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**INDEPENDENT REGULATORY BOARD FOR AUDITORS**  
**INSPECTIONS DEPARTMENT**

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**The Use of IRBA Inspection Results for JSE Auditor Accreditation**

Johannesburg / 27 June 2016

This communicate is an extension of our previous communication titled "*Inspections for purposes of JSE accreditation*", issued on 20 August 2014. The purpose of that communicate was to improve the process to be followed by auditors and the IRBA in response to the JSE's auditor accreditation criteria. The changes sought to address certain concerns regarding the level of reliance placed on an IRBA inspection result as well as logistical challenges experienced with inspections that are requested for accreditation purposes at short notice.

The IRBA became aware that certain auditing firms were experiencing challenges with regards to attaining/maintaining their JSE accreditation, mainly concerning the interpretation of inspection results and the impact this has on their eligibility to audit listed entities and compete fairly in that market. Affected firms often argued that the type of inspection findings that resulted in an unsatisfactory result did not justify the negative commercial impact on the firm as a whole. This caused affected auditors to focus more on attaining/remaining accredited at all cost as opposed to improving audit quality, which was also inconsistent with the purpose and objective of an inspection.

Regulatory inspections are planned and performed for a specific purpose and inspections for any different purpose, e.g. for JSE accreditation, fall outside the IRBA's risk-based scope of independently selecting and inspecting completed engagements. IRBA inspections are not always performed on engagements that would also be deemed appropriate for purposes of JSE accreditation – for example, an attorney's trust where the nature and complexity is dissimilar to that of a fully functional public company with elements such as group consolidation, financial instruments, foreign operations etc., or where the IFRS framework, Companies Act or Taxation are not applicable. Inspection results do not, on their own, guarantee the future performance of auditors. Rather, auditors have a responsibility to continually update their competence and remain competent throughout their professional lives. Reliance on external monitoring results as the only eligibility criteria for individual auditors to be accredited is therefore not deemed to be sufficient and appropriate in certain instances. We recommended to the JSE that other Audit Quality Indicators (AQIs) should also be considered.

The JSE accreditation requirements were extended during 2015 to include auditors of listed debt issuers, further straining our capacity.

Auditors should adhere to the auditing standards, which require them to assess their competence and capacity before accepting an audit engagement, and those charged with governance (audit committees) should also apply relevant criteria when appointing auditors for the company.

AQIs can be helpful in assessing existing or new auditors for appointment. As such, we further recommended that an objective assessment of a range of relevant AQIs – such as the level of firm support, the firm's quality control environment, the auditor's/team's experience, training records/CPD and internal monitoring review outcomes – can also provide the necessary comfort to the JSE to accredit an auditor. External inspection results are but one such indicator – in their absence, other indicators should be considered.

Based on the above, the IRBA will unfortunately no longer be able to accommodate any further requests by auditors for specific accreditation inspections, as it needs to focus its capacity on its mandate to inspect auditing firms, which includes a risk-based sample of completed audit/assurance engagements.

We have engaged extensively with the JSE on the matter over the past three years to discuss the issues and challenges, and more recently to explore appropriate alternatives to the current auditor accreditation requirements. We are pleased to note that the JSE is currently in the process of consulting on the matter in view of changing its Listings Requirements.

We will continue to engage with the JSE on the matter until a suitable alternative is agreed to and the Listings Requirements are amended accordingly. Ultimately, the IRBA and the JSE have the same objective, which is to promote high audit quality and protect investors.

***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.*