During 2022, we embarked on a consultative process to benchmark funding models from other regulators and countries. It is envisaged that this process will lead to a more sustainable funding model for the IRBA.

### **d) Corrective Measures in Instances Where the Five-Year Targets are Likely Not to be Achieved by 2024/2025**

With regard to what will be implemented to mitigate any challenges with achieving the planned targets, the following applies:

- While the targeted number of inspections is dependent on filling vacancies and staff retention, a technology improvement investment will be made, to make the inspections process more efficient and effective.
- There will be more investments that are geared towards technology and data analytics.

### **e) Contribution of Various Programme Outputs to the Achievement of the Outcomes**

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

- Developing and maintaining auditing and ethical standards that are internationally comparable (Standards Department).
- Providing an appropriate framework for the education and training of properly qualified auditors as well as for their ongoing competence, in addition to promoting transformation in the auditing profession (Education and Transformation Department).
- Registering auditors who meet the registration requirements; monitoring compliance with reportable irregularities and anti-money laundering; and instituting disciplinary action against registered auditors, when appropriate (Legal Department).
- Monitoring registered auditors' compliance with professional standards (Inspections Department).
- Investigating and taking appropriate action against registered auditors in respect of improper conduct (Investigations Department).
- Developing and maintaining stakeholder relationships to enhance performance, accountability and public confidence (Executive Department).
- Strengthening the IRBA's organisational capability, capacity and performance to deliver on its mandate in an economically efficient and effective manner, in accordance with the relevant regulatory frameworks (Operations Department).

In undertaking these, we support and protect registered auditors who carry out their duties competently, fearlessly and in good faith.

#### **f) Contribution of Government and Non-Government Partners to the Achievement of the Outcomes**

As a result of fiscal and economic constraints, the annual government grant allocation to the IRBA is not likely to increase any time soon. There is, therefore, a perceived independence risk of being funded by the profession, as the International Forum of Independent Audit Regulators' Principle 2 states that: *"The audit regulator should have a stable source of funding that is free from undue influence by auditors/audit firms, professional organisations, audited entities or other stakeholders in the financial ecosystem. Additionally, funding should be stable and sufficient to execute the regulator's powers and responsibilities."*

The IRBA has a limited mandate to only regulate auditors, but it is imperative that the regulatory environment be strengthened by extending this mandate to the regulation of accountants (comprehensive regulation).

Parliament and government play a part in creating an enabling legal and legislative environment within which IRBA operates. The recent amendments to the APA help to strengthen and streamline the work of the IRBA, and the achievement of its mandate.