



MEDIA STATEMENT

Calling Boards and Audit Committees to Action in Strengthening Audit Quality in South Africa

Johannesburg, Wednesday 2 December 2015. The Independent Regulatory Board for Auditors (IRBA) today released its *Public Inspections Report for 2014/2015* titled “*Striving for Consistent, Sustainable High Audit Quality*”, that documents inspection findings identified over the past financial year.

The IRBA Inspection Committee reported on 37 audit firm and 375 audit engagement inspections for the year. A total of 16% of firms and 6% of engagement partners were referred to the Investigating Committee of the IRBA due to fundamental or continued noncompliance with international auditing and financial reporting standards, professional codes and legislative requirements. There is no visible concentration of deficiencies in either the large firms or Small and Medium Practices (SMP) with findings spread fairly evenly over all firm sizes.

According to Imre Nagy, IRBA Director: Inspections, “Caution should be applied in extrapolating the inspection results across the entire audit population. The IRBA adopted a risk-based inspection methodology that is biased towards higher-risk audit areas and specific risk indicators. This means that any deficiencies in these areas could potentially create risks to the public if not appropriately responded to by the auditor. The risk-based approach also assists the IRBA to focus on those identified areas where deficiencies are likely.” The IRBA implemented the recommendations from the *2013 World Bank Report on the Observance of Standards and Codes: Auditing and Accounting* (ROSC) that were adopted by the Minister of Finance. These recommendations are aimed at improving the inspection processes to be more robust and include among others, implementing a risk-based approach and strengthening financial statement reviews.

The IRBA reaffirms the positive role that boards and audit committees can play in audit quality oversight. In terms of the Companies Act, a company’s audit committee has certain duties in overseeing the external auditor’s appointment, independence, fees and terms of engagement. As such, boards and audit committees should look at applying certain audit quality indicators to effectively evaluate an existing or new auditor. These indicators could include requesting from an audit firm (and engagement partner) the most recent IRBA inspection result or internal quality control results; evaluating its financial stability and

reputation as well as evaluating the engagement team's independence, competency, capacity, risk-focus etc. The IRBA has a particular interest in strengthening auditor independence and in this respect has already commenced with research and consultation around various measures to achieve this objective.

In response to the inspection results, the IRBA has implemented robust measures that are aimed at prompting auditors to achieve consistent sustainable high audit quality and produce reliable audit reports on financial information. This has meant going a step further in its inspection process by implementing a Remedial Action Process that is aimed at assisting those firms and practitioners who have shown deficiencies in their firms' quality control policies and procedures or audit engagement files. During this process, the IRBA remains aware of its independence.

"The Remedial Action Process is part of the IRBA's commitment to promote consistent sustainable high audit quality by ensuring that audit firms and practitioners promptly address the root causes of significant inspection deficiencies that have been raised during an inspection," says IRBA CEO Bernard Agulhas. In addition, the firms have to submit a written undertaking that acknowledges that they will address all significant audit quality deficiencies that were reported to them.

"This process can be highly effective and yield the necessary improvements needed, but only if leadership at the firms buys into the remediation process in a constructive manner and then develops and implements appropriate remedial plans and strategies," states the report.

The IRBA's commitment to constantly improve the standards significantly contributed to South Africa being ranked first in the world out of 140 countries for the strength of its auditing and reporting standards for six consecutive years, according to the World Economic Forum's *Global Competitiveness Report 2014-2015*.

The IRBA is committed to engage other role players in the financial reporting sector – including other regulators, audit firms, audit committees, internal auditors, specialists, consultants and management – to appreciate the importance of their respective roles in achieving and maintaining consistent sustainable high levels of audit quality, although the primary responsibility remains with the auditor. The IRBA also agreed to strengthen collaboration with the South African Institute of Chartered Accountants (SAICA) to engage more with auditors through their structures and forums, and SAICA has confirmed their commitment to provide the necessary support to auditors.

The auditing profession is one of the few professions that are inspected on a regular basis. "Inspections and regulation are not only critical to ensure that the highest standards are maintained in a profession, but also provide the public and investors with the confidence that they can rely on the work of auditors. Confidence stimulates investment, and investment creates employment and growth," says Agulhas.

"The independent audit remains a critical component in providing assurance and confidence to investors and other interested parties that the management of assets entrusted to them, have been properly accounted for and reported", he concludes.

The report can be downloaded from the IRBA website at www.irba.co.za. ENDS

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