

Parliamentary Induction

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INDEPENDENT REGULATORY BOARD FOR AUDITORS



Agenda

- The role of the audit regulator
- The role of auditors
- Regulatory philosophy
- Key principles for effective regulation
- UK regulatory reviews
- Restoring confidence through the four pillars
- Key themes underlying restoring confidence
- IRBA initiatives to restore confidence
- MAFR update
- The current environment
- Recent high profile cases
- Resource limitations – Capacity and Funding
- APA Amendment Bill
- Comprehensive Regulation

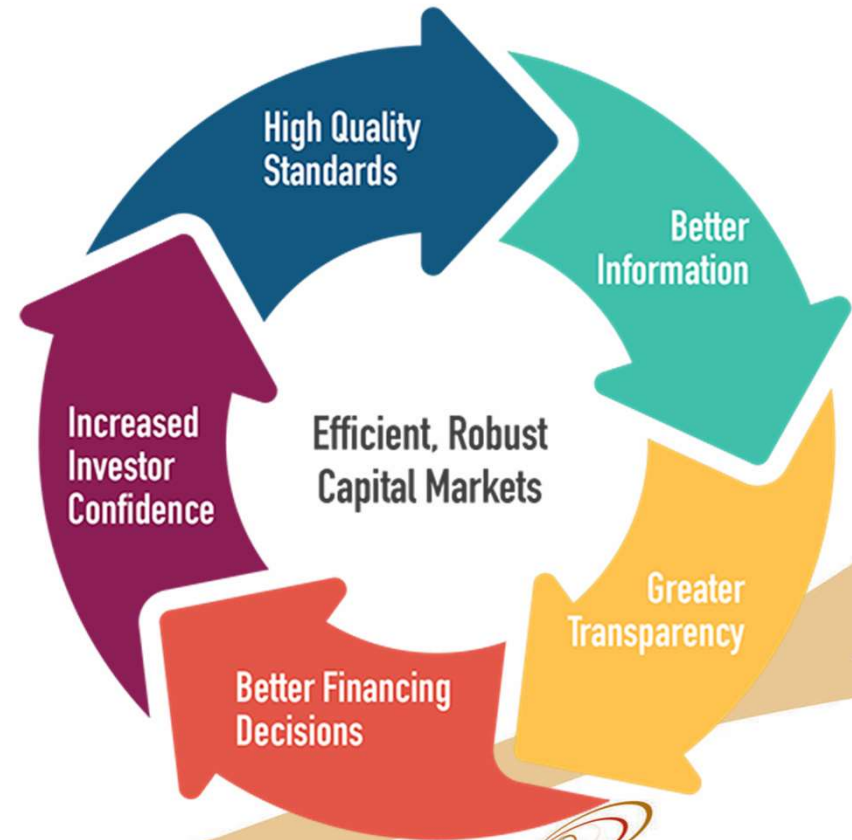
The role of the audit regulator

To create an **ethical, value-driven financial sector** that encourages investment, confidence and **protects the financial interests of the public.**



The role of auditors

By **promoting integrity in financial reporting** and building a basis for **providing confidence**, auditors **reduce financing costs** and contribute to the **efficiency of capital markets**, thereby promoting **economic growth**.



Regulatory Philosophy

Balanced regulation ('right-touch' regulation)

Right-touch regulation is:

- **Proportionate** – only intervene when necessary and remedies should be appropriate to the risk to the public and drive compliance, quality, ethics and independence
- **Consistent** – suitable to be consistently applied without exemptions, close loopholes
- **Targeted** – disincentive vs incentive, aim on the achieving the right behaviour; in line with moral and ethical principles



Key principles for effective regulation

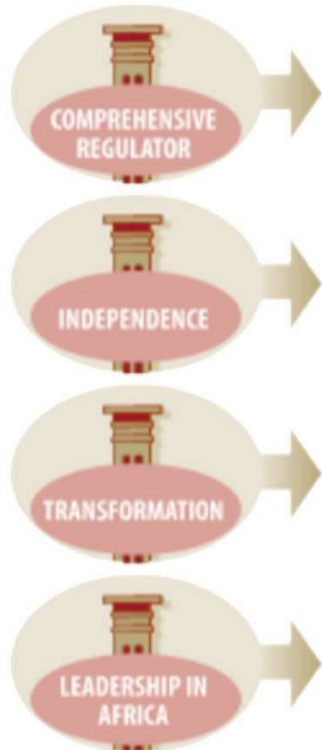
- Independence from profession (but remain the custodian of the profession)
- Government, profession and public must understand the difference between regulator and professional bodies
- Enabling audit legislation and sufficient resources
- Composition of governance structures must ensure independent and effective regulation
- Governance and processes of regulator must be beyond reproach
- Effective communication with profession and the public
- Strong stakeholder relationships
- High quality and sufficient staff
- Enforcement powers

UK Regulatory Reviews

Name of Review	Conducted by	Comment
Review of Audit Competition in the UK	Competition and Markets Authority (CMA)	How firms choose auditors and the frequency of switching, the resilience of the industry if the Big Four have become "too big to fail", and if there are a lack of incentives for auditors to produce "challenging performance reviews"
FRC strategic review	FRC	The focus of the FRC review encompasses quality, viability and independence of the audit market.
Review of the Financial Reporting Council (UK)	Sir John Kingman	Looks at where the regulatory framework should be strengthened.
Labour Party Review of the Audit Market (UK)	Professor Prem Sikka, University of Sheffield	A review of the audit sector and particularly of business practices among the Big Four.
Project Flora – Review of the Audit Product	Audit Quality Forum (AQF) of the ICAEW	Review of standards and technology to find ways to close the sector's expectations gap – the gulf between what auditors actually do, and what the public think they do.
Parliamentary Inquiry	Business, Energy and Industrial Strategy (BEIS) parliamentary committee	The BEIS committee holding parliamentary hearings in the UK.
Vulnerabilities in the Structure of the Audit Sector	Authority for Financial Markets (AFM) Netherlands	Looks at audit quality and structural reforms of the audit sector
Audit Market Review	Joint Committee on Corporations and Financial Services, Australian parliamentary committee	To look into services provided by the big four firms and a review of the audit market; ASIC tasked to develop a new way to measure audit quality

Restoring Confidence through the Four Pillars

FOUR PILLARS



- Four Pillars which underpin the Strategic Plan 2016 to 2021
- Restoring Confidence Strategy added in 2018 as a “fifth” pillar to respond to the current environment
- Aim to restore the profession to its rightful place through championing financial integrity and public interest through promotion of:
 - Accountability
 - Increased consequences for non-compliance
 - Access to mid-tier firms to increase competition
 - Transformation of the profession with a specific focus on Women in Accounting programmes and Black-Owned firms

Key themes underlying Restoring Confidence

- Comprehensive Regulation
- Mandatory Audit Firm Rotation
- Audit Business Models
- Audit Firm Governance
- Strengthening Audit Committees
- Training, Skills and Competencies of Auditors
- Auditor Behaviour
- Audit Product and Quality
- Amendments to APA

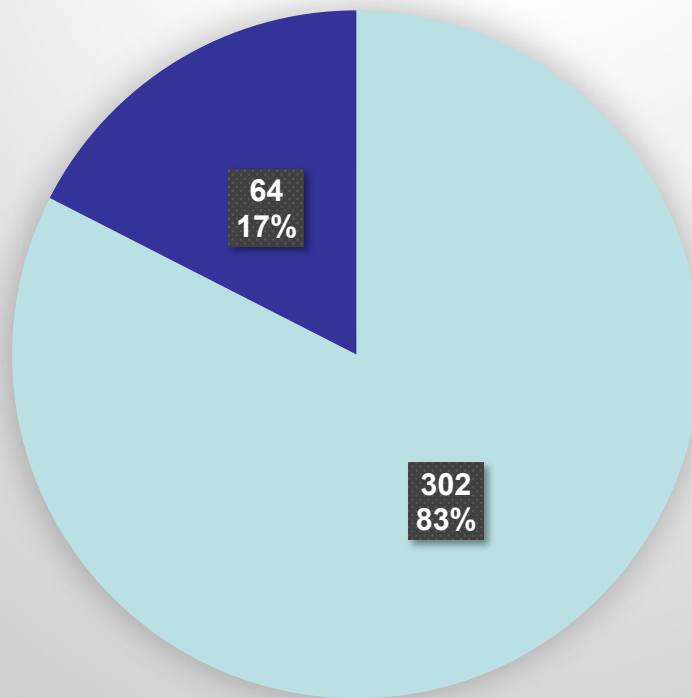


IRBA Initiatives to Restore Confidence

Individual Auditors	Firms	The Audit Product	The User	The Public	The Profession
Review of curriculum / ADP / skills / competencies	Appropriate sanctions	Audit Quality Indicators	Addressing secondary listing oversight	Addressing secondary listing oversight	Review of Monitoring of Accredited Body
CPD and life-long learning programmes	Transparency Reports	ISQC1 Review	Mandatory Audit Firm Rotation (MAFR)	Mandatory Audit Firm Rotation (MAFR)	
Appropriate sanctions	ISA220 Review	Engagement partner accountability	Transparency Reports	Amendments to APA	
Instilling Quality as a culture and value	ISQC1 Review	Review of standards related to recent cases	Strengthening audit committees	Comprehensive Regulation	
	Audit-only firms to increase independence	New Code of Conduct	Address governance issues	Education – What is audit? Role of Auditor?	
	Leadership, Culture and Governance		Address expectation gap		
	Remedial Action Process				
	Firm methodology review				

MAFR: Current status of rotation

Rotations of JSE-listed entities
January 2017 - March 2019



17% of JSE-listed entities have rotated audit firms (issuer list as at 2017, excluding subsequent listing and delisting)

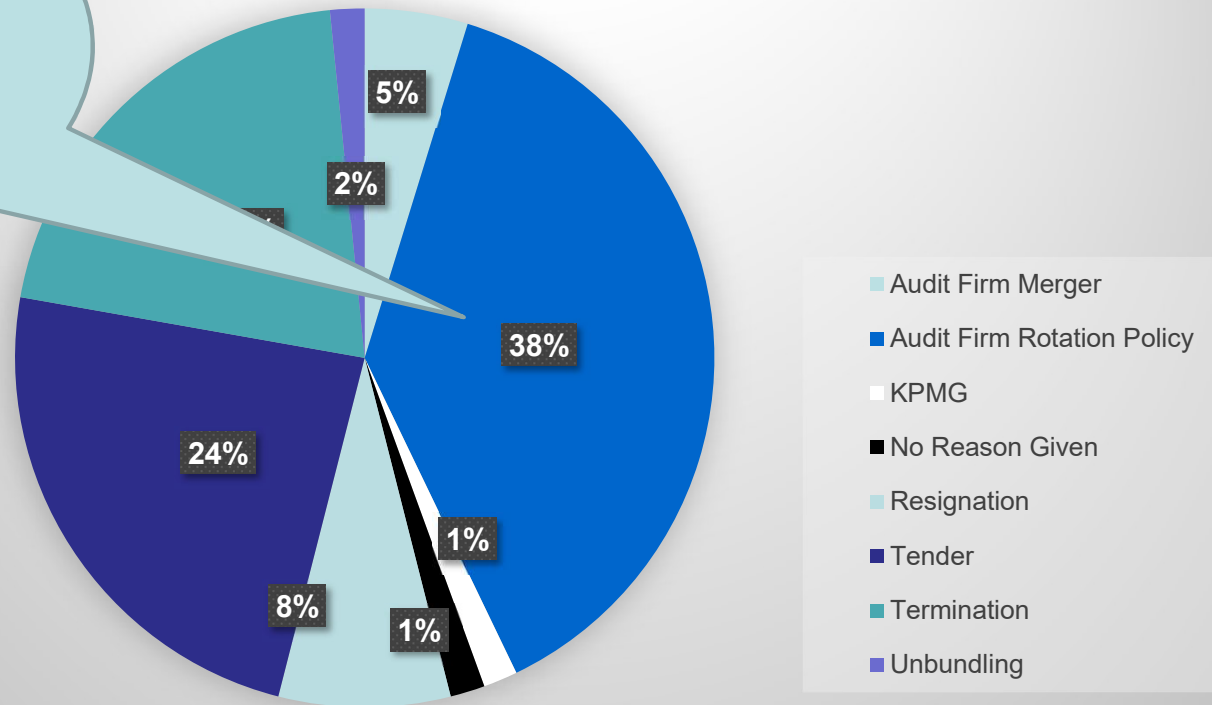
■ Unchanged

■ Rotations

MAFR leading reason for rotation

38% of entities which changed their audit firm cited MAFR compliance
Balance gave other reasons:
24% Tender or Cost
21% Termination
8% Resignation of Auditor
5% Audit Firm Merger
Only 1 entity gave the reason for changing as KPMG

Reason for rotation
January 2017 - March 2019



Current Environment

- High-profile scandals
- Corruption – public and private sector
- Systemic failures (governance, business, audit)
- Lack of professional skepticism and independence
- Unethical behavior
- Market Concentration
- Lack of transformation
- Fragmented Regulation



Recent High Profile Cases


African Bank

**Linkway
Trading**

 **Steinhoff**
International Holdings Ltd




Tongaat Hulett

Deloitte.


KPMG

Deloitte.


KPMG

Deloitte.


RESILIENT
REIT


THE NOVA GROUP

PEPKOR
Holdings Limited

Deloitte.


BDO

Deloitte.


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Capacity Limitations

- Increased number of cases and increased complexity of investigations
- Resource constraints:
 - Increasing the number of investigators to increase investigation capacity
 - Funding of current disciplinary cases
 - Considering the extent of complaints received, a further 5 positions are required in Enforcement
- Risk exists that IRBA would cease some of its core activities which include inspections, investigations and disciplinary action against registered auditors
- Impacts on disciplinary matters: Deloitte partners (African Bank Investments Limited), KPMG partners (Linkway), ACT Audit Solutions (Sharemax)
- Impacts on investigations matters: KPMG (JCI, the SARS report and VBS Bank), Nkonki (SA Express) and Deloitte (Steinhoff)

Funding Limitations

- The Board has considered the resources required to reduce the 219 open matters and 11 cases referred for disciplinary hearings.
- This has resulted in legal costs of R44m being included in the 2020 budget.
- Overall the impact of these increased legal costs results in deficits for the MTEF period as follows:
 - 2020/21 R32.9m
 - 2021/22 R36.2m
 - 2022/23 R40.7m
- IRBA also wrote to the Minister requesting an allocation of R27m terms of the Criminal Asset Recovery Act (CARA) for the current matters

APA Amendments Bill

- APA Amendment Bill is currently scheduled for later this year
- It mainly focuses on improvements to the investigation and disciplinary process
 - Inclusion of search and seizure powers
 - Power to subpoena in the investigation process
 - Simplification of the disciplinary hearing process
 - Increasing sanctions and providing the Minister of Finance with power to determine maximum fines
- Increased sanctions amounts will act as real deterrent and disincentive to unethical or negligent behavior by registered auditors, but does not address accountants

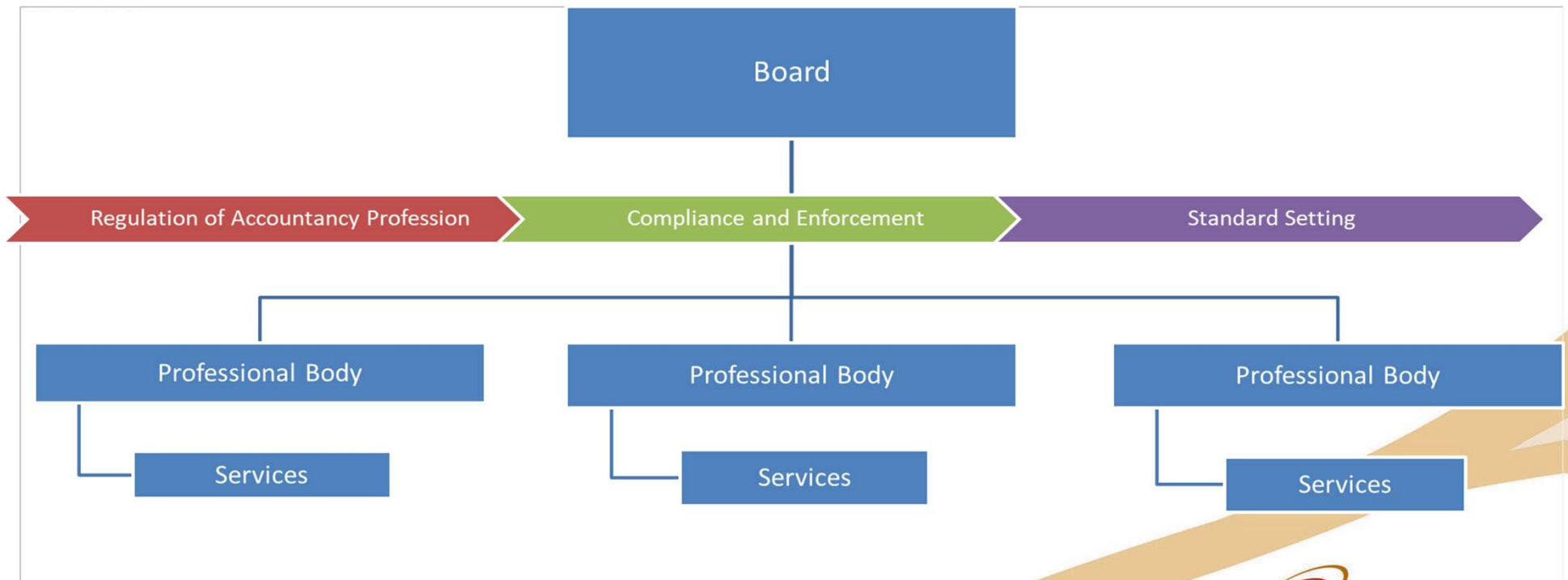
Comprehensive Regulation

- 20 years ago business failures and investor losses resulted in only auditors being regulated
- Broader accounting profession continued with self-regulatory oversight
- In 2013, the World Bank ROSC recommended broader regulation of all accountants including those charged with governance
- Since 2016, State Capture revelations has put the spotlight on all those involved in the preparation and assurance of financial reporting
- Significant failures of corporate governance, lack of action by boards and audit committees has resulted in complex and costly business and audit failures
- Lack of consequence for those involved in malfeasance has resulted in increased calls from the public for more accountability
- Impact of social media and speed of reporting today vs 20 years ago has heightened the public awareness and activism

Risk of fragmented regulation

- Presents challenges – effective monitoring of systemic risk is difficult unless all role players are regulated by one body
- Guptas, KPMG, Steinhoff and VBS Bank drew attention to need for comprehensive regulation
- Multiple regulators involved, jurisdictional issues
- Professional bodies lack statutory powers
- Difficulty in coordinating investigations
- Risk of different outcomes and findings
- Limitations to sanctions and processes hampered by legal barriers
- Justice delayed is justice denied

Comprehensive Regulation Model



Thank you

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Funding Requirements

- Deficit
 - March 2017 R4.4 million (Legal costs - R6.1 million)
 - March 2018 R1.2 million (Legal costs - R8.3 million)
 - March 2019 R11.9 million (Legal costs - R22.8 million)
- Budgeted Deficit
 - March 2020 R5.9 million (Legal costs - R24.4 million)
- MTEF Budgeted Deficit
 - March 2021 R32.9 million (Legal costs – R44.9 million)
 - March 2022 R36.2 million (Legal costs – R47.6 million)
 - March 2023 R40.7 million (Legal costs – R50.5 million)
- The deficit over the MTEF period exclude any additional headcount requirements.