

IRBA 2021 Public Inspections Report on Audit Quality

Presenter: **Lettie Janse van Vuuren CA(SA)**



12 APRIL 2022

Launched by IRBA on 7 February 2022

***Improving audit quality is a critical success factor in
rebuilding confidence***

Presenter

Lettie Janse van Vuuren CA(SA)

- She is a Chartered Accountant, Qualified Auditor, Assessor and Moderator, and joined SA Accounting Academy in November 2017 as Head of Technical.
- 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 also responsible for our MCLU (Monthly Compliance and Legislation Updates). Lettie's constant research on the latest developments allows us to post technical daily alerts on LinkedIn, compile newsletters for subscribers and provide further detail to assist our clients in assisting their clients. She also records Technical Summary Videos (TSVs) on a wide range of topics on a regular basis.
- 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, other manuals, etc.



WHAT'S ON THE AGENDA?



Contents

- **Introduction:**
 - Reflection on the 7th Inspection cycle
 - Overview of the new IRBA 5-year strategy;
- **Analysis of findings and summary of the IRBA 2021 Public Inspections Report:**
 - Overview of inspection results 2021
 - Key inspection themes, comprising deficiencies found at the following 2 levels:
 - Firm-wide, and
 - Individual Assurance Engagement;
 - Remedial Action Process: including an overview of the Top 5 Reportable Deficiencies and Remedial action plan; and
- **Overview of the 8th Inspection Cycle**
- **Future Outlook**
- **Conclusion**



Quotes

*Quality is everyone's
responsibility and we never
have to stop getting better*

- W E Deming



INTRODUCTION

(BACKGROUND & FOCUS)

Abbreviations used

- **IRBA** = Independent Regulatory Board for Auditors
- **PIR** = Public Inspections Report
- **INSCOM** = IRBA's Inspections Committee
- **ISAs** = International Standards on Auditing
- **RAP** = Remedial Action Plans
- **RCA** = Root Cause Analysis

Overview

- IRBA released their brand new 2021 Public Inspections Report, which reveals recurring quality deficiency themes identified in the 3rd and final year of their 7th Inspections Cycle.
- Today we will look at the 2021 inspection's outcomes, key deficiencies, common themes as well as the remedial action plans and activities by the firms.
- Registered Auditors must apply the contents of the latest IRBA Inspections Report in their practice and quality control processes.
 - All attest and assurance staff must stay informed about mistakes made by other practices that have been inspected by IRBA, and take measures to prevent the identified deficiencies within their own practice.
 - This includes Independent Reviewers, because an independent review is regarded as assurance work.

➤ *Refer to Source Document available to you*

Overview

- Issued annually by IRBA for the last 7 years
- *35-page document*
- Released on 7 February 2022 (by way of public launch event)
- The focus of this report is remedial in nature
- Covers the 3rd and final year of the 7th Inspections Cycle
 - inspections performed during the period 1 April 2020 to 31 March 2021
 - A total of 157 (2020: 157) inspections performed at 24 (2020: 27) firms
 - These reports include 7 firm-wide and 150 individual engagement file inspections (from 123 RAs)

Refer to the Public Inspections Report – available to you as a Source Document

Focus Areas

Increased focus on:

- leadership;
- tone-at-the-top;
- leadership involvement and effectiveness of remedial action processes; independence and ethics;
- acceptance and continuance; effectiveness of the firm's quality control process;
- consistency and quality of engagement performance; and non-compliance with laws and regulations.

Refer to the Public Inspections Report – available to you as a Source Document

INSPECTION RESULTS 2021

How files are selected

- 2 types of inspections:
 - Firm inspections
 - Audit file inspections
- Risk-based approach
- IRBA's philosophy is to put quality before quantity
- Focus on audits of listed entities & PIEs

Refer to the Public Inspections Report – available to you as a Source Document

Inspection Outcomes

- 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
- IRBA will continue with its mandatory Remedial Action Process

INSPECTION THEMES FOR 2020/2021

Section Contents

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

Outcome vs Audit Quality

OUTCOME

Referral for investigation

Significant improvement

Some improvement

No further action required

Opinion may be appropriate. No risks identified/no significant concern related to audit quality.

GOOD

Opinion may be appropriate, with a few areas identified that require prompt improvement. Some concern related to audit quality.

ACCEPTABLE

Opinion may or may not be appropriate, with several/ significant areas reported that require prompt improvement. Significant concern related to audit quality.

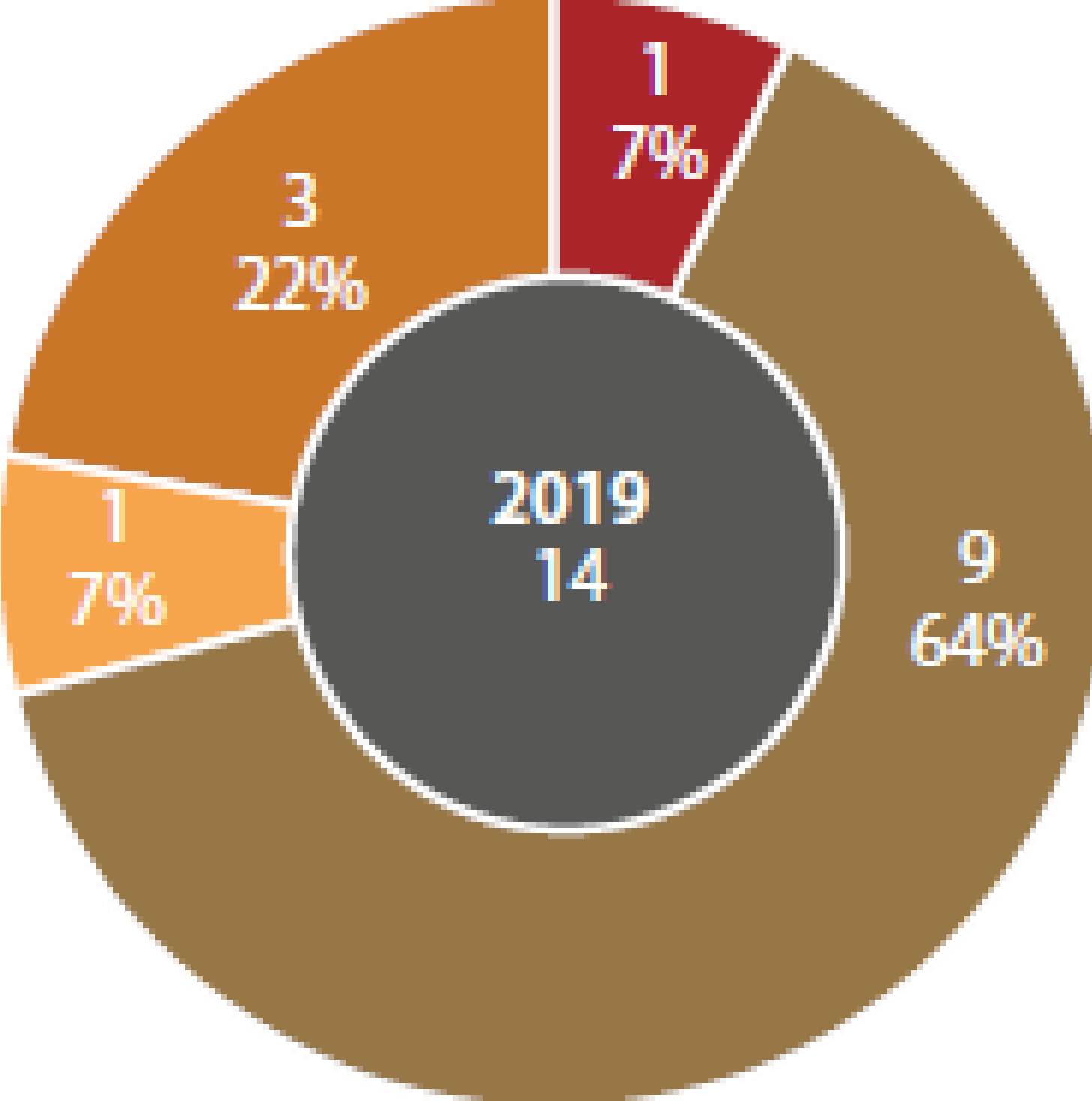
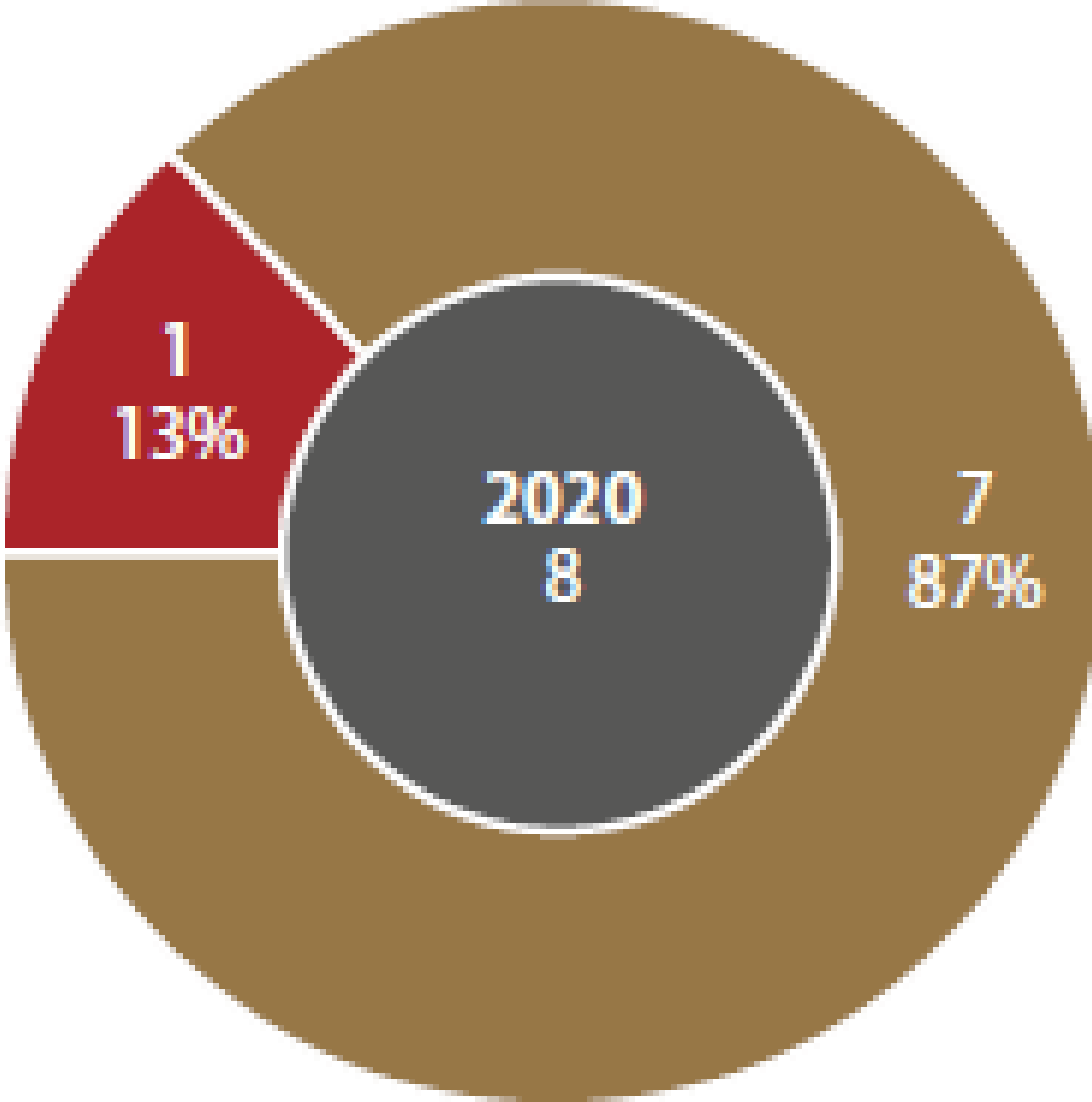
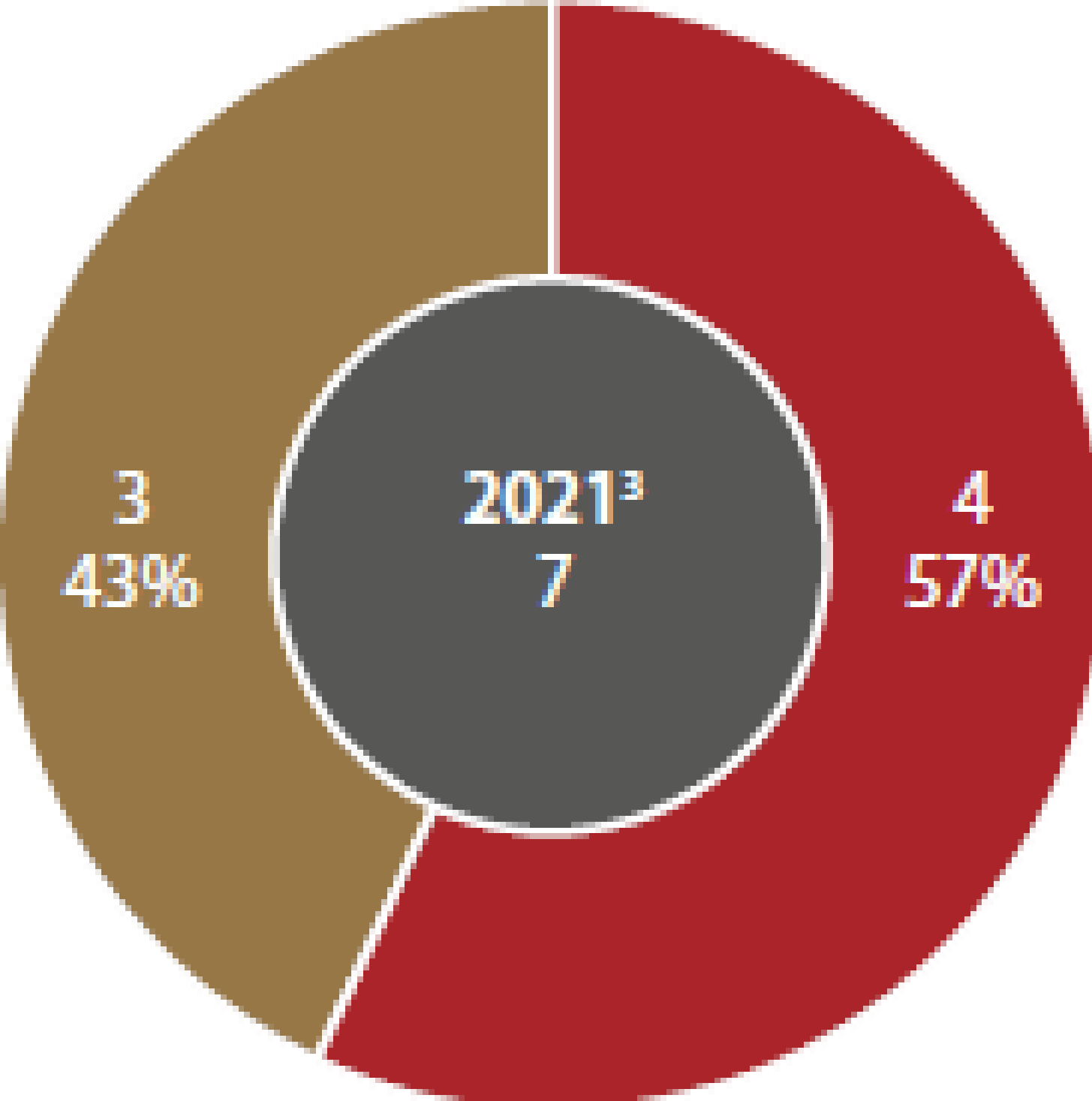
POOR

Opinion is possibly inappropriate or fundamental failure (non-compliance with standards, the Code and applicable legislation) that requires an investigation and urgent intervention/ improvement. Poor audit quality, not on an acceptable standard and a possible significant impact on public interest.

FUNDAMENTAL

AUDIT QUALITY

Firm-wide QC Inspection Results



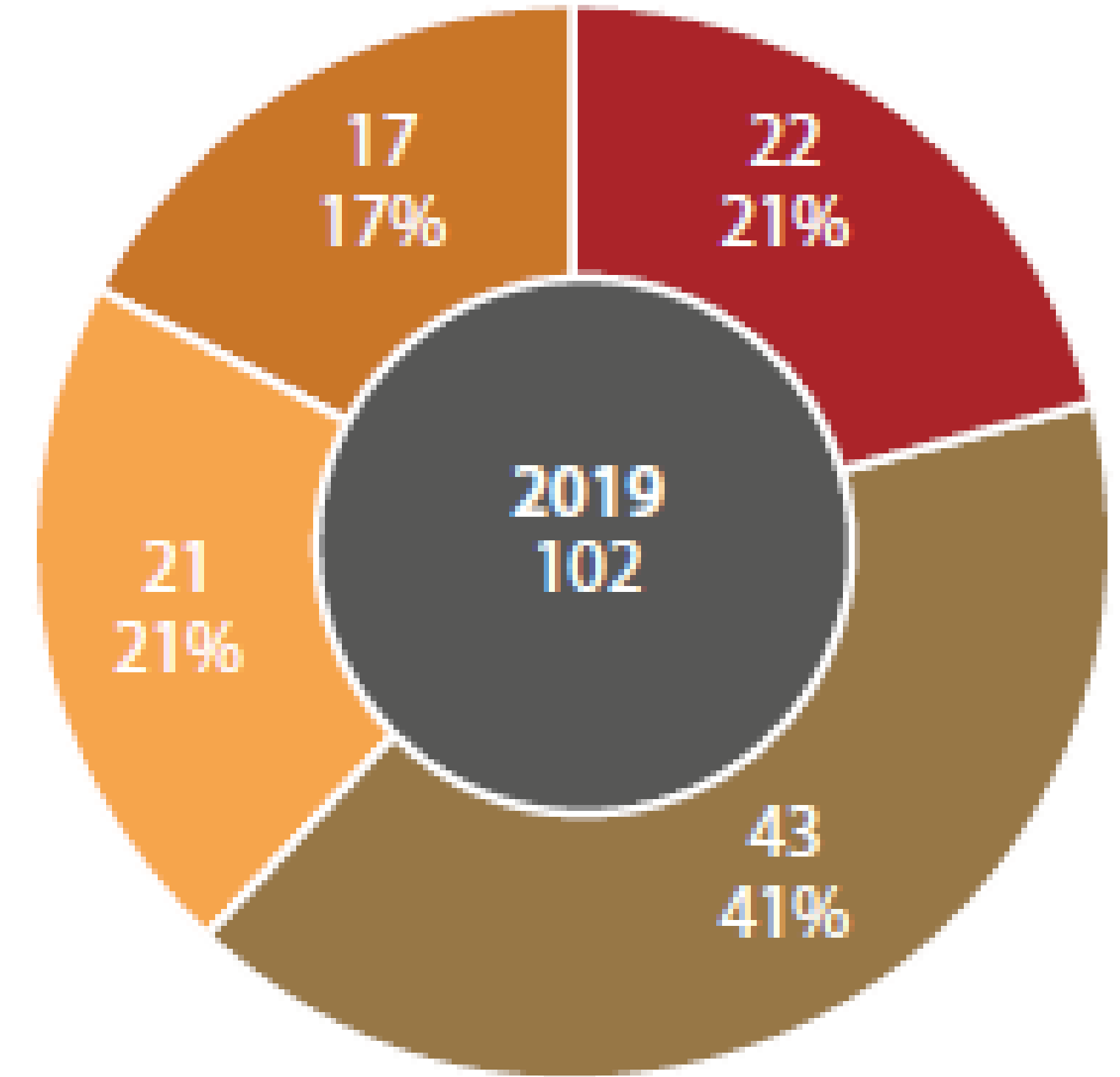
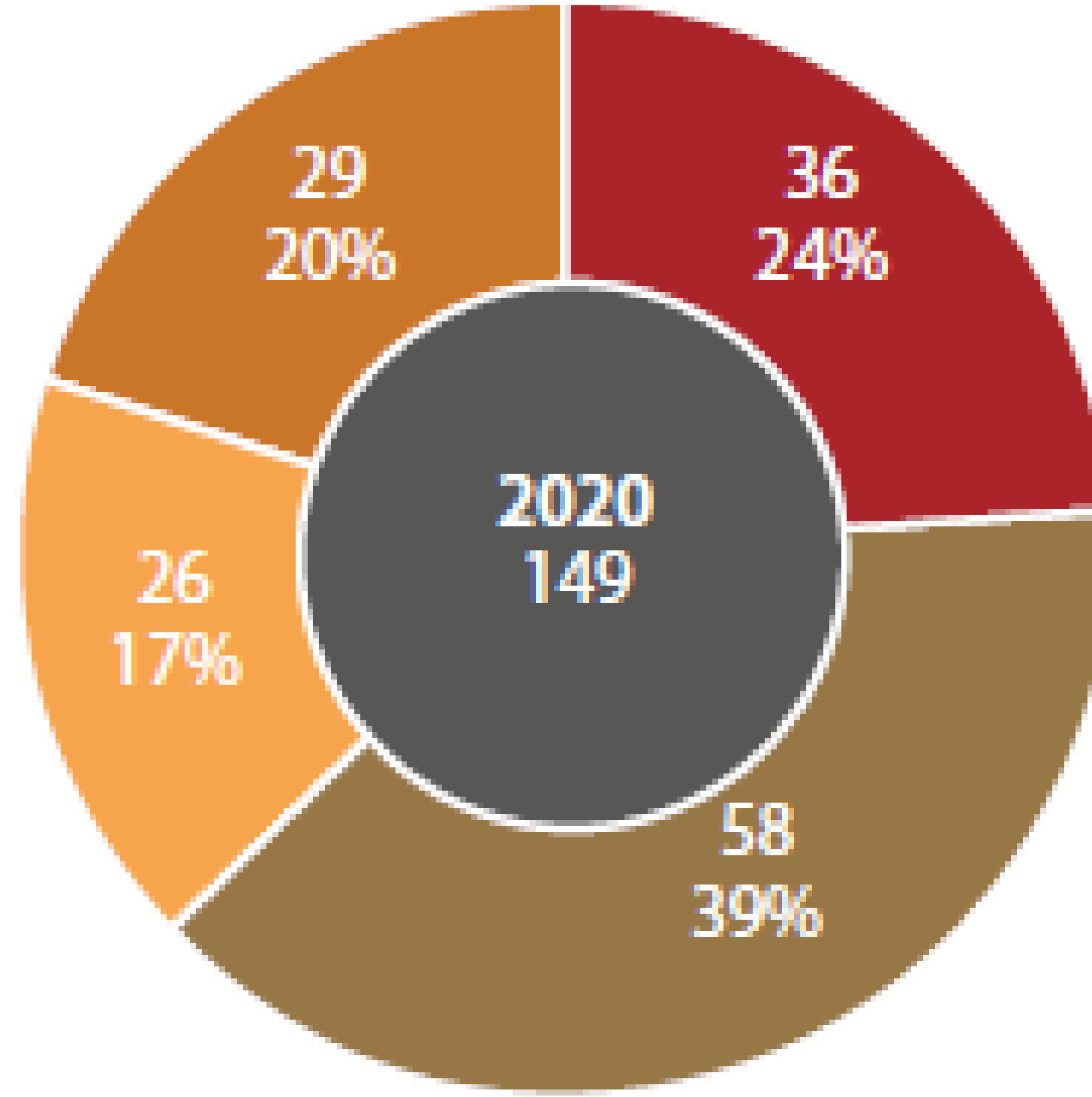
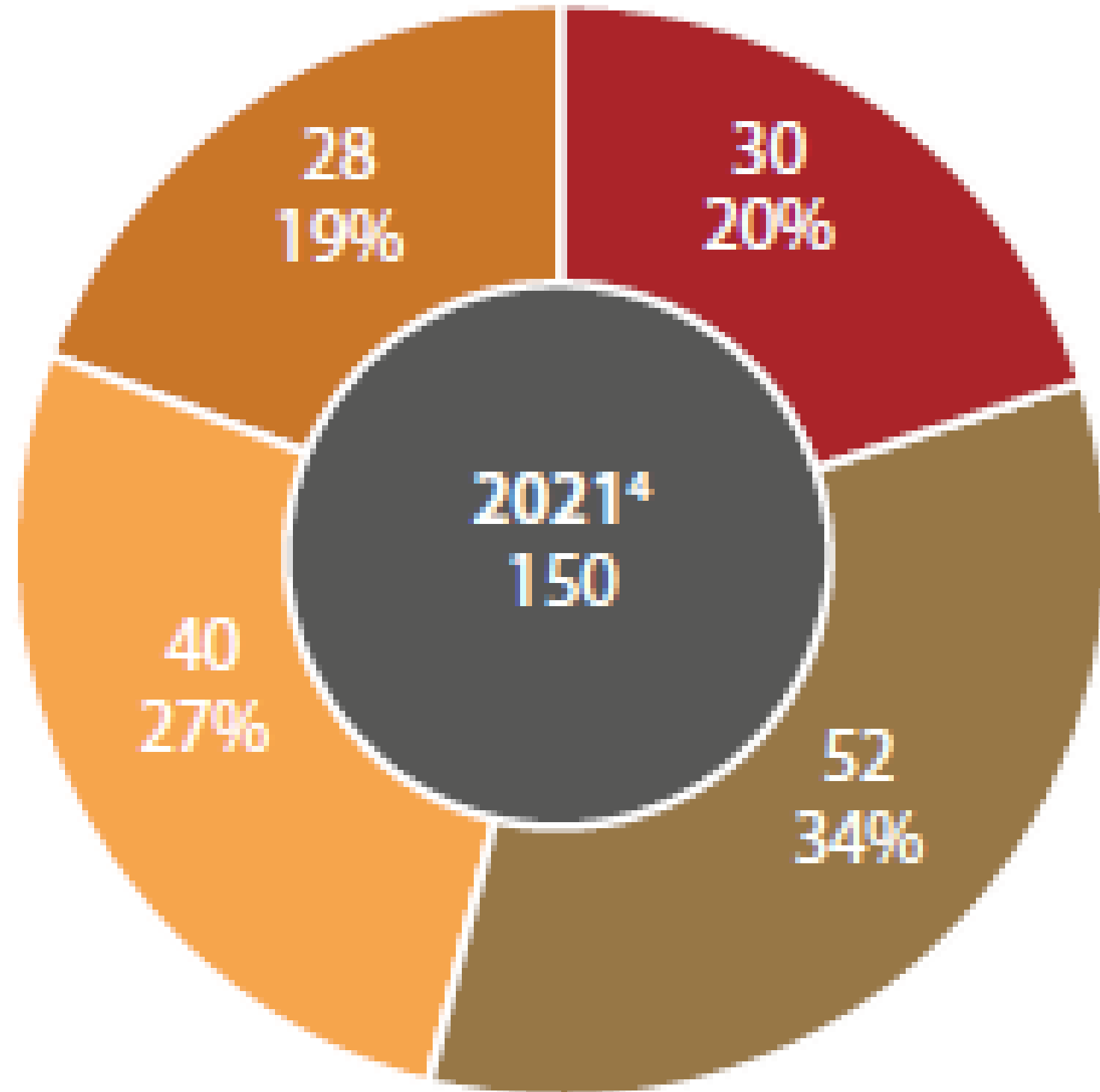
No further
action required

Some
improvement

Significant
improvement

Referral for
investigation

Engagement File Inspection Results



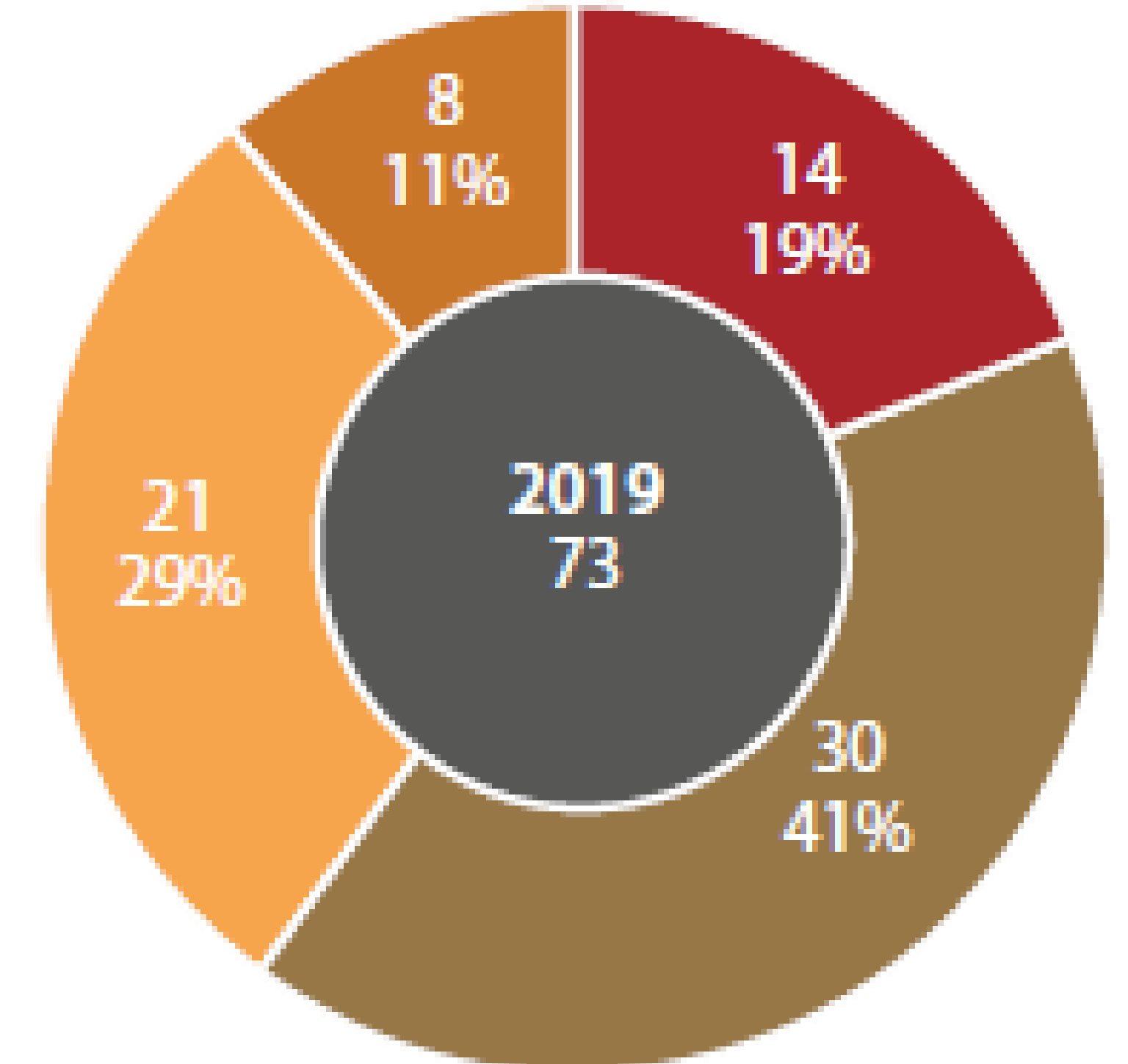
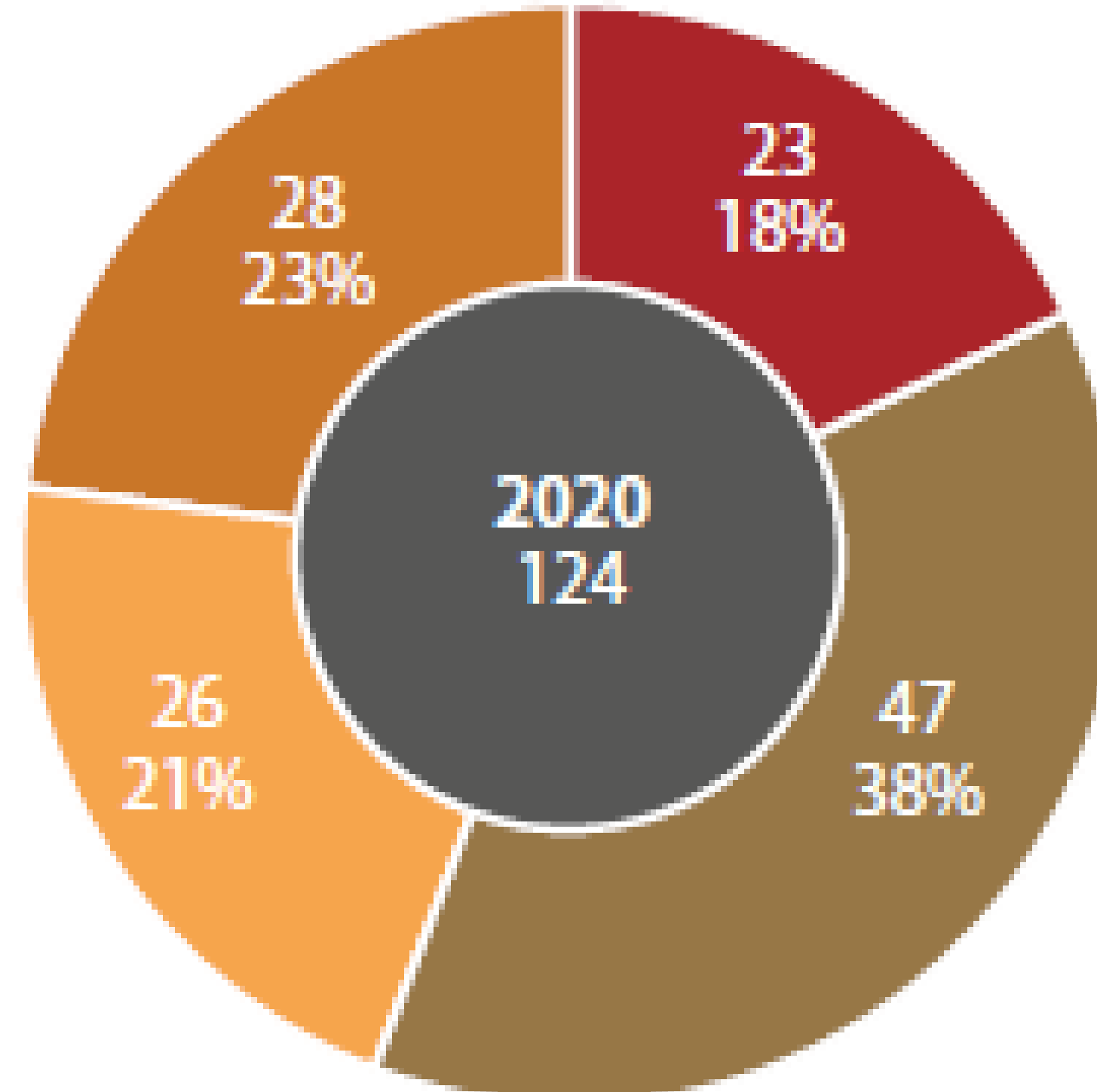
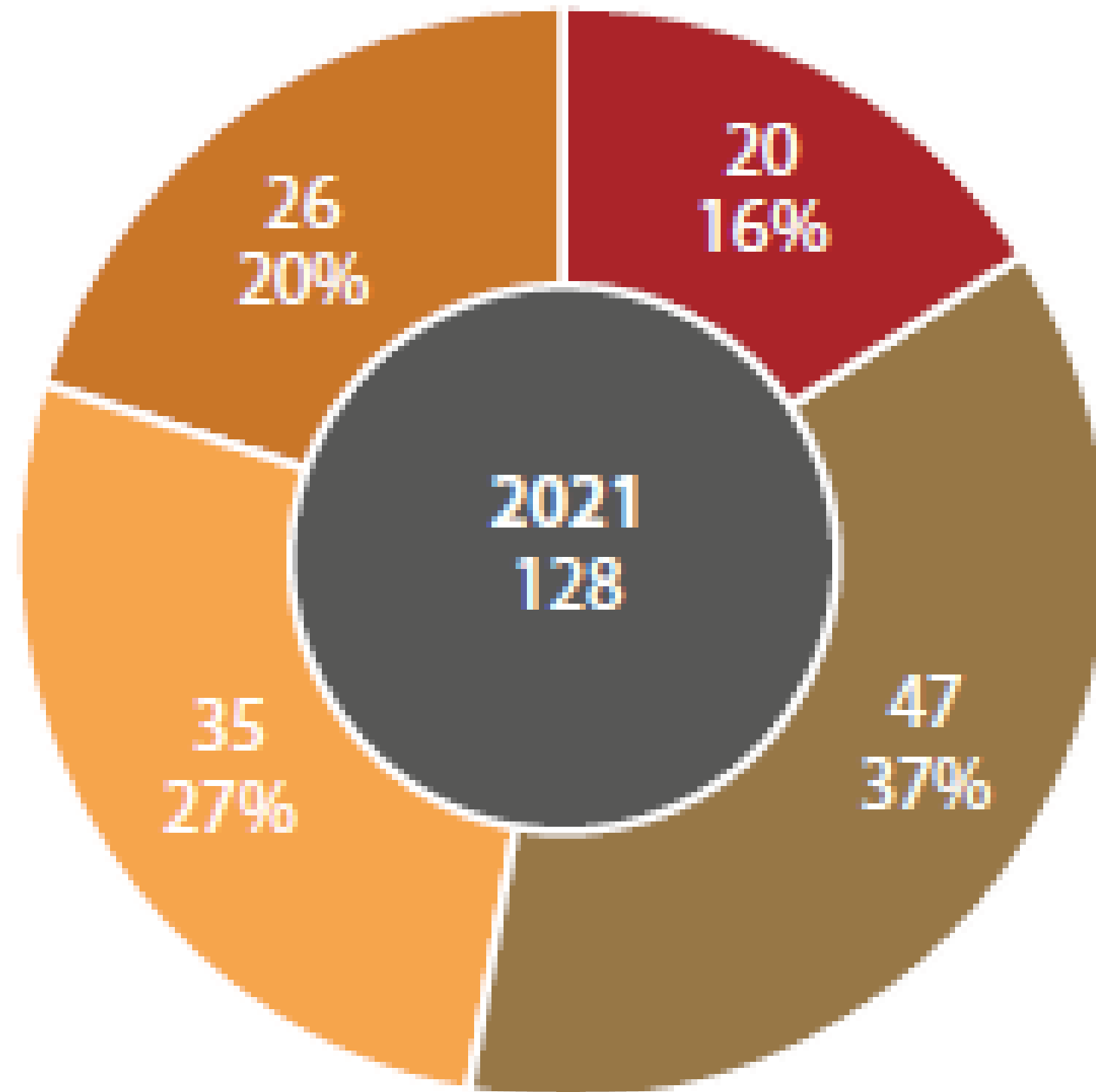
No further
action required

Some
improvement

Significant
improvement

Referral for
investigation

Firms accredited by the JSE



No further
action required

Some
improvement

Significant
improvement

Referral for
investigation

Audit engagement deficiency themes (2020)

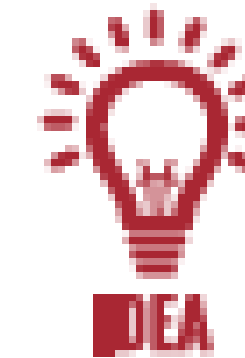


Financial statement presentation and disclosures

Statement of Cash Flows, financial statement disclosures and audit work supporting the financial statement presentation and disclosures.

Revenue

Completeness, including the completeness of populations.



Significant estimates and judgements

Valuation of goodwill and intangible assets.

General auditing principles

Insufficient documented audit evidence, risk assessment (fraud risk, assertion level), assessment of materiality (planning and final), quantitative and qualitative assessment of unadjusted audit differences.



KEY INSPECTION THEMES:

**FIRM-WIDE &
INDIVIDUAL AUDIT ENGAGEMENT**

Section Contents

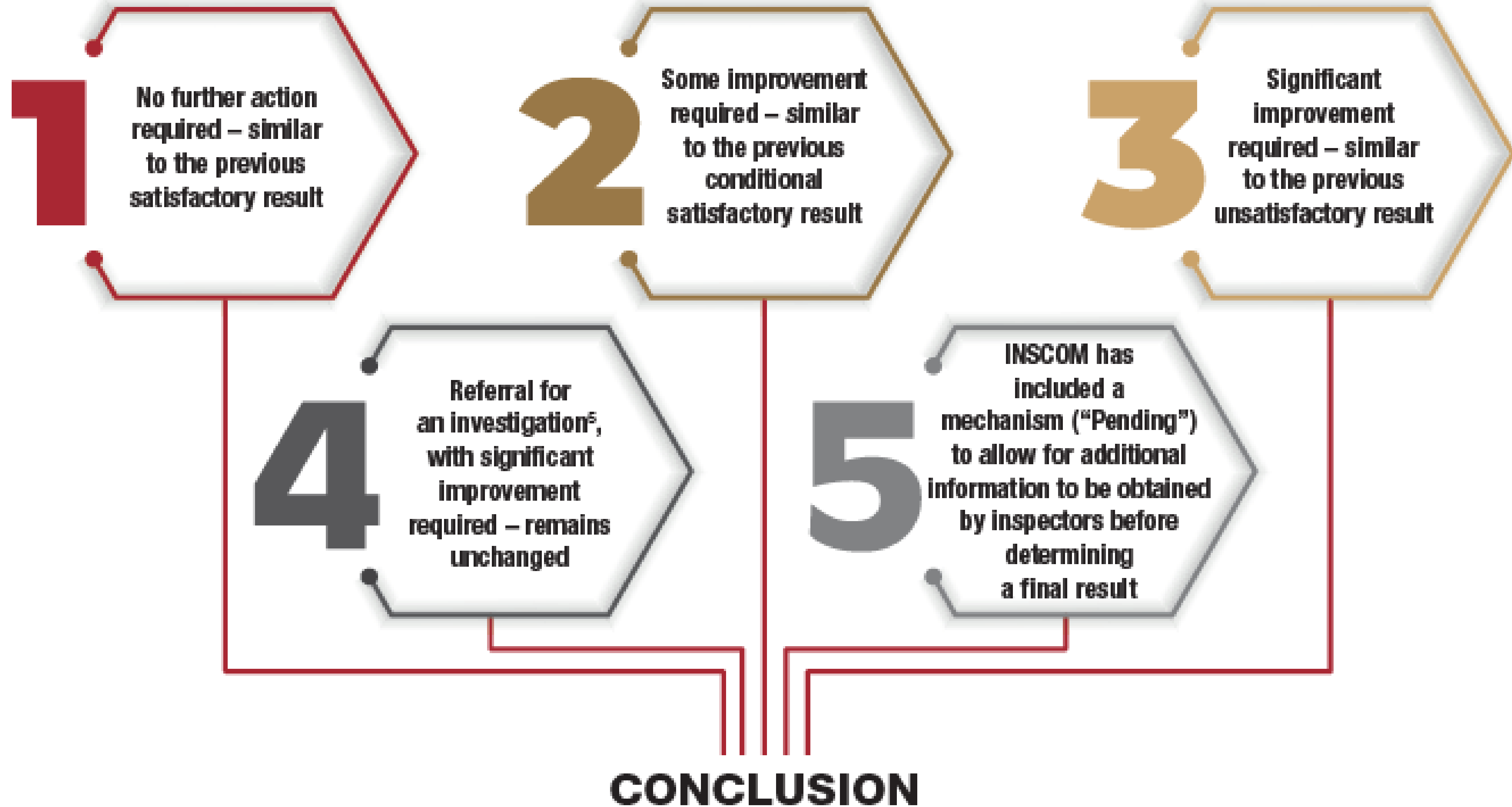
The following items are dealt with here:

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

The 5 Outcomes (from 2020)



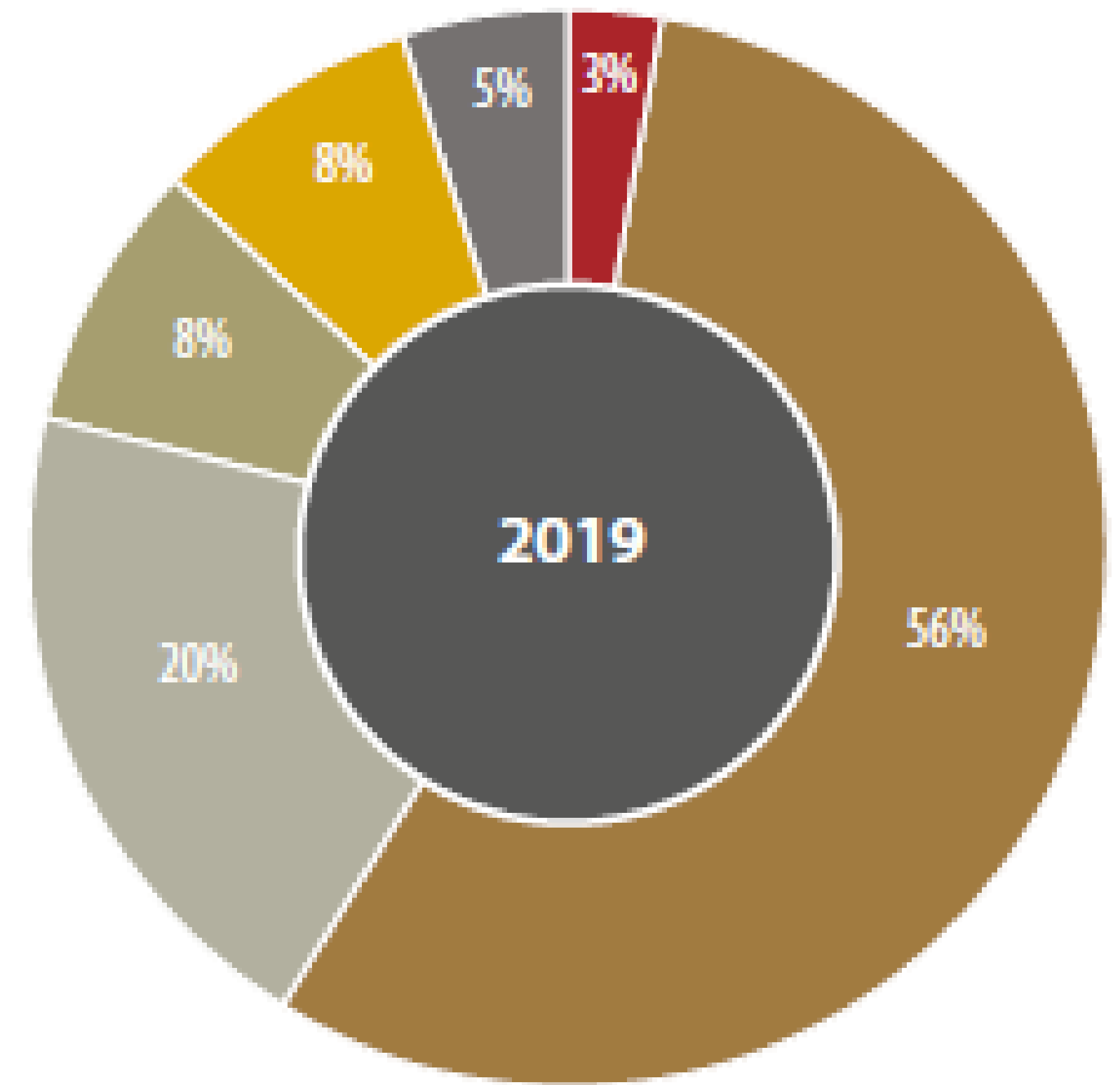
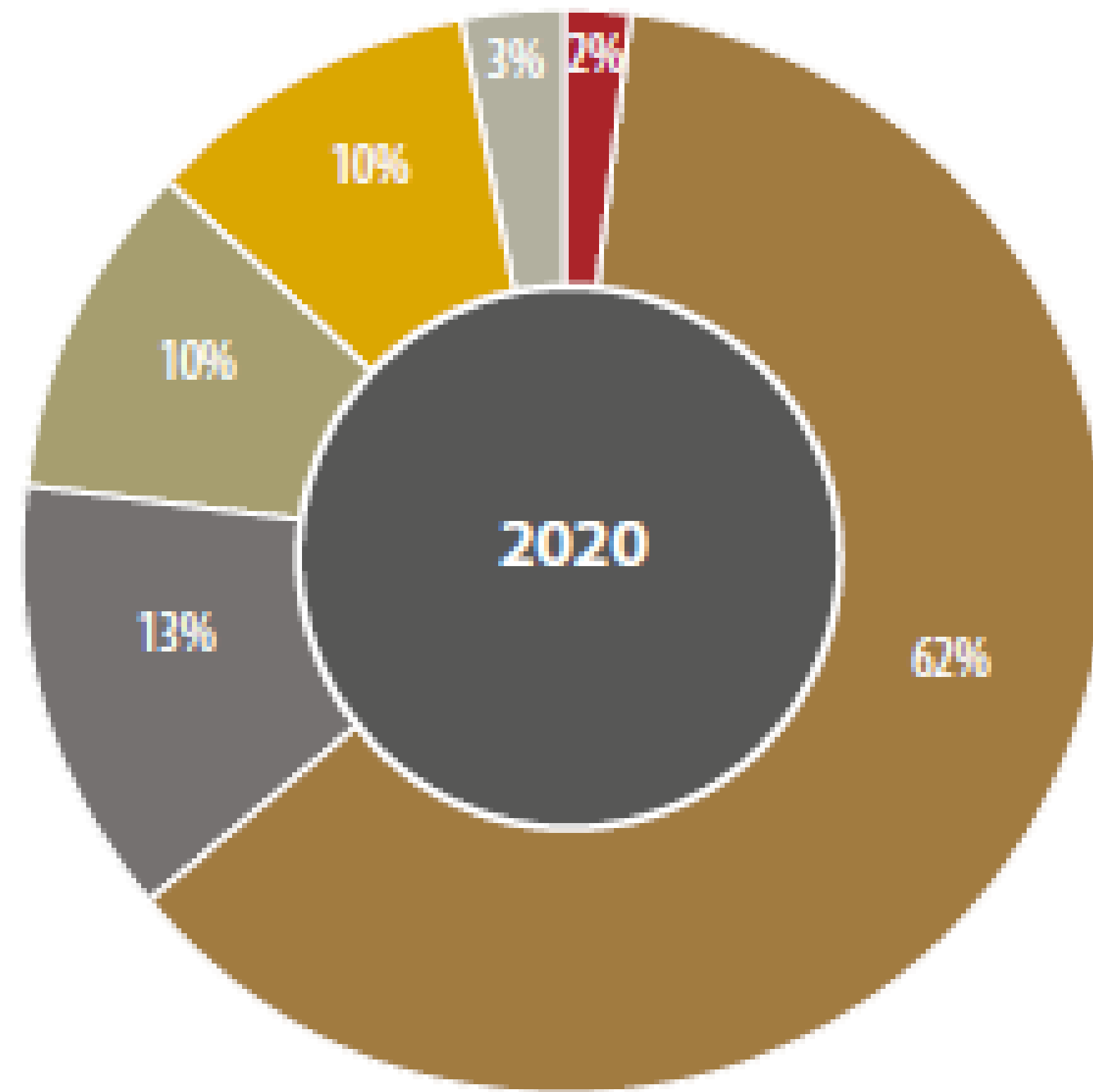
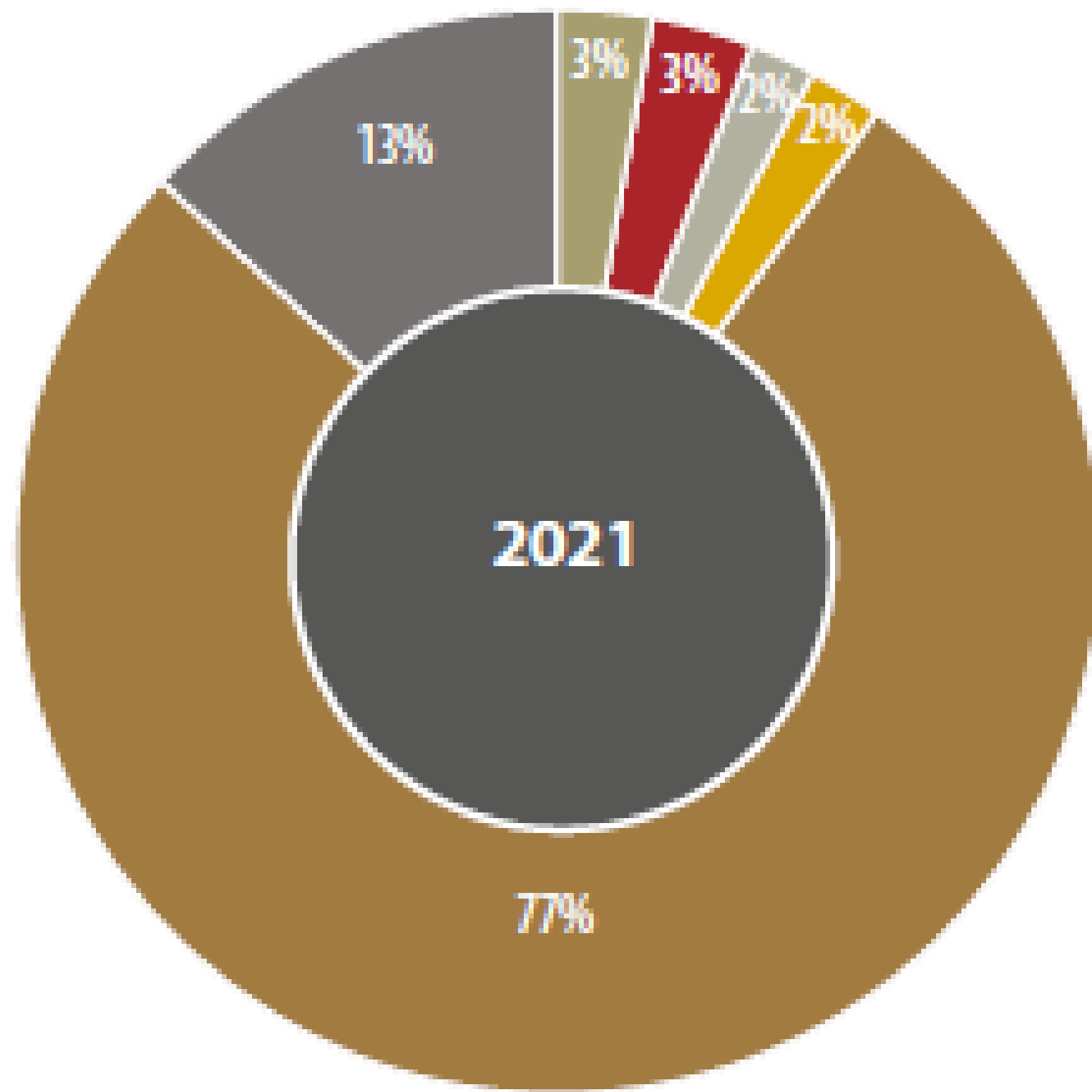
Firm-wide Deficiency Themes

- Leadership responsibilities for quality within the firm
 - Engagement performance and EQCR
 - Relevant ethical requirements (INDEPENDENCE)
 - Other elements of ISQC1 (Acceptance & Continuance, Monitoring, HR)
- *Refer to IRBA Report for detail*
- **Refer to pages 12-18 of the IRBA Report**



Success Factors

ISQC1 elements deficiency spread



Leadership Responsibilities

Ethical Requirements

Acceptance & Continuance

Engagement Performance

Human Resources

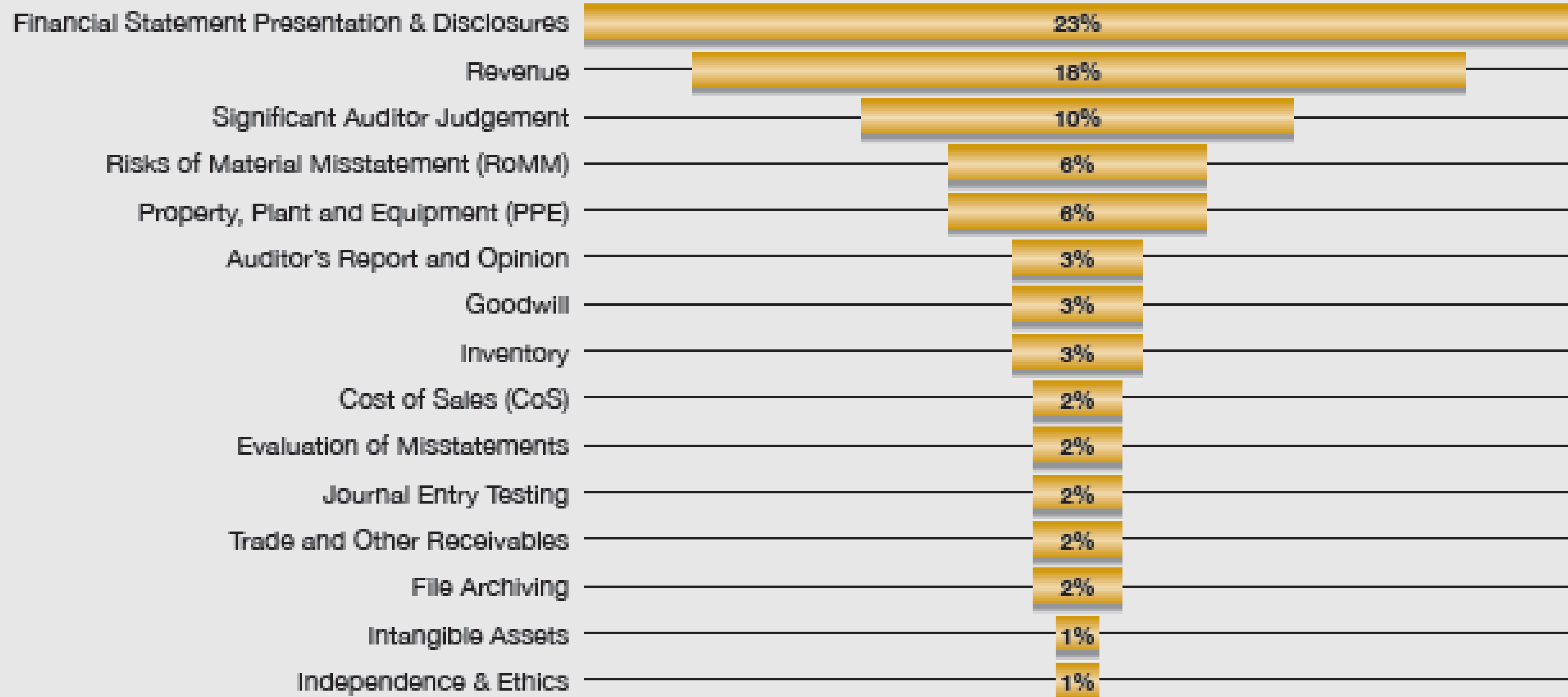
Monitoring

Firm-wide Deficiencies

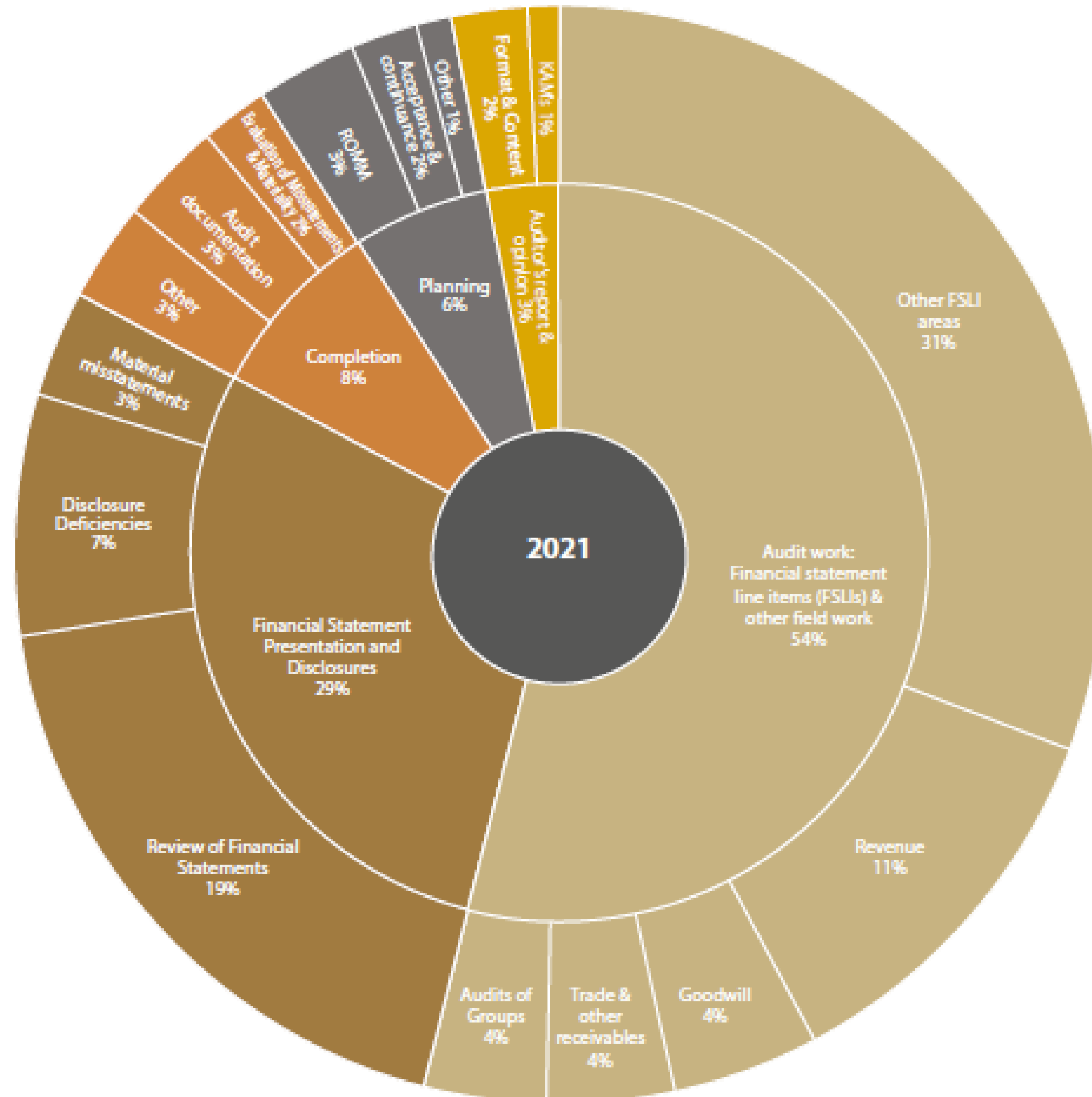
- Significant lack of documented audit evidence at the engagement file level to support the audit opinion issued.
- Inadequate controls over the safe custody and modifications of archived engagement files.
- Significant lack of appropriate disclosure in the financial statements, as required by the relevant accounting framework.
- Independence considerations – the firm’s system of control regarding the acceptance of clients for external audit services in instances where the firm was the internal auditor in the preceding financial year and/or part of the current year.
- Significant lack of documented audit evidence regarding the audit team’s assessment of the unadjusted audit misstatements and an inappropriate evaluation of the aggregate unadjusted audit misstatements.

FYI...Individual Audit Engagement deficiency themes 2020

TOP 15 ENGAGEMENT DEFICIENCY THEMES 2020



Individual Audit Engagement deficiency themes 2021



Top areas requiring significant auditor judgement



Audit work – FS line items

The areas where most deficiencies were identified are:

1. Revenue
2. Trade and other receivables
3. Goodwill
4. Audits of group financial statements

➤ *Refer to IRBA Report for detail*

○ **Refer to pages 18-28 of the IRBA Report**



Success Factors

Audit field work areas requiring significant auditor judgement

The areas where most deficiencies were identified are:

1. Significant auditor judgements (*accounting estimates*)
2. Audit sampling

➤ *Refer to IRBA Report for detail*

○ **Refer to pages 18-28 of the IRBA Report**



Success Factors

Financial Statement Presentation & Disclosure

The areas where most deficiencies were identified are:

1. Material misstatements (*Statement of Cash flows, audit opinion*)
2. Disclosure deficiencies (*Directors' Remuneration, Goodwill*)
3. Review of financial statements

➤ *Refer to IRBA Report for detail*

○ **Refer to pages 18-28 of the IRBA Report**



Success Factors

Audit Planning

The areas where most deficiencies were identified are:

1. Risk Assessment
2. Acceptance and Continuance (specifically INDEPENDENCE)

➤ *Refer to IRBA Report for detail*

○ **Refer to pages 18-28 of the IRBA Report**



Success Factors

Audit Completion

The areas where most deficiencies were identified are:

1. Evaluation of uncorrected misstatements
2. Completion of the assembly of the final engagement file (archiving)
3. What needs work?
 1. Assessment of unadjusted misstatements
 2. Revision of final materiality

➤ *Refer to IRBA Report for detail*

○ **Refer to pages 18-28 of the IRBA Report**



Success Factors

Auditor's Report and Opinion

The areas where most deficiencies were identified are:

1. Not in line with SAAPS 3!!! *Key paragraphs missing*
2. Omission of reference to separate/consolidated AFS
3. Audit tenure not disclosed
4. Key Audit Matters
5. What needs work?
 1. Format & working
 2. Correct referencing to amounts & notes

➤ *Refer to IRBA Report for detail*

○ **Refer to pages 18-28 of the IRBA Report**



Success Factors

REMEDIAL ACTION PROCESS

Section Contents

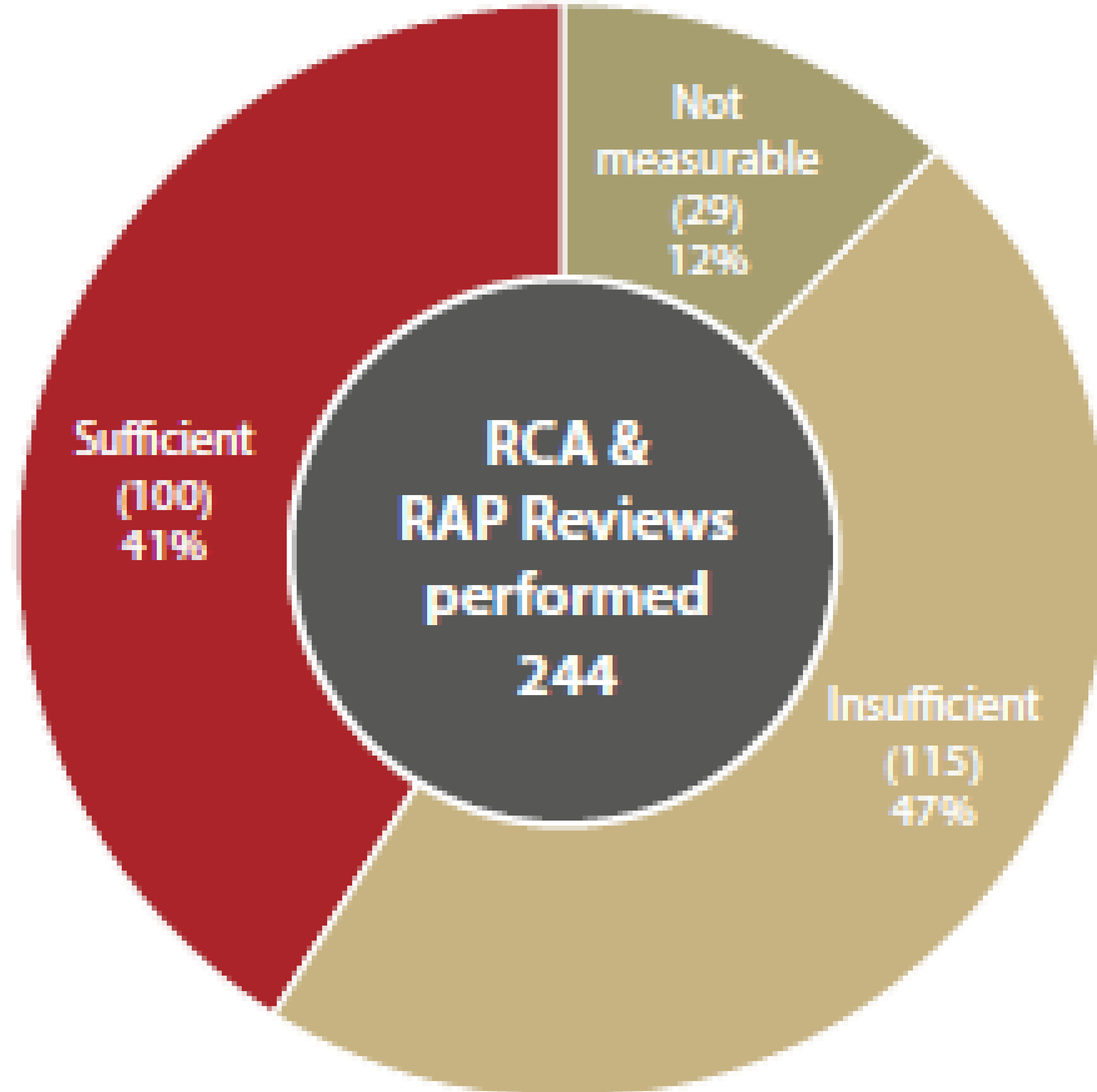
The following items are dealt with here:

- Statistics
- Top 5 Reportable deficiencies
- Revisiting the 5 WHYs Root Cause Analysis Tool
- Concluding remarks

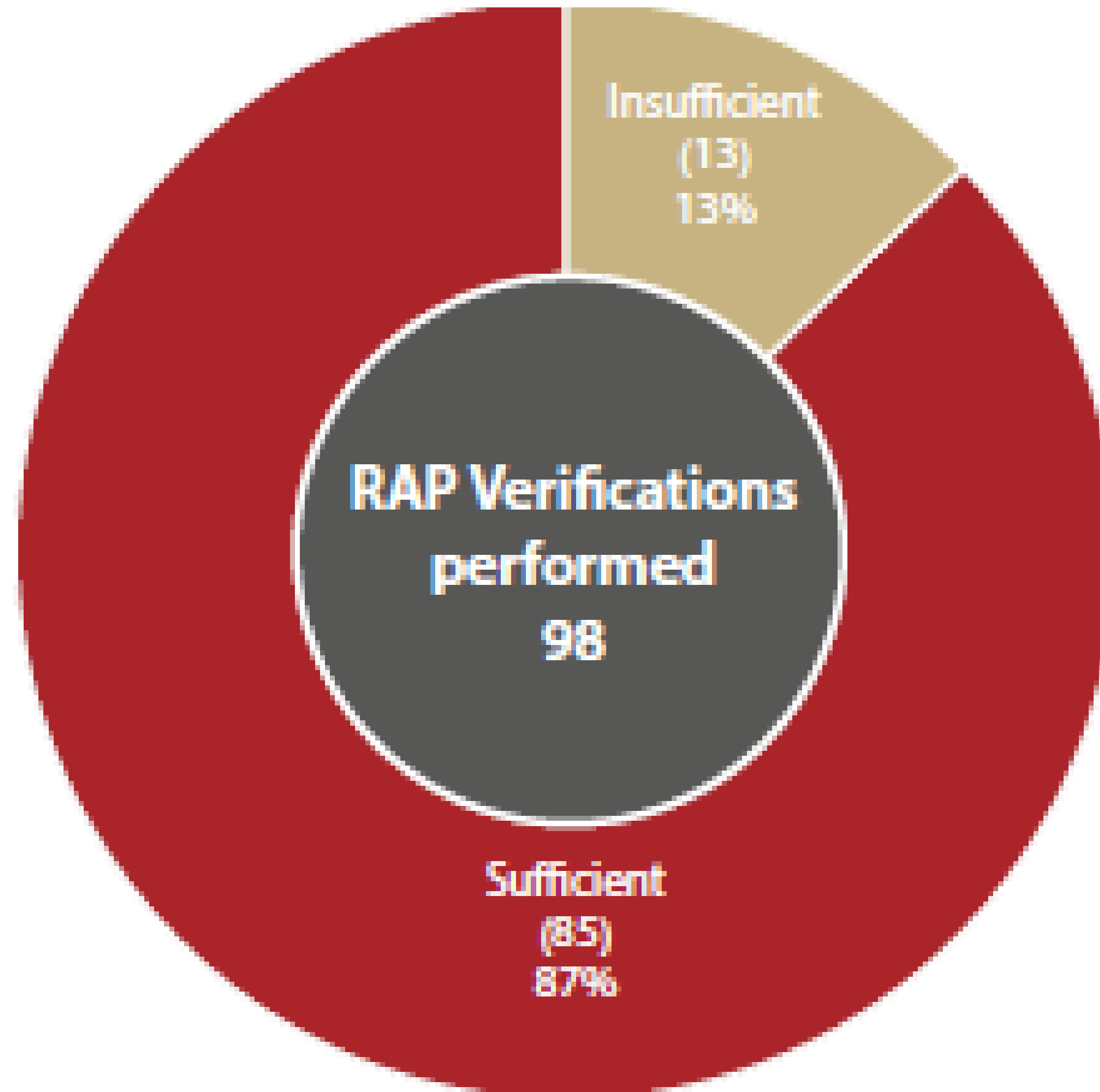
Activities

- The RAP is only followed with firms and practitioners that have inspection outcomes that indicate significant improvement or investigation referrals.
- Where the inspection outcome requires some improvement, a desktop-based verification process of evidence is done to assess whether the matters are cleared or will be cleared by the firm/ practitioners
- An analysis of our 244 RCA & RAP reviews performed at firms/practitioners during the year shows:
 - 100% of the 98 cases where specific conditions were required by INSCOM, the RAPs were implemented and executed – resulting in the appropriate required remediation being performed.

Review of RCAs & RAPs



Review of RAPs



RAP Review of the Top 5 Reportable Deficiencies 2021

The top reasons for referrals for investigation are:

1. Verification of the Statement of Cash Flows
2. Summary of unadjusted audit differences
3. Goodwill with a link to estimates (ISA540R)
4. Revenue
5. Review of financial statements

- **Refer to table on pages 30 & 31**

(reasons for re-occurrence, most likely root causes identified by firms, how rectified by most firms through the implementation of RAPs)

FYI...Examples of Common findings & Root causes 2020

a) Statement of Cash Flows (non-cash and classification)

- Lack of review procedures or proper execution thereof / inappropriate staff allocation / lack of expertise / lack of training / trivialising the importance of the Statement of Cash Flows.

b) Revenue (mostly completeness, including population and source)

- Inappropriate staff allocation, e.g. junior staff that lack knowledge and understanding.

c) Accounting estimates and judgments (including reliance on experts)

- Lack of understanding of the process and purpose / lack of professional scepticism.

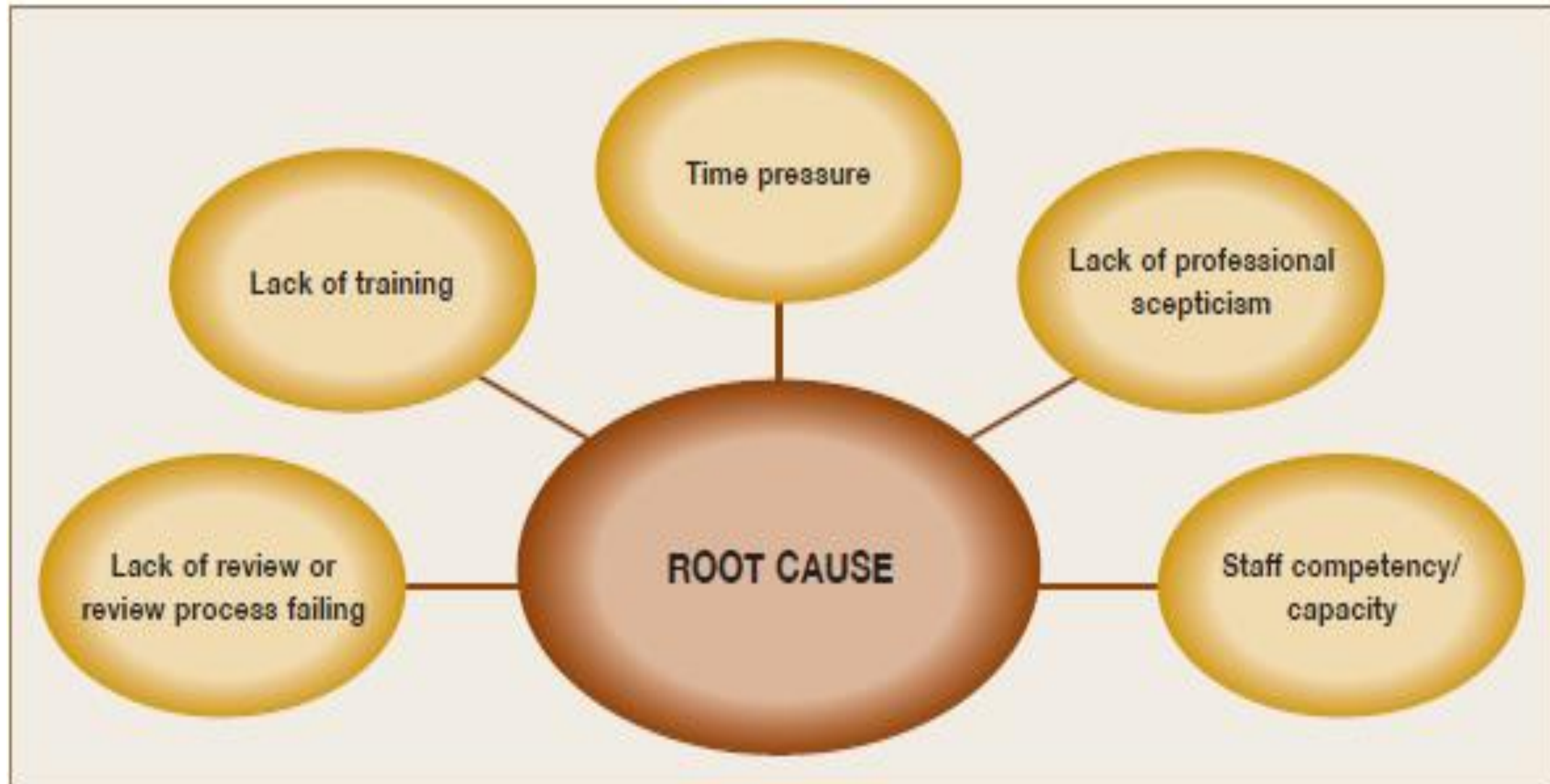
d) Financial statement disclosures (various)

- Lack of review procedures or proper execution thereof / lack of technical IFRS knowledge and experience.

e) Audit evidence not sufficient and appropriate

- Staff capacity and time pressure / lack of review by the engagement partner.

FYI...Top 5 Root Causes 2019



The 5 WHYs RCA Tool

- Areas of improvement include understanding the process better, utilizing the right tools, e.g. the “5 WHY analysis”, and continued “brainstorming” with the entire engagement team.
 - The “5 WHYs” method is a widely accepted technique used in the analysis phase of reported findings.
 - In many instances it can be completed without complex data collection, but rather by repeatedly asking: “WHY?”
 - This method, if applied correctly, will assist in peeling away the layers of symptoms and get to the root cause of a problem.
 - Although this technique is called “5 WHYs”, one may find that you need to ask the question more than five times before reaching the likely root cause behind the finding.
 - Click on <https://www.irba.co.za/guidance-to-ras/inspections/administration> for more information on RCA
 - **Refer to diagram on page 32**

RAP Conclusion

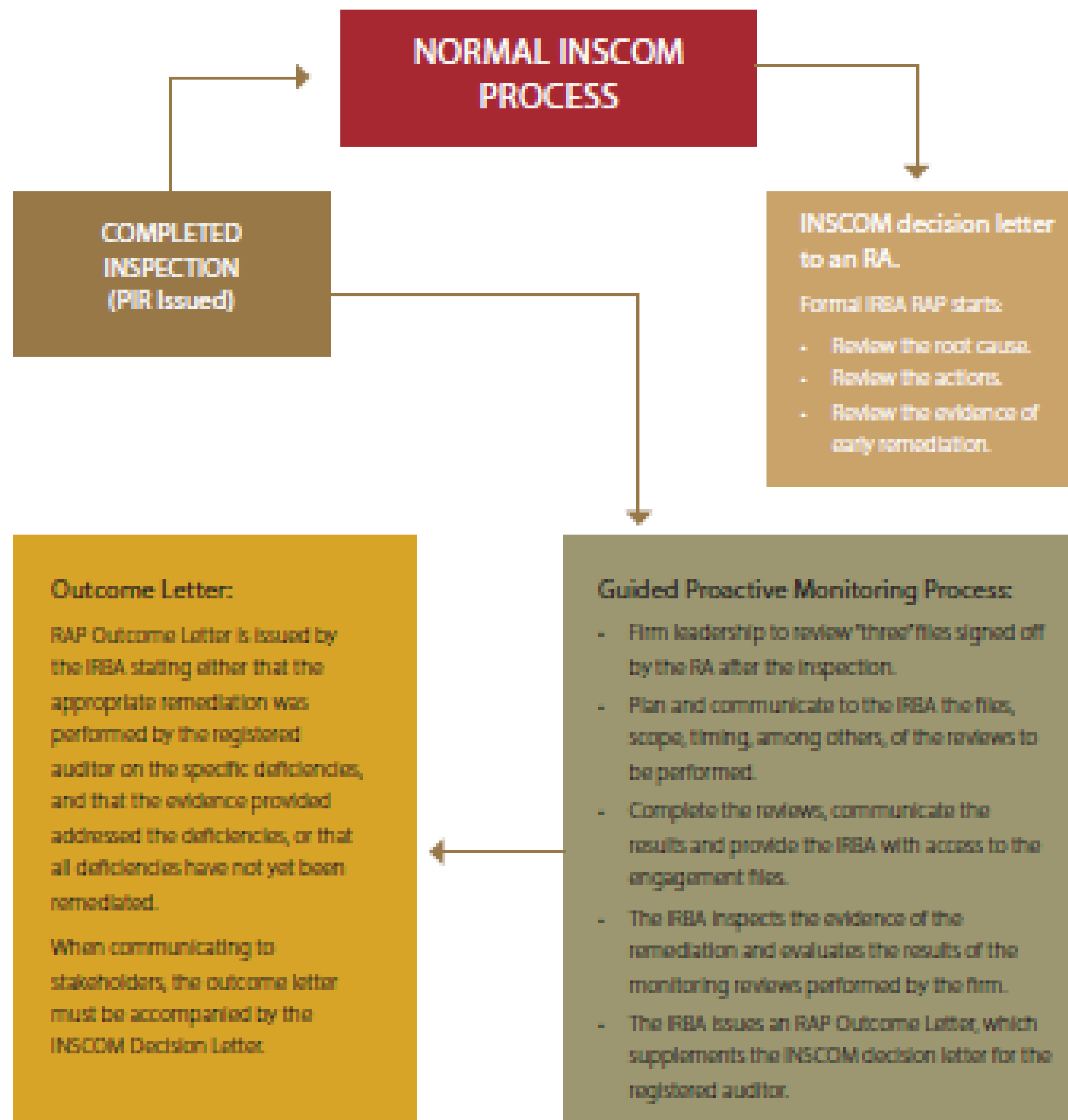
- Failure to remediate findings throughout the firm may indicate that the firm's system of quality improvement is ineffective, which may result in a firm-level inspection finding being reported.
- Firms should proactively design and implement appropriate and effective policies and procedures that would give effect to the new suite of quality management standards once they become effective
 - *NB = continuous learning and training to support audit quality*

THE 8TH INSPECTIONS CYCLE

What's changing in the 8th cycle?

- In the 8th Inspections Cycle Strategy, the IRBA has decided to introduce a **guided proactive monitoring process**
 - The guided proactive monitoring process is aimed at addressing the lack of appropriate remediation of deficiencies reported to firms and registered auditors.
 - Therefore, it is hoped that this process will provide audit firms and registered auditors with an opportunity to commence with the remediation of the audit quality deficiencies at an earlier stage, and then to provide evidence thereof to the IRBA.
 - This process is also aimed at further strengthening the current RAP and eliminating the reoccurrence of similar reported deficiencies
- ***Refer to Source documents on the 8th Inspections Cycle***

Summary of new GPMP



FUTURE OUTLOOK

Where will IRBA focus in future?

- **Evolving auditing standards** (ISQM1 and 2, ISA 220, Joint audits guide)
- **COVID-19:** numerous topics of guidance issued
- **Significant accounting developments** (IFRS 16, IFRS 17, IFRS for SMEs, early adoption of IFRS 9 and 15)
- **Focus on technology**
- **Focus on changes to our Code of Conduct**
- **IRBA's NEW CPD policy** (effective from 1 January 2020)
 - NB = to ensure that auditors remain UP TO DATE!

➤ *The above list is simply an educated guess...😊*

4 Source Documents are given to you

- IRBA Inspections Report 2021***
- Public Inspections Report Placemat 2021***
- IRBA 8th Inspection Cycle Project*
- IRBA Inspections Strategy and Process Eighth Inspections Cycle*

Remember that these are uploaded to your profiles & should be available immediately after the webinar has ended

Other Resources

For those who wish to link to the other key resources made available by IRBA, the links are listed below:

- [7th Inspections Cycle Strategy and Process \(Version 1.2\).](#)
- [2021 Public Inspections Report](#) *Also a Source Document*
- [2021 Public Inspections Report Placemat](#) *Also a Source Document*
- [2020 Public Inspections Report.](#)
- [2019 Public Inspections Report.](#)
- [IRBA Strategic Plan 2016-2021.](#)
- [IRBA Strategic Plan 2021-2025.](#)
- [8th Inspections Cycle Strategy and Process](#) *Also a Source Document*
- [Guided Proactive Monitoring Process](#) *Also a Source Document*

In closing...

- Know what to expect – overview of new 8th Inspections Cycle
- IRBA aims to increase its capacity and capabilities to expand its coverage of small & medium firms in the near future...
- IRBA strongly urge firms to:
 - consider the **heightened risks** in relation to fraud and going concern for upcoming audits, as a result of **COVID-19**
 - *The effects of the pandemic may continue for a couple of years...*
 - prepare for the implementation of the **new quality management standards**

You should continue to focus on quality and remaining up-to-date!



Knowledge = Power!

☐ **Technical Alerts published daily**

- Follow SA Accounting Academy on LinkedIn

☐ **Technical Summary Videos**

- Short summaries that you access when you want to

☐ **Webinars-on-Demand**

- Wide variety of topics – not always a “live” event...
- All our webinars are available as individual recordings – which you can listen to at your leisure
- Please refer to the [SAAA website](#)

☐ **MCLU subscription**

- Stay up-to-date on all the latest developments in our field by attending the **Monthly Compliance & Legislation Update**
- Please refer to the [SAAA website](#) for subscription options



QUESTIONS





for your participation!