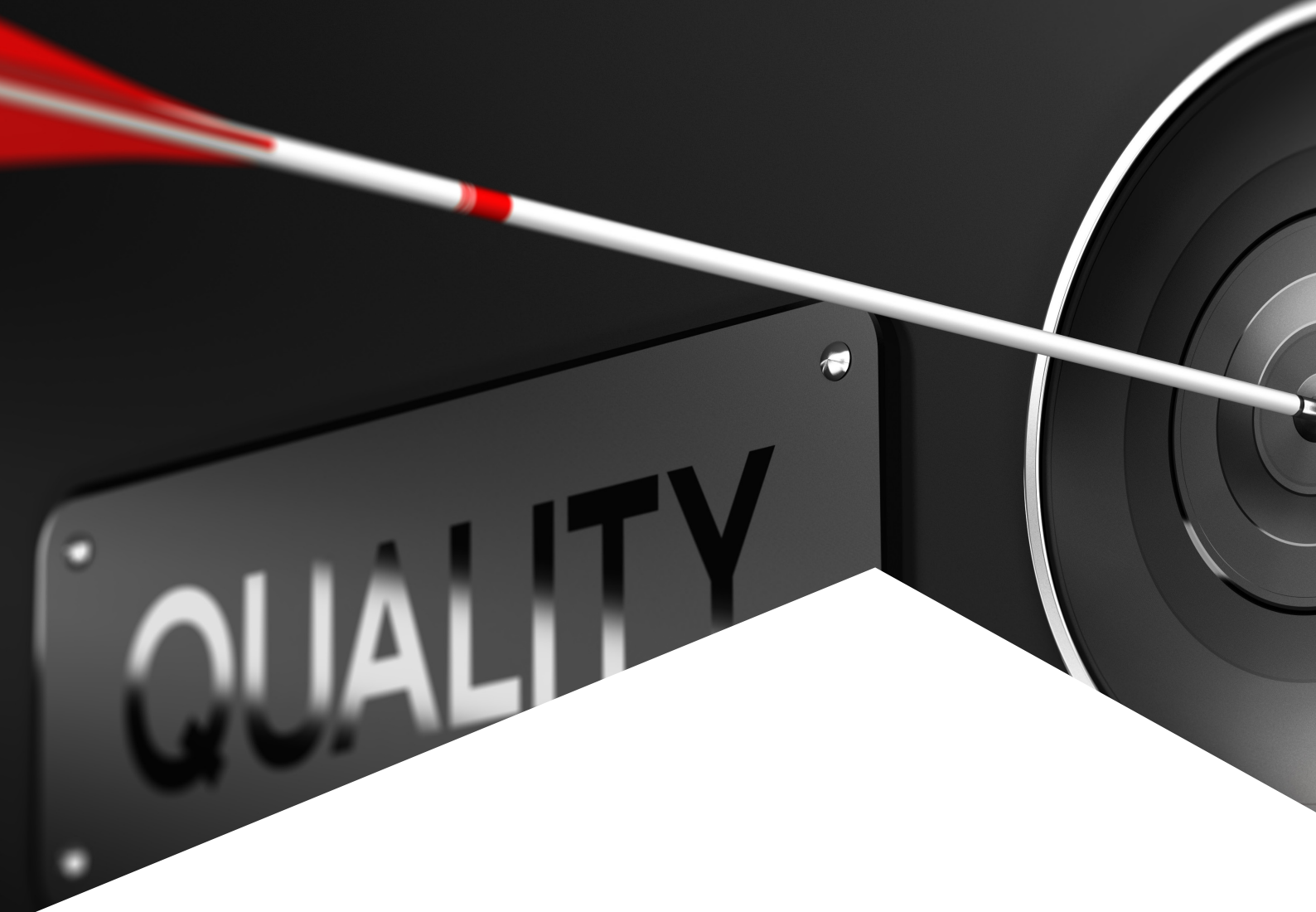




**8<sup>TH</sup> INSPECTIONS CYCLE:  
GUIDED PROACTIVE MONITORING PROCESS**



## 8<sup>TH</sup> INSPECTIONS CYCLE: GUIDED PROACTIVE MONITORING PROCESS

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The Independent Regulatory Board for Auditors' (IRBA) Remedial Action Process (RAP) was strengthened in the 7<sup>th</sup> Inspections Cycle, which was completed earlier this year. This was done with the introduction of a requirement for firms/registered auditors to perform a Root Cause Analysis (RCA) and compile a Remedial Action Plan, to address the audit quality deficiencies that had been identified by the IRBA.

### OBJECTIVE

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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

Further action that the IRBA undertook was to place more focus and emphasis on the responsibility of firm leadership in this regard. However, deficiency themes similar to those already reported to firms/registered auditors continued to be reported by the IRBA throughout the 7<sup>th</sup> Inspections Cycle.

As a result, in the 8<sup>th</sup> Inspections Cycle Strategy, the IRBA has decided to introduce a guided proactive monitoring process.

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.

In addition, it is expected that through this process the IRBA will be able to provide further insights that will be communicated via a newly introduced supplementary Remedial Action Process (RAP) Outcome Letter. This will be issued to the registered auditor with regard to the remediation steps taken, as an evaluation of whether those steps are appropriate in light of the deficiencies

## PARTICIPATION

This process will be introduced in the latter part of the first year of the 8<sup>th</sup> Inspections Cycle, with a phased-in implementation expected as this cycle progresses. An essential part of this proactive monitoring process will be the effectiveness and reliability of the audit firm's internal monitoring controls. Therefore, participation will be at a

## PROCESS OVERVIEW

This process will require greater commitment from firm leadership to perform additional monitoring reviews and a self-assessment of the remediation plans implemented by the firm, to address the audit quality deficiencies identified at a firm-wide level, and for the specific registered auditor.

As part of this process, the IRBA will introduce a dashboard monitoring tool, to facilitate communication between the firms and the IRBA. This will include communication of the planning, progress and results of the monitoring reviews.

## PLANNING AND COMMUNICATION

The firms' monitoring process will include a selection of a minimum of three assurance engagements for each participating registered auditor. The assurance engagements selected will need to be communicated to the IRBA using the dashboard monitoring tool before the monitoring reviews commence.

The scope of the review will have to include the areas in which the IRBA had reported deficiencies, but not necessarily be limited to this. The nature of the assurance engagements (industry, public interest entity classification and size, among others) selected for monitoring has to be similar to the assurance engagements that were inspected and resulted in the reported deficiencies. That means, if a listed assurance engagement was inspected, then a listed assurance engagement should be selected

initially identified, thereby addressing the risk of recurring deficiencies.

This process is also aimed at further strengthening the current RAP and eliminating the reoccurrence of similar reported deficiencies.

firm level, while firm leadership could decide whether they would like to partake in the initiative.

Furthermore, if the firm decides to participate, all registered auditors at the firm that the IRBA will be inspecting will be included.

for review by the firm, for proactive monitoring purposes. If, for whatever reason, it is not possible to perform a review of a minimum of three assurance engagements, firm leadership will have to provide an explanation to the IRBA for approval.

## PERFORMANCE AND REPORTING

During the performance of these limited scope monitoring reviews, should additional deficiencies be identified in the areas being reviewed, or if the deficiencies identified by the IRBA have not been remediated, the firm will be expected to report these to the IRBA and provide it with an updated RCA and a RAP.

Firm leadership will be responsible for completing and signing off on the dashboard monitoring tool, which will summarise the reviews performed. The information collated via the dashboard monitoring tool, together with the relevant supporting evidence, will be submitted to the IRBA on a quarterly basis. The IRBA will then perform reviews of the evidence submitted by selecting certain assurance engagements for re-performance and conclude thereon.

## TIMING

Firms and their registered auditors are encouraged to start this process as early as possible after the deficiencies have been communicated to them.

## WHAT THE PROCESS WILL LOOK LIKE

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### Step 1

- Complete and submit the planning section on the dashboard monitoring tool by providing the following information:
  - Actual clients selected (minimum of three);
  - Rationale for the clients selected;
  - Monitoring scope (minimum scope being the deficiencies reported by the IRBA); and
  - Expected timing (for each of the assurance engagements selected).
- *On-going communications* – The firm to provide quarterly feedback and updates of the progress thereof on the dashboard.

### Step 2

- Complete the monitoring review as well as the results section on the dashboard monitoring tool by providing the following information:
  - Actual scope inspected;
  - Results of the scope inspected;

- Whether all the IRBA-reported deficiencies were remediated;
- Any deficiencies identified; and
- For deficiencies identified, provide an RCA and a RAP.

### Step 3

- Submit the completed information on the dashboard monitoring tool and provide the IRBA access to the supporting evidence.

### Step 4

- The IRBA inspects the evidence of the remediation and evaluates the results of the monitoring review performed by the firm.
- *On-going communications* – At the IRBA's discretion, a further file of the registered auditor can be selected for inspection of the same scope.

### Step 5

- The IRBA issues an RAP Outcome Letter that supplements the Inspections Committee's (INSCOM) Decision Letter for the registered auditor.

## REPORTING

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The IRBA will issue a RAP Outcome Letter to the registered auditor, stating whether or not the remediation process adopted by the firm has been effective in remediating the findings reported on by the IRBA. This RAP Outcome Letter will be referenced to the original INSCOM Decision Letter and must be submitted to all stakeholders together with the original INSCOM Decision Letter.

Please note that the RAP Outcome Letter will not replace the original INSCOM Decision Letter. Rather, the RAP Outcome Letter will be used to evidence whether the RAP taken by the firm or registered auditor has been effective in addressing the audit quality deficiencies that were reported on by the IRBA.

For a graphic summary of this guided proactive monitoring process, see the attached diagram (Annexure).

# ANNEXURE

## A SUMMARY OF THE GUIDED PROACTIVE MONITORING PROCESS

