

IRBA Releases its 2020 Public Inspections Report which Shows Continued Quality Deficiencies and Inconsistencies at Audit Firms

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The Independent Regulatory Board for Auditors (IRBA) today released its 2020 Public Inspections Report, which covers the second year of the IRBA's Seventh (7th) Inspections Cycle, spanning over the period 1 April 2019-31 March 2020. The IRBA performed these inspections under difficult circumstances, as the profession continues to be besieged by high-profile corporate scandals, most of which have emanated from the state capture revelations.

The objective of the Public Inspections Report is to promote audit quality at a broader level by highlighting significant themes arising from firm-wide and assurance engagement file inspections. In addition, this report is aimed at auditors and those responsible for quality management systems within firms, as well as other relevant stakeholders, such as audit committees, investors, oversight bodies, company directors and financial accountants who are responsible for the integrity of financial information.

In 2019/2020, the IRBA continued to focus on audits with a higher public interest exposure and this included audits of listed entities, other public interest entities and state-owned companies. The majority of the engagement file inspections were performed at firms that are accredited with the Johannesburg Stock Exchange (JSE) Ltd. The IRBA however also inspected small to medium practices and aims to increase its capacity and capabilities to expand its coverage of these firms in the near future.

In the year under review, the IRBA issued inspections reports on a total of 157 (2019: 116) inspections performed at 27 (2019: 44) firms. The inspections outcomes have again indicated inconsistencies and significant deficiencies within the majority of audit firms and assurance engagements inspected in relation to audit quality management and audit quality. These negative trends, which are well below par when compared internationally, seem to continue unabated at most firms, with only a handful of firms showing signs of sustainable improvement.

Despite the inspections outcomes, a significant improvement has been observed at some of the audit firms, where considerable investments were made into real-time quality management, underpinned by leadership's sound attitude (tone) and hands-on (visible) approach.

Meanwhile, the IRBA will continue with its mandatory Remedial Action Process with inspected firms and practitioners, which aims to promote prompt and effective improvement in audit quality across audits of a firm where significant deficiencies were reported.

Improving audit quality and oversight of the financial reporting chain is a critical success factor in rebuilding confidence in the profession. The IRBA, therefore, is committed to engaging with the profession, locally and internationally, to identify and rectify issues of poor audit quality, while engaging with all relevant stakeholders that play a role in the underlying governance and integrity of our financial reporting value chain.

To this effect - and to also continue building alliances that foster collaboration without compromising independence - in the next five years the IRBA will pay particular attention to the following three focus areas:

- Sustainability and relevance;
- Audit quality; and
- Comprehensive stakeholder engagement.

Against the backdrop of changes and uncertainties brought on by COVID-19, the risk landscape has changed and new realities and expectations will create a more challenging environment for the auditing profession. To this effect, the IRBA has, since the declaration of a national disaster by the President, issued guidance on its website on the implications and considerations of COVID-19 with regard to audits and audit risks.

The IRBA Inspections Report can be downloaded from the IRBA website at www.irba.co.za.

Imre Nagy

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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.