
INDEPENDENT REGULATORY BOARD FOR AUDITORS

INSPECTIONS DEPARTMENT

Inspections for purposes of JSE accreditation

Johannesburg / 20 August 2014

The JSE Limited (JSE) requires specific criteria for the accreditation of Registered Auditors and their firms. These are set out in Sections 3, 22 and Schedule 15 of the JSE Listings Requirements. Auditors that wish to be entered onto or remain on the JSE list of accredited auditors must meet all the specific eligibility criteria. One of the criteria is for a Registered Auditor to have been subjected to an inspection by the IRBA and to have submitted a "satisfactory" IRBA inspection decision letter to the JSE.

The purpose of this communication is to improve the process to be followed by auditors and the IRBA in response to the JSE auditor accreditation criteria and by doing so, promote transparency and confidence in the audit quality of accredited auditors and their firms.

The IRBA has identified certain risks and challenges associated with the *ad-hoc* inspections requested by auditors in order to meet the JSE accreditation requirements:

1. These *ad-hoc* requests are received at short notice. Most firms do not seem to plan in advance for the nomination, rotation or replacement of JSE accredited auditors, resulting in urgent requests for these inspections. Inspections are based on the risk profile and historical opinions signed off by the auditor. Inspections are therefore scheduled and agreed with practitioners well in advance. The IRBA has limited resources and inspectors are scheduled at full capacity months in advance, leaving no or very little room to accommodate urgent *ad hoc* requests.
2. The IRBA's inspections approach is based on risk (measured by the significance of the possible impact on the public interest) and engagements are selected based on risk factors identified. Auditors may fall outside of the IRBA's inspections scope in that they may not have performed any high-risk public interest audit engagements. This means that an auditor is not automatically subject to an inspection in any given three-year cycle.
3. It can be problematic where, for example, a firm submits a voluntary audit engagement for inspection for one of their auditors. Since there will be reliance on the inspection result for purposes of accreditation it can be contested whether such a result can provide sufficient evidence of the auditor's competence at a public interest audit level. The *ad-hoc* inspections are often requested on an engagement that is not necessarily representative of an entity in a listed environment, or of an equivalent size, complexity or industry. Unreasonable reliance is then placed on the inspection result of the IRBA.

As a result, changes have been made to the process, as set out below:

1. In order to address the concerns set out in point 3, the IRBA will ensure that engagement inspections are appropriate in the context of a public interest audit level.

The JSE Listings Requirements are in the final stages of being amended such that the JSE will only accept a satisfactory inspection result on a public interest engagement that is appropriate for purposes of JSE accreditation.

2. Firms will therefore have to change their processes to ensure that the IRBA is able to carry out inspections on appropriate engagements. In order to achieve this objective, firms should adopt and implement appropriate internal policies and procedures to identify, evaluate, prepare and train suitably qualified and experienced auditors well in advance of seeking JSE accreditation. These policies should also address the rotation, succession, contingency plans and continued quality monitoring of prospective and already accredited auditors. The IRBA will inspect the development and implementation of these policies and procedures as part of its firm level inspections in terms of International Standard on Quality Control (ISQC) 1, with effect from 1 April 2015 (6th inspection cycle).
3. As part of this new process, firms should subject an auditor to their own internal quality processes and have documented their satisfaction with the overall competency and appropriateness of the auditor on public interest/high-risk engagements before requesting the IRBA to perform the inspection.
4. Firms must notify the IRBA of any possible inspections requests well in advance in order for the IRBA to plan and schedule the inspection. This should be in the form of a schedule or letter with timeframes submitted and firms should ensure that the IRBA receives at least six (6) months' notice for such a request.
5. There will be closer cooperation and communication between the JSE and the IRBA regarding accredited auditors, particularly concerning any issues that the JSE and the IRBA might have (subject to confidentiality requirements).

The IRBA inspection result letter will state that the inspection was done on a high-risk public interest engagement that is appropriate for purposes of JSE accreditation. However, the inspection should not be seen as a guarantee of future quality performance as Registered Auditors have a responsibility to continually update their competence and remain competent throughout their professional lives.

If you have any further queries or need to discuss this matter please do not hesitate to contact the Inspections Department at +27 (0)87 940 8800 or send an email to inspections@irba.co.za.

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About the IRBA

The objective of the IRBA 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 audits conducted by Registered Auditors, in accordance with internationally recognised standards and processes.

