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IRBA 2019 Public Inspections Report

Presenter: Lettie Janse van Vuuren CA(SA), RA, CBA(SA)

14 May 2020

Restoring confidence in the auditing profession is a top priority that requires all stakeholders to work together to achieve this common goal

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Presenter

Lettie Janse van Vuuren CA(SA), RA, CBA(SA)

- Lettie joined SA Accounting Academy in November 2017 as Head of Technical. She is a Chartered Accountant, Registered Auditor and Certified Business Accountant.
- She is a **professional trainer and webinar host**, and with her relaxed and humorous presentation style, she is able to hold the attention of an audience. She has a unique ability to communicate with delegates at their respective levels of knowledge and experience. Over the last 20 years, she has trained thousands of partners, managers, trainee accountants and other professionals.
- She is responsible for our MCLU (Monthly Compliance and Legislation Updates).
- She was the Professional Development Manager at SAICA for 4 years and in charge of accrediting new training offices and monitoring existing ones (including the moderation of training offices and trainee assessments).
- Lettie is passionate about improving the efficiency and standardisation at practices. She has extensive experience on a variety of technical and practical topics which she consults on, including: SAICA re-accreditation assistance and preparation, IRBA inspection assistance and preparation, audit file reviews (post-issuance monitoring and EQCR), Quality control implementation, other office-specific manuals, and FASSET skills development facilitation.



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What's on the Agenda?

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Module 8: The 7th Inspection Cycle

Quote

“Without oversight or enforcement, rule changes are virtually meaningless”

- Melanie Sloan

MODULE 1

INTRODUCTION

Module 1

Module 1: Introduction

Topics:

The following items are dealt with here:

- Introduction
- IRBA Communiqué to issue report
- Contents of the IRBA Inspections Report

Introduction

- Issued annually by IRBA for the last 5 years
- *31-page document*
- Released on 17 March 2020
- The focus of this report is remedial in nature
- Covers inspections performed during the period 1 April 2018 to 31 March 2019

- A total of 116 inspections were performed at 44 firms.
- These reports include 14 firm-wide and 102 individual engagement file inspections

- *Refer to Webinar Material for detail & the Report is available as a Source Document*

IRBA Communiqué

- The 2019 results of positive inspection outcomes declined compared to the previous year, and generally, the frequency of findings in South Africa remains higher compared to other jurisdictions as per the latest global inspection survey results released by the International Forum of Independent Audit Regulators (IFIAR)
- The report is aimed at auditors and those responsible for quality control systems within firms
- In 2019 the IRBA continued to focus on audits with a higher public interest exposure that included audits of listed entities, other public interest entities (PIE) and state-owned companies. The majority of the engagement file inspections were performed at firms that were accredited with the JSE Ltd, and the report provides a further breakdown of inspection outcomes at these firms



Refer to Webinar Material for detail

MODULE 2

BACKGROUND & FOCUS

Module 2

Module 2: Background & Focus

Topics:

The following items are dealt with here:

- The current Landscape & IRBA's response
- Background to the Inspections Process
- Focus Areas

Background & Focus

- Global increased public focus on the audit profession
 - IRBA have made several enhancements to the 7th Inspections Cycle
 - Refer to Module 7
 - 2 types of inspections:
 - Firm inspections
 - Audit file inspections
 - Risk-based approach
 - 2019 focused on audits with a higher public interest exposure, and this included audits of listed entities, other public interest entities (PIEs) and state-owned companies
- *Refer to Webinar Material for detail*

MODULE 3

INSPECTION OUTCOMES FOR 2018/2019

Module 3

Module 3: Inspection Outcomes for 2018/2019

Topics:

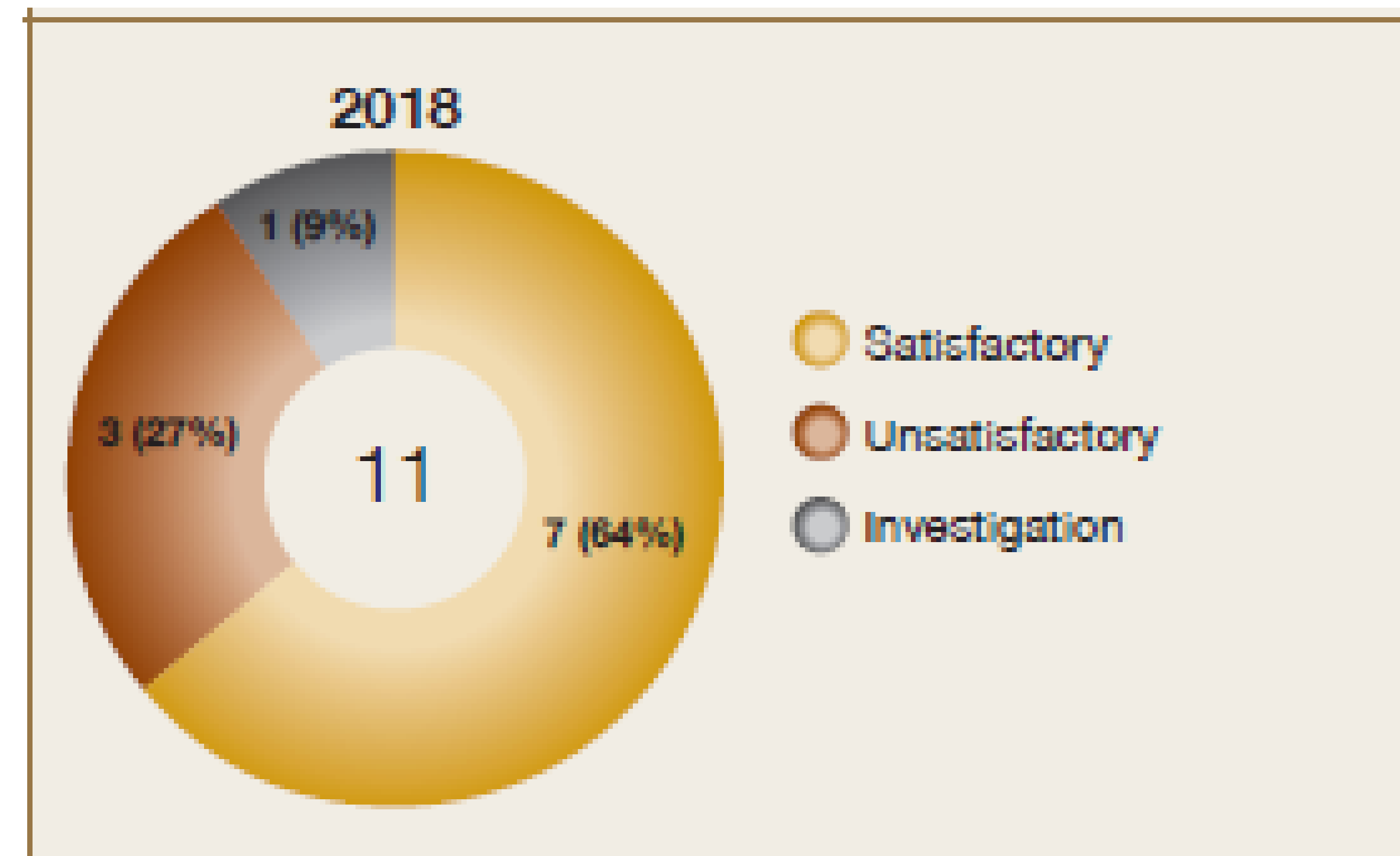
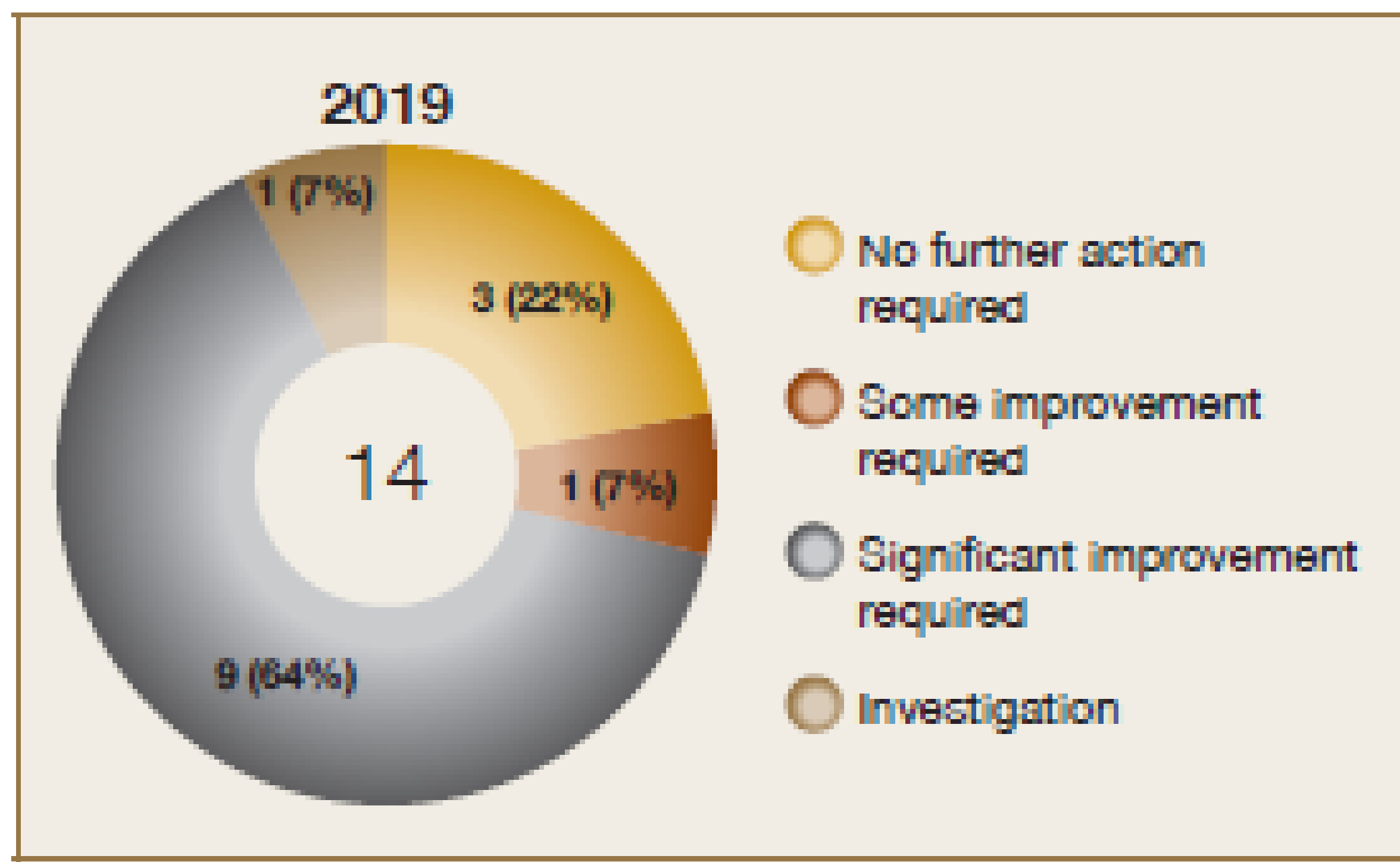
The following items are dealt with here:

- Firm-wide Quality Control Inspection Results
- Individual Audit File Inspection Results
- Inspection Results of Firms Accredited by the JSE
- Concluding Remarks

New outcomes used in 2019

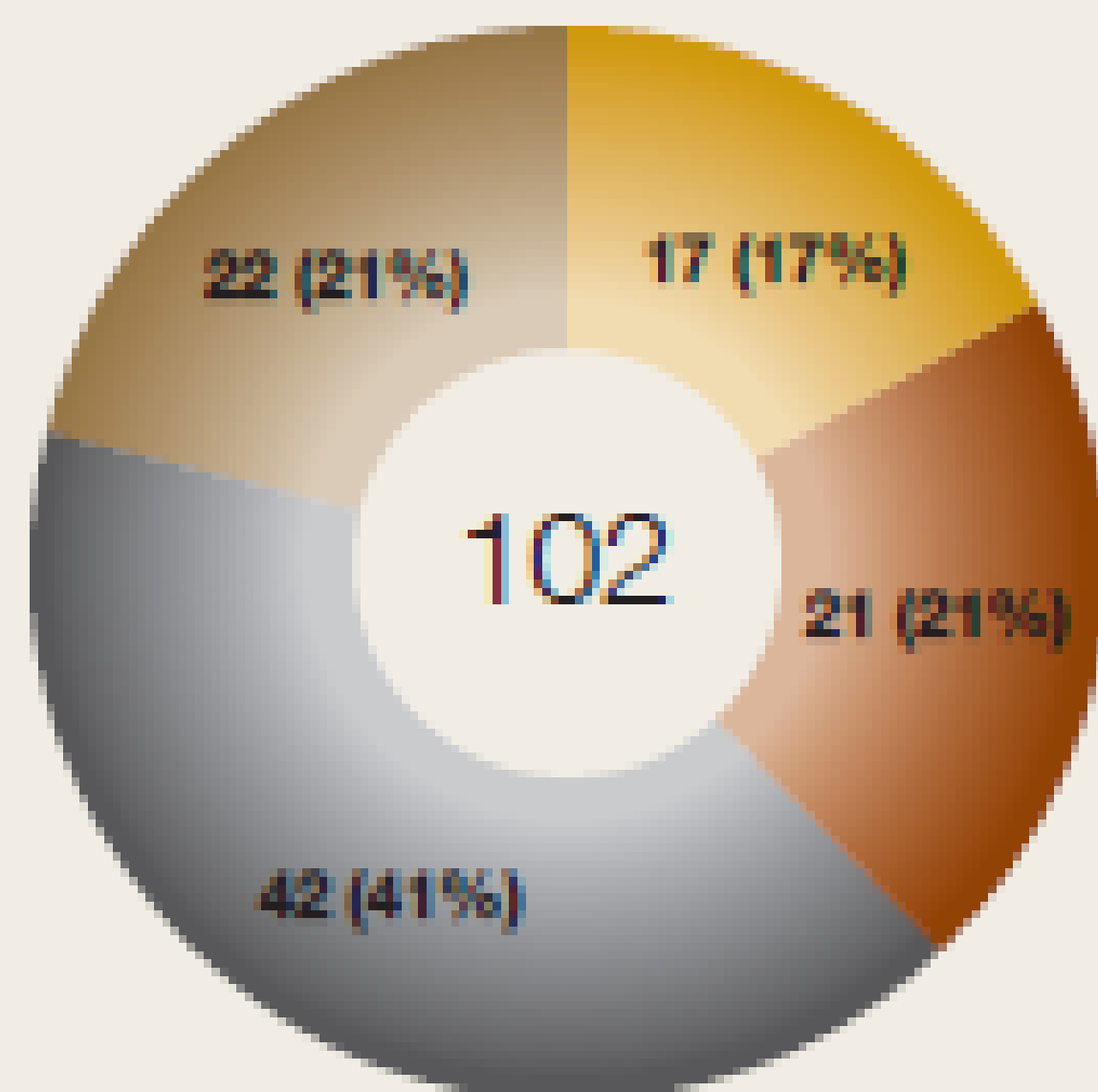
- No further action required – similar to the previous satisfactory result;
 - Some improvement required – similar to the previous conditional satisfactory result;
 - Significant improvement required – similar to the previous unsatisfactory result;
 - Referral for investigation, with significant improvement required – remains unchanged; and
 - Pending, to allow for additional information to be obtained by inspectors before determining a final result.
-
- ☐ **Total of 116 inspections**
 - ☐ **Total of 44 firms inspected**
 - ☐ 102 individual audit engagement files from 30 firms inspected
 - ☐ 14 firm-wide inspections performed

Firm-wide results



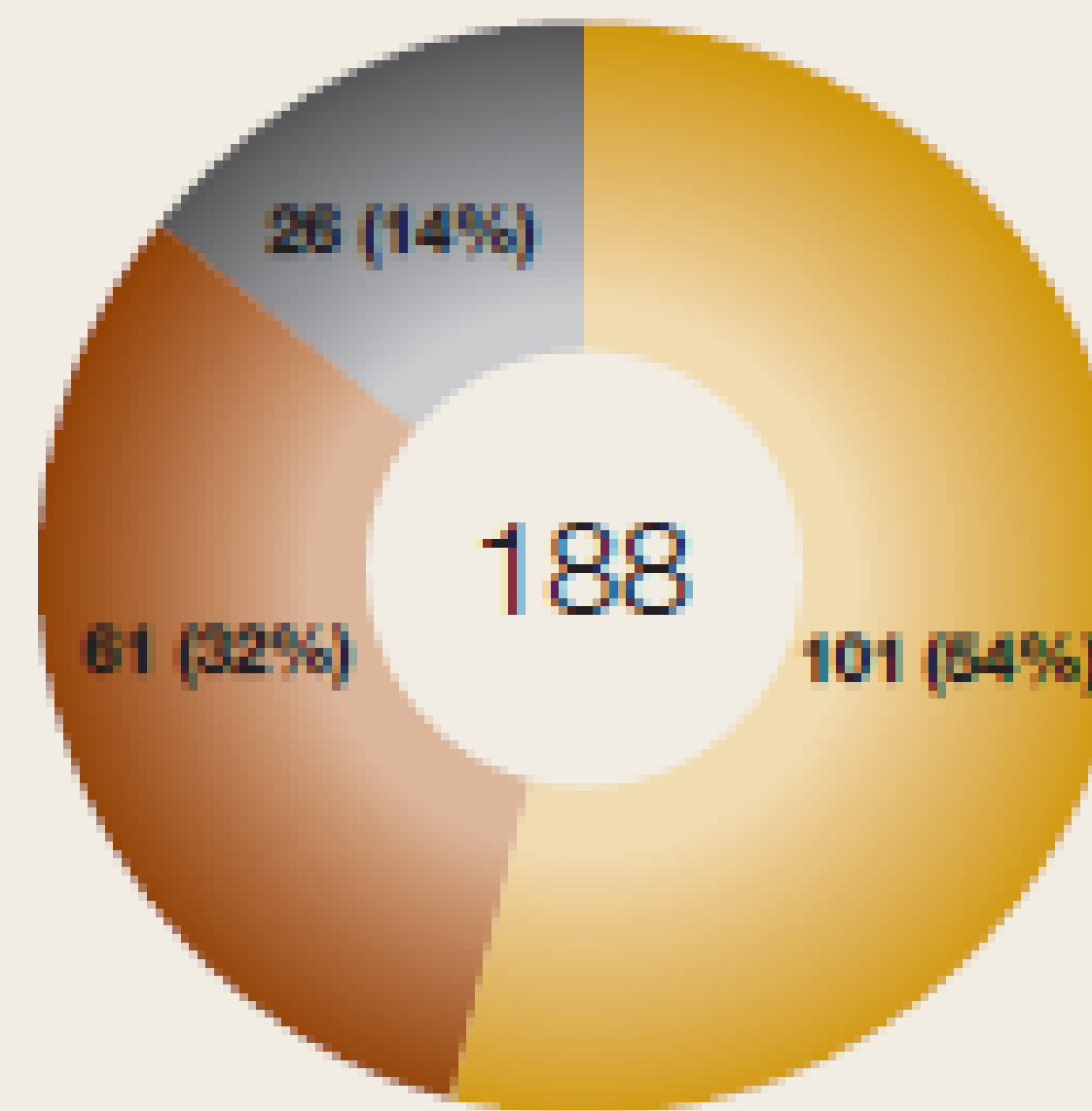
Engagement file results

2019



- No further action required
- Some improvement required
- Significant improvement required
- Investigation

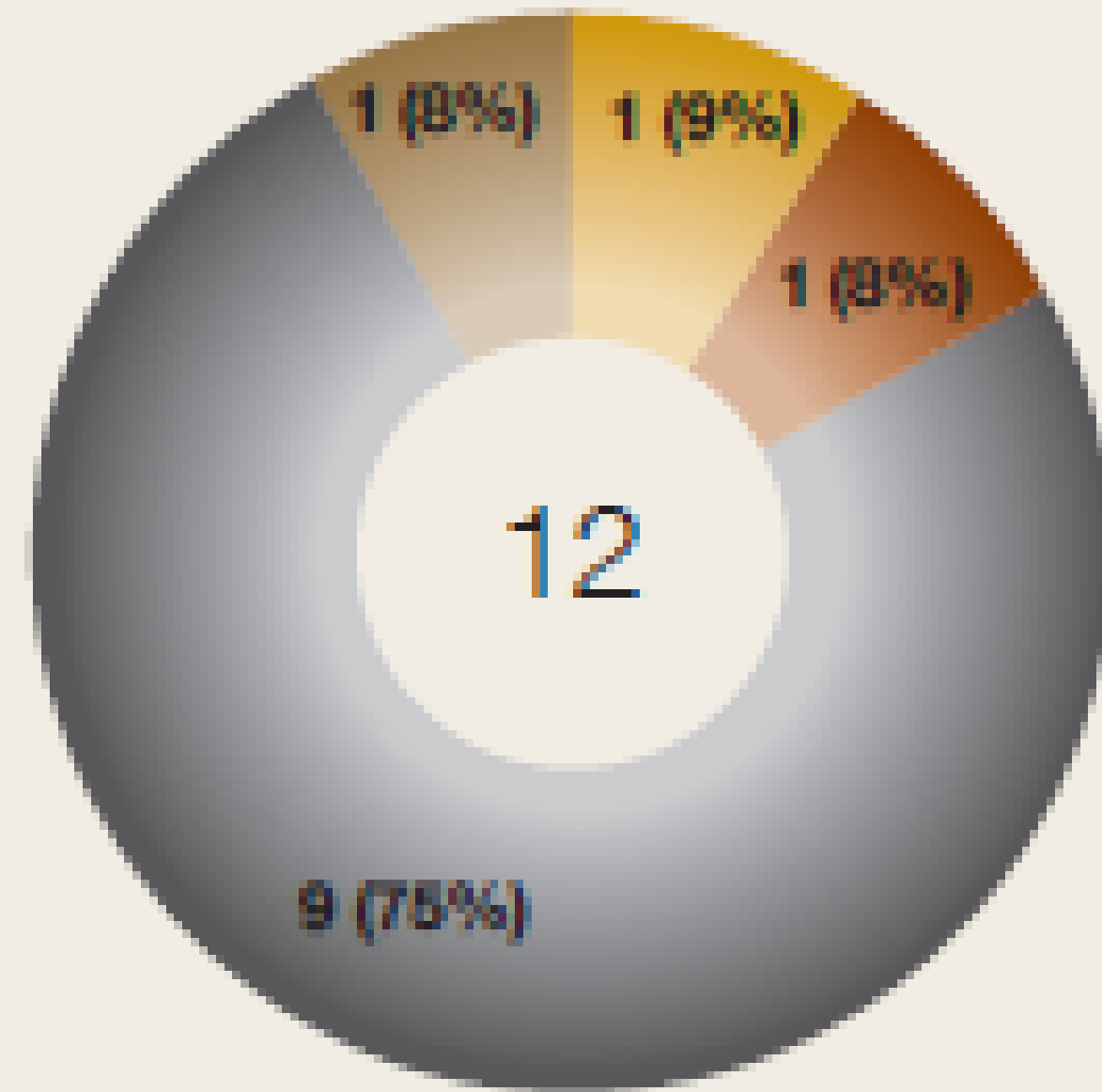
2018



- Satisfactory
- Unsatisfactory
- Investigation

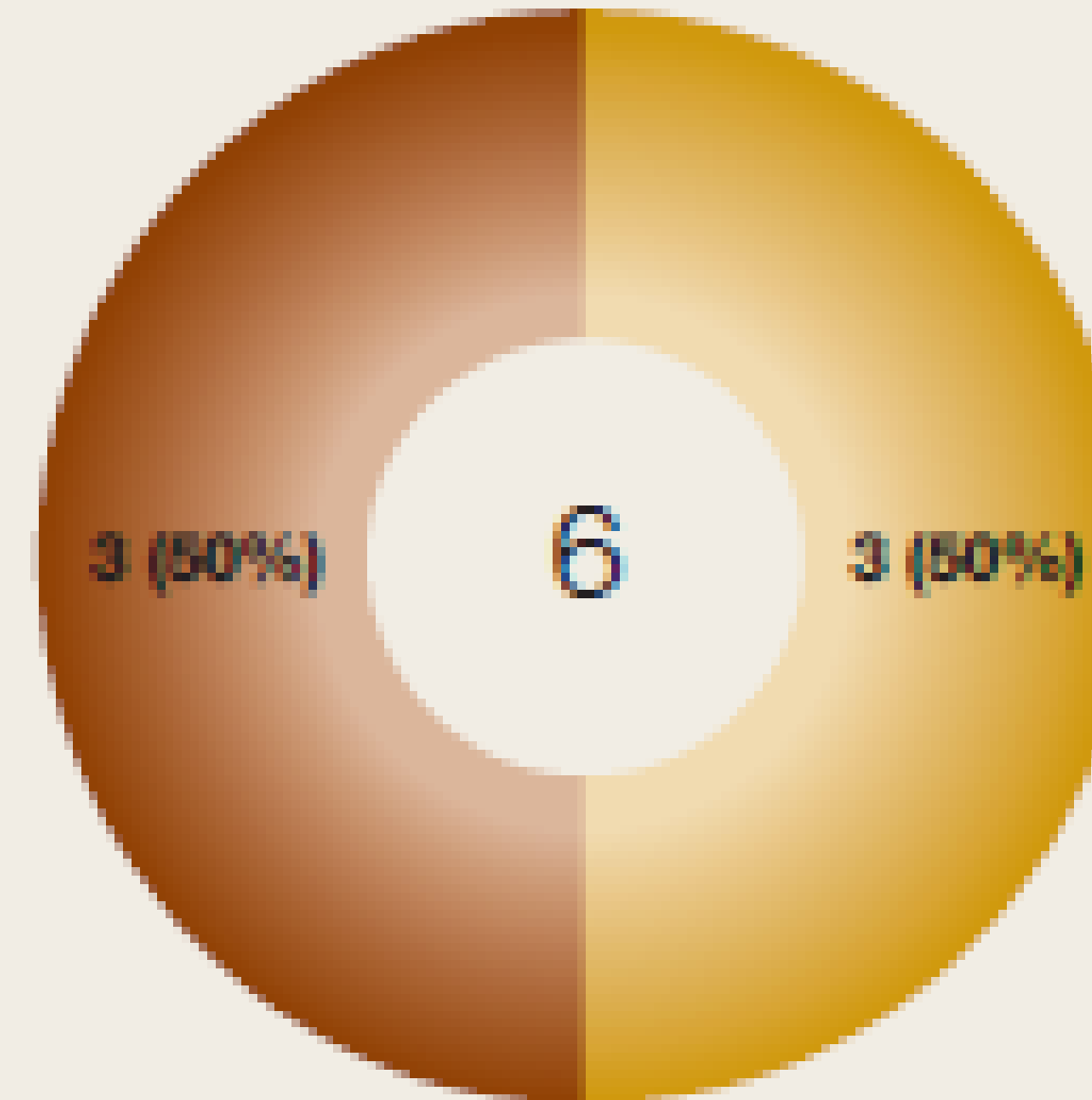
JSE firms' results

2019



- No further action required
- Some improvement required
- Significant improvement required
- Investigation

2018



- Satisfactory
- Unsatisfactory
- Investigation

MODULE 4

KEY INSPECTION THEMES

Module 4

Module 4: Key Inspection Themes

Topics:

The following items are dealt with here:

- Definition of a Finding/Deficiency
- Firm-wide Inspection Themes
- Individual Audit Engagement Inspection Themes

Definition of a Finding/Deficiency

- A **reportable finding at a firm-wide level** includes any significant or systemic deficiency related to the firm's conduct or system of quality control that may have an impact on audit quality by creating a risk of inappropriate auditor's reports being issued by the firm. This includes failure to implement remedial/corrective action on all audit engagements performed by the firm, resulting in recurring inspection findings
- A **reportable finding at an individual audit file level** includes any significant deficiency whereby the firm has failed to obtain sufficient and appropriate audit evidence to support its auditor's report. This includes a failure to identify or address a material or potential material financial reporting/accounting related deficiency; or any non-compliance with applicable standards, codes of conduct and legislation, including a departure from the firm's adopted policies, procedures or methodology

Firm-wide Inspection Themes

- Leadership responsibilities for quality within the firm
 - Engagement performance and Internal Quality Reviews
 - Monitoring
-
- *Refer to IRBA Report for detail*
 - ***Refer to pages 8-10 of the IRBA Report (pages 12-14 of 31)***



Individual Audit Engagement Inspection Themes

- Significant estimates and judgements
- Revenue
- Financial Statement Disclosure
- Risk Assessment
- Cash Flow Statement

➤ *Refer to Webinar Material for detail*

➤ ***Refer to pages 9-17 of the IRBA Report (pages 13-21 of 31)***



MODULE 5

REMEDIAL ACTION PROCESS

Module 5

Module 5: Remedial Action Process

Topics:

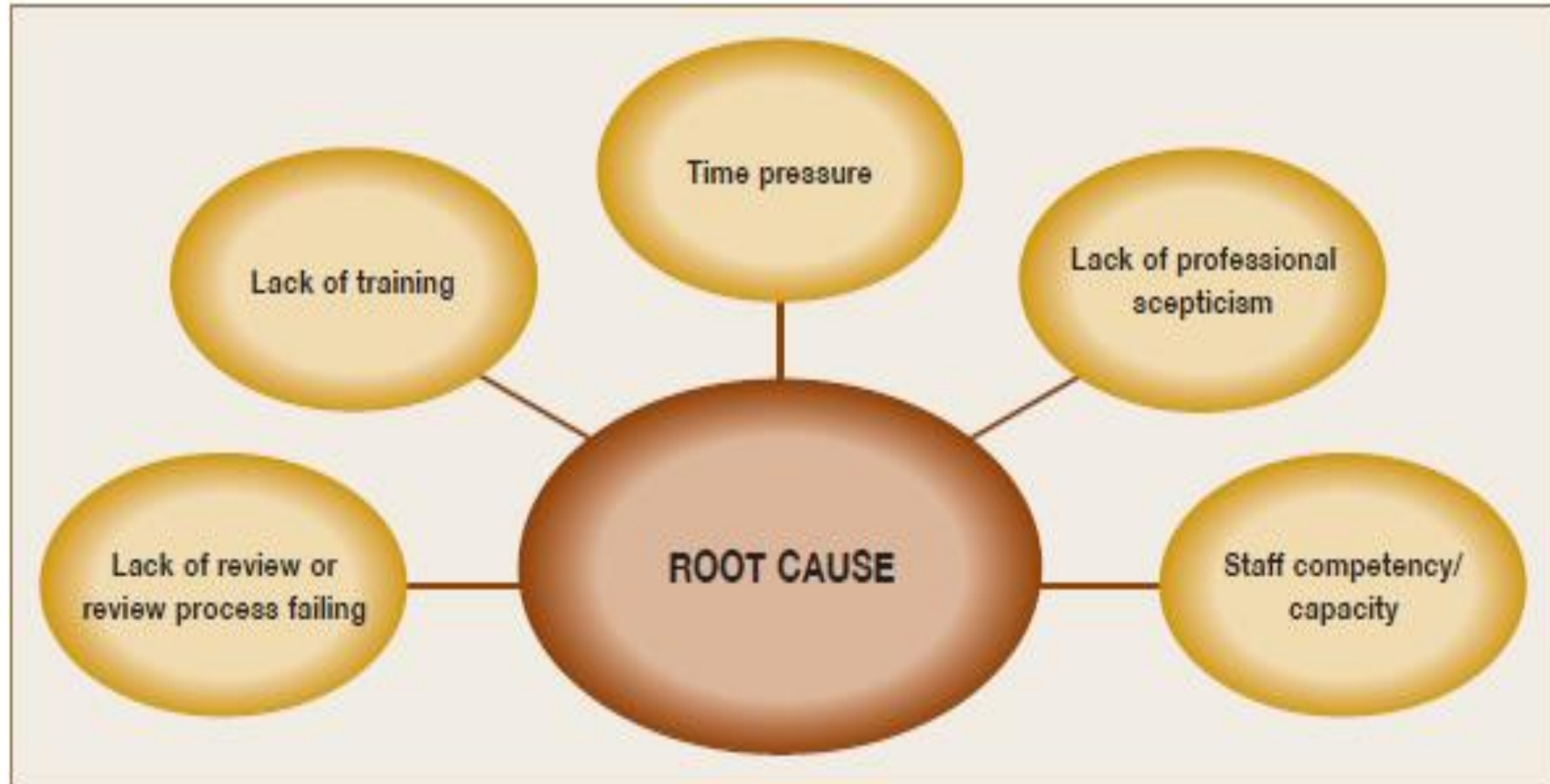
The following items are dealt with here:

- Activities
- Root Cause Analysis
- Remedial Action Plan
- Top 5 Root Causes
- Conclusion

Remedial Action Process

- Activities – 88 visits to practitioners
 - RAP must be led by management
 - Run by a dedicated team
 - Root Cause Analysis
 - ✓ Must drill down to WHY the deficiency arose – not merely WHAT the deficiency is...
 - Remedial Action Plan must be Specific & Measurable
- *Refer to Webinar Material & IRBA Report for detail*

Top 5 Root Causes



Conclusion

- By following a fully designed and documented policy and procedure on root cause analyses and remedial action, it is possible to rectify identified deficiencies using bespoke tools and team collaboration.
- The identification of the “true” root cause, followed by an effective action plan that can include updating of the methodology/software/templates and interactive training, can significantly enhance quality within a firm.
- It is critically important for firm leadership to set the correct tone at the top, promoting an internal culture of high audit quality that is supported by prompt and effective remediation of identified root causes and deficiencies

➤ *Refer to IRBA Report for detail*

MODULE 6

FUTURE OUTLOOK

Module 6

Module 6: Future Outlook

Topics:

The following items are dealt with here:

- Legislative amendments
- Regulatory amendments:

Legislative amendments

- No auditors in public practice can serve on the governing structure of the IRBA, thus strengthening independent regulation in the public interest.
- Clients cannot dismiss their auditor while the auditor is in the process of reporting a reportable irregularity, thereby strengthening the independence of the auditor and facilitating the reporting of irregularities.
- The Investigating Committee has the power of subpoena, search and seizure to facilitate speedier investigations.
- The limitation on maximum fines has been removed (was limited by the audit legislation to R200 000 per offence).
- The disciplinary process has been simplified to facilitate a speedier response to auditors who have been referred for a hearing

➤ *Refer to IRBA Report for detail*

Regulatory amendments

- Evolving auditing standards
- Independence and ethics (Revised IRBA Code of Conduct)
- Significant accounting developments (IFRS 9, IFRS 15 and IFRS 16)
- Audit Quality Indicators (AQIs) & Transparency of firms
- Focus on technology
- IRBA CPD policy (to ensure that auditors remain UP TO DATE)

➤ *Refer to IRBA Report for detail*

MODULE 7

SANCTIONS

Module 7

Module 7: Sanctions – 1 matter referred to the DAC

Topics:

The following items are dealt with here:

- Why was the auditor referred to the Disciplinary Advisory Committee by the Inspections Department?
- What was the outcome?

1 matter referred to DAC

Why was the auditor referred to the Disciplinary Advisory Committee by the Inspections Department?

- The matter was a referral from the Inspections Committee.
- The respondent **failed to obtain sufficient appropriate evidence**, as required by the International Standards on Auditing, **on numerous balances and transactions**.
- Furthermore, the respondent was **not independent** due to the respondent being both the appointed auditor of the holding company and a director of a wholly-owned subsidiary of the company.
- In addition, the respondent breached Section 92(1) of the Companies Act in that the respondent **was the appointed auditor of the company for more than 5 consecutive years**

1 matter referred to DAC (continued)

What was the outcome?

- The respondent was sentenced to a fine of R150 000, of which R100 000 has been suspended for five years, on condition that the respondent is not found guilty of improper conduct relating to work done during the period of suspension; no cost order; and publication by the IRBA in general terms.
- In addition, the respondent must arrange and ensure that external training on the practical application of auditing standards is attended by the respondent and their audit staff within 60 days of the imposition of the sentence, and must provide evidence of compliance to the IRBA

MODULE 8

THE 7TH INSPECTION CYCLE

Module 8

Module 8: The 7th Inspection Cycle

Topics:

The following items are dealt with here:

- Overview of the IRBA's 7th Inspections Cycle Process
- Enhancements in the 7th Inspection Cycle
- Restoring Confidence

Overview of the 7th Inspection Cycle

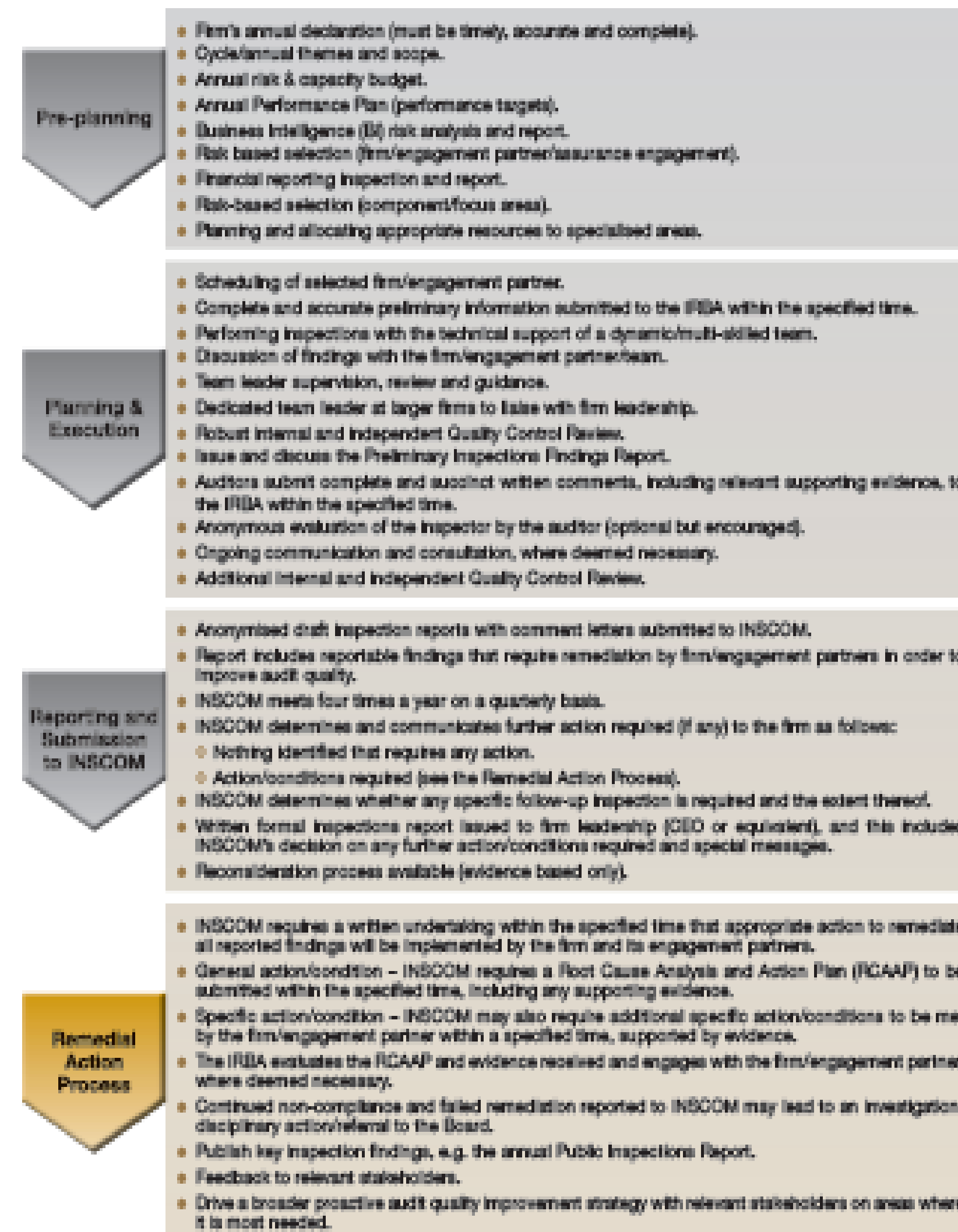


Diagram 1: Overview of the IFBA's 7th Inspections Cycle Process.

Enhancements in the 7th Inspection Cycle

- Increased involvement by firm leadership and accountability through direct reporting.
- An increase in the robustness of Business Intelligence (BI) and risk-based selections (more information is obtained through declarations and collaboration with other regulators) as well as robust financial reporting reviews on PIEs to supplement BI.
- More resources and time allocated to inspecting public interest type audits, with approximately 80% of our inspections' capacity allocated thereto.
- More robust procedures on certain focus areas, such as firm ownership structures, independence procedures, partner performance and remuneration, consequence management practices, KAMs, etc.

➤ *Refer to IRBA Report for detail*

Enhancements in the 7th Inspection Cycle *(continued)*

- Enhanced transparency in the public interest – firms are required to share their inspection reports with audit committees of listed companies and have robust dialogue on matters affecting audit quality. Work is in progress to expand this to non listed audits by removing the confidentiality restriction to share information.
- INSCOM now implements more proactive and strict decisions, e.g. conditional results that require more proactive action by firms; being subjected to a more robust and focused remedial action process; escalating poor performing firms to the Board, etc.
- Firms with significant findings are required to submit root cause analyses and action plans within 30 days of the INSCOM decision letter date, and these are reviewed by the Senior Professional Manager: Remedial Action. A report is prepared and presented to INSCOM and the Inspections team including BI, where risk is identified.

➤ *Refer to IRBA Report for detail*

Restoring confidence

- Leadership Focus (including Board steps, where there are systemic deficiencies at firms)
- Real-Time Proactive Monitoring and the Remedial Action Process.
- Audit Quality Indicators.
- Addressing Secondary Listing Risk.
- Ad-hoc review of audit firms' turnaround strategies.
- Review of the impact of disruptive technology on the auditing profession.
- Comprehensive regulation to include oversight over professional accounting organisations

➤ *Refer to IRBA Report for detail*

QUESTIONS?

Formal Q&A Session

We will now take a quick comfort break before we discuss some questions received during the webinar.

A summary will also be provided to you (uploaded to your profile)

If you would like to e-mail a question please use:

technicalquestions@accountingacademy.co.za

**Thank you for your
participation**

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