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Part A

Public Entity's General Information

**Registered Name:**

Independent Regulatory Board for Auditors

Physical Address:

Building 2, Greenstone Hill Office Park
Emerald Boulevard, Modderfontein, 1609

Postal Address:

P O Box 8237
Greenstone 1616

Telephone Number:

087 940 8800

Fax Number:

087 940 8873

Email Address:

board@irba.co.za

Website Address:

www.irba.co.za

External Auditors:

Auditor-General South Africa

Bankers:

Standard Bank of South Africa

Board Secretary:

Ms Jill Levendal

Highlights of the Year

- The IRBA is provided with several opportunities to respond in Parliament to progress on current high-profile investigations and to demonstrate the role of audits and audit regulation in strengthening the credibility of the South African financial markets and macro-economy, attracting investment and protecting investors and the public. The invitations follow the audit and accounting failures in the profession and the loss of billions of rand to the economy.
- The IRBA, with National Treasury, commences with drafting amendments to the Auditing Profession Act, Act 26 of 2005, to strengthen the IRBA's oversight and ability to institute the required measures against errant auditors.
- The Minister of Finance announces that the IRBA has set down and gazetted a Mandatory Audit Firm Rotation (MAFR) rule to address concerns with auditor independence and excessively long tenures with audit clients. The rule, gazetted on 5 June 2017, prescribes that auditors of public interest entities in South Africa must comply with MAFR with effect from 1 April 2023.
- Following the independent research conducted on transformation in the profession and challenges faced by trainees and recently qualified CAs (SA), the IRBA conducts transformation workshops in Johannesburg, Pretoria, Durban and Cape Town to discuss the outcomes of the survey with the firms and to pursue potential strategies to improve transformation in the profession.
- The IRBA is elected as the deputy chairman of the African Forum of Independent Accounting and Audit Regulators (AFIAAR). The AFIAAR charter is signed on 2 March 2018 by 11 countries, including South Africa. The goals of AFIAAR are to assist regulators in Africa to align independence and regulation with the requirements of the International Forum of Independent Audit Regulators (IFIAR) and to improve financial reporting, governance and independent oversight on the continent.
- The disciplinary hearing against two audit partners regarding the audit of African Bank Investments Limited and African Bank Limited commences in March 2018.

List of Abbreviations

| | |
|----------------|---|
| ADP | Audit Development Programme |
| AFIAAR | African Forum of Independent Accounting and Auditing Regulators |
| AGSA | Auditor-General South Africa |
| APA | Auditing Profession Act, 2005 (Act No.26 of 2005) |
| APC | Assessment of Professional Competence |
| ARMCO | Audit and Risk Management Committee |
| BAC | Broad-Based Black Economic Empowerment Advisory Committee |
| B-BBEE | Broad-Based Black Economic Empowerment |
| CA (SA) | Chartered Accountant (South Africa) |
| CAG | Consultative Advisory Group |
| CFAE | Committee for Auditor Ethics |
| CFAS | Committee for Auditing Standards |
| CPD | Continuing Professional Development |
| CSR | Corporate Social Responsibility |
| DAC | Disciplinary Advisory Committee |
| DISCOM | Disciplinary Committee |
| DTI | Department of Trade and Industry |
| EDCOM | Education and Transformation Committee |
| GRAP | Generally Recognised Accounting Practice |
| IAASB | International Auditing and Assurance Standards Board |
| IAESB | International Accounting Education Standards Board |
| ICT | Information and Communication Technology |

| | |
|-------------------|--|
| IESBA | International Ethics Standards Board for Accountants |
| IFAC | International Federation of Accountants |
| IFIAR | International Forum of Independent Audit Regulators |
| INSCOM | Inspections Committee |
| INVESCO | Investigating Committee |
| <IR> | Integrated Report |
| IIRC | International Integrated Reporting Council |
| IRBA | Independent Regulatory Board for Auditors |
| NOCLAR | Non-compliance with Laws and Regulations |
| NT | National Treasury |
| PAO | Professional Accountancy Organisation |
| PFMA | Public Finance Management Act, Act No. 1 of 1999, as amended |
| PIE | Public Interest Entity |
| PSSC | Public Sector Standing Committee |
| RA | Registered Auditor |
| RCA | Registered Candidate Auditor |
| RI | Reportable Irregularity |
| RIRSC | Regulated Industries and Reports Standing Committee |
| ROSC | Report on the Observance of Standards and Codes |
| SAICA | South African Institute of Chartered Accountants |
| SCWG | Standards Coordination Working Group |
| SSC | Sustainability Standing Committee |

Significant Features Summary

(REFER TO THE OVERVIEW FROM THE CEO FOR EXPLANATIONS OF VARIANCES)

| Activity indicators (numbers) | 2018 | 2017 | 2016 | 2015 |
|--|---------|---------|---------|---------|
| Registered auditors | | | | |
| Registered auditors at year-end | 4 152 | 4 259 | 4 359 | 4 311 |
| New registrations for the period | 141 | 220 | 209 | 276 |
| Audit Development Programme (ADP) | | | | |
| Registered candidate auditors at year-end | 291 | 174 | 28 | |
| New ADP registrations for the period | 134 | 157 | 28 | |
| RCAs who successfully completed the ADP | 9 | 2 | | |
| Number of firms monitored during the period | 45 | 29 | | |
| Training Contracts | | | | |
| Trainee accountants registered for the period | 3 840 | 3 812 | 3 414 | 5 440 |
| Reportable Irregularities (RI) received | | | | |
| Total RIs received (first reports) | 941 | 881 | 897 | 1 123 |
| Second reports – continuing | 596 | 583 | 512 | 630 |
| Second reports – not continuing | 330 | 285 | 378 | 482 |
| Second reports – did not exist | 15 | 11 | 7 | 11 |
| Second reports – overdue | 0 | 2 | 0 | 0 |
| Disciplinary matters | | | | |
| Investigations initiated ¹ | 112 | 97 | 117 | 95 |
| Investigations finalised ¹ | 66 | 106 | 102 | 95 |
| Investigations in progress ¹ | 142 | 96 | 105 | 90 |
| Disciplinary Committee hearings | 3 | 4 | 6 | 4 |
| Inspections performed | | | | |
| Firms | 12 | 23 | 20 | 37 |
| Engagements | 176 | 197 | 237 | 384 |
| Financial indicators (R'000) | | | | |
| Government Grant | 39 624 | 28 978 | 29 999 | 34 577 |
| Total income | 74 230 | 69 746 | 62 326 | 64 163 |
| Expenses | 115 072 | 103 135 | 95 494 | 91 258 |
| Surplus/(Deficit) | (1 218) | (4 411) | (3 169) | 7 482 |
| Transferred from/(to) reserves | (915) | (1 062) | 132 | 28 |
| Accumulated surplus surrendered to the National Revenue Fund | - | - | - | (2 745) |
| Surplus/(Deficit) after movement in reserves | (2 133) | (5 473) | (3 037) | 4 765 |

¹Excludes referrals for non-submission of fee declarations.

Statement of Responsibility and Confirmation of Accuracy of the Annual Report

To the best of our knowledge and belief, we confirm the following:

- All information and amounts disclosed in the annual report are consistent with the Annual Financial Statements audited by the Auditor-General.
- The annual report is complete, accurate and free from any omissions.
- The annual report has been prepared in accordance with the guidelines on annual reports, as issued by National Treasury.
- The Annual Financial Statements (Part F) have been prepared in accordance with the GRAP standards applicable to the public entity.
- The Board is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.
- The Board is responsible for establishing and implementing a system of internal control, which has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the Annual Financial Statements.
- The external auditors are engaged to express an independent opinion on the Annual Financial Statements.

We confirm that the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the IRBA for the financial year ended 31 March 2018.



Bernard Peter Agulhas

Chief Executive Officer

30 July 2018



Abel Dlamini

Chairman of the Board

30 July 2018

Strategic Overview

The IRBA Strategic Focus

Our strategic focus is to protect the financial interests of the public by ensuring that only suitably qualified individuals are admitted to the auditing profession, and that registered auditors deliver services of the highest quality and adhere to the highest ethics standards.

The IRBA Vision

The IRBA vision is to remain an internationally recognised regulator of the auditing profession and evolve to be the regulator of other assurance and related services relevant to the South African environment.

The IRBA Mission

Our mission 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 assurance conducted by registered assurance providers, in accordance with internationally recognised standards and processes.

The IRBA Objectives

In line with our legislative mandate, the IRBA's objectives are to create the framework and principles to contribute to the protection of the financial interests of the public, which relies on the services of registered auditors; and to support registered auditors who carry out their duties competently, fearlessly and in good faith.

Furthermore, we strive to create an enabling environment that allows audit firms to grow and contribute to the protection of the public's financial interests.

The IRBA Goal

Our goal is to help create an ethical, value-driven financial sector that encourages investment, creates confidence in the financial markets and promotes sound financial practices.

This is done through:

- Developing and maintaining auditing and ethics standards that are internationally comparable.
- Providing an appropriate framework for the education and training of properly qualified auditors and their ongoing competence.

- The registration of auditors who meet the registration requirements.
- Monitoring compliance with reportable irregularities and anti-money laundering legislation.
- Monitoring registered auditors' compliance with professional standards and applicable legislation.
- Investigating and taking appropriate action against registered auditors in respect of improper conduct.
- Developing and maintaining stakeholder relationships to enhance performance, accountability and public confidence.
- Strengthening the IRBA's organisational capability, capacity and performance to deliver on its mandate in an economic, efficient and effective manner, in accordance with the relevant regulatory frameworks.

Regulatory Philosophy

The IRBA's regulation is focused on the protection of the public's financial interests, while it recognises its role in creating an enabling environment in which auditors can deliver high-quality audits.

Value Proposition

The IRBA creates continuing value through its role as an embedded protector of confidence in the sustainability of the system, while creating an enabling environment for auditors, thereby contributing to the protection of the public's financial interests.

The IRBA Values

As the overall custodian of the auditing profession in South Africa, the IRBA acknowledges the importance of the mandate assigned to it by Parliament, and all its registrants and staff ascribe to the following core values:

Independence, Integrity and Objectivity

It is imperative that we are not just independent of the auditing profession in our composition and membership, but also reflect independence in the perception of our key stakeholders through our actions and behaviour. It is, therefore, important that we act with integrity and objectivity in our deliberations, decisions and actions.

Strategic Overview *(continued)*

Commitment

We recognise the scope and extent of our mandate in respect of both the public and the profession, and undertake to execute and deliver on this mandate with diligence and commitment in terms of our vision.

Transparency and Accountability

As a public entity in the overall delivery structure of the South African government and a beneficiary of public funds, we promote transparency in our interactions with the relevant stakeholders and recognise our accountability to the Parliament of South Africa and the Minister of Finance as our Executive Authority.

Legislative Mandate

The IRBA was established in terms of Section 3 of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (the Act).

The objects, as set out in Section 2 of the Act, are as follows:

- To provide for the establishment of an Independent Regulatory Board for Auditors.
- To protect the public in the Republic by regulating audits performed by registered auditors.
- To improve the development and maintenance of internationally comparable ethics standards and auditing standards for auditors that promote investment and as a consequence employment in South Africa.
- To set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession.
- To provide for procedures for disciplinary action in respect of improper conduct.

Message from the Minister of Finance



Nhlanhla Nene, MP

The auditing profession plays a critical role in the economy. It provides investors and the broader public with the reasonable assurance that the financial statements of companies fairly present, in all material respects, the financial state of the company, and that the statements do not contain any material misstatements.

By providing assurance that the financial information is reasonable, trustworthy and free of material misstatements, auditors contribute to the transparency, accountability and efficiency of financial markets globally. Therefore, any loss of confidence in the auditing profession has huge implications for the workings of the financial markets and the economy in general.

South Africa relies extensively on external capital, and one of the important components of attracting foreign direct investment is a well-regulated and reliable capital market. This requires a reputable auditing profession that can provide investors with reliable and credible information.

The South African auditing profession has for many years now been ranked highly by domestic and international investors. However, the integrity of the profession has been questioned by the revelations of the role some auditors played in “state capture”. The issues raised by the role of

auditors in state capture go to the very core of the profession – ethics and trust. All stakeholders have to work together to restore the reputation of this profession.

To restore the credibility of the auditing profession, the Independent Regulatory Board for Auditors is working with the office of the Accountant-General, a division of National Treasury, to amend the Auditing Profession Act 26 of 2005. The amendments include strengthening sanctions in the line with international best practice, strengthening the regulatory board’s powers in its investigations process and reducing the complexity of disciplinary hearings to ensure a swift, fair and due process.

I am confident that the initiatives underway will contribute to the restoration of confidence in the auditing profession.



Nhlanhla Nene, MP

Minister of Finance

Foreword by the Chairman



Abel Dlamini

I am pleased to present the IRBA's 12th annual report in a very significant year for our country – the year of the centenary celebrations of our former President Nelson Mandela. In honouring Mandela, we join all South Africans in building the future that he envisaged.

At the beginning of 2017 I wrote that the moral high ground of Mandela and the shrewd punching-above-weight of the Thabo Mbeki years have disappeared, leaving us to be counted among the squandered opportunities of the post-colonial African states. This has left many South Africans with no hope that our nation will recover from the malfeasance of corruption and state capture.

The auditing profession came under the spotlight for the role of some of the firms in aiding and abetting state capture. The work of auditors has been thrust into the spotlight and into the court of public opinion as a result of scandals that seek to challenge the behaviour of auditors and their professional conduct.

Since the beginning of the Amabhungane leaks in June 2017, almost every week there have been headlines suggesting that the auditing profession has been less than efficient in conducting its work and that it too is part of a corrupted system that has failed to protect the public. What is happening in the auditing profession mirrors the challenges faced by our country. The recent scandals involving accountants and auditors have negatively impacted the perception of what has until now been a trusted profession.

The link of one of the big four auditing firms to state capture was followed by the firm's admission that its work on a particular investigation "fell well short of the quality expected, and that the audit teams failed to apply sufficient professional scepticism and to comply fully with auditing standards". The IRBA is currently investigating this matter and aims to bring it to a conclusion soon.

Over the past year we have seen more high-profile and complex cases being brought to our attention for investigation. These cases have also increased the public's focus on the role of the regulator and the impact it has in meeting the expectations of the public.

While the investigations are ongoing, the Board would like to reassure the public that it is doing all it can, within its mandate, to fast-track investigations without compromising fairness and due process.

The fall of one of the black firms due to state capture will also have a massive impact on the transformation of the profession. While transformation is still a challenge, this case brought forth the concern we have always raised as a Board around concentration in the market and for the capital requirements for the firms to remain sustainable. The discussion and debates about opening opportunities for medium firms to audit JSE-listed companies and banks is now more urgent than ever.

While all this is happening, the Board has approved extraordinary measures to restore trust and confidence in the auditing profession. For the first time ever, a special task

team was set up to review the turnaround strategy of one of the big four firms. Also, a number of initiatives will be implemented by the regulator in the coming months to restore the profession to its former stature. This turnaround will require efforts from all stakeholders, including the auditors themselves who need to look introspectively at their behaviour.

It had taken all of us to work towards achieving the number one global ranking that we enjoyed for the longest time because of our auditors' good reputation. It will take all of us again to remove the errant auditors from our midst in order to save the profession.

As one commentator said, maybe it is time for the auditors and the country to have an ethics CODESA. "There is a need for people in this profession to act and be seen to be acting ethically throughout the financial reporting chain – in particular demonstrating integrity, objectivity and independence when appropriate."

The Board believes that the proposed amendments to the Auditing Profession Act will give the IRBA the ability to strengthen sanctions so as to deter errant behaviour and toughen the investigations process.

This year, investigations on work done by auditors took centre stage and the Board and management recognised the need to speed up our investigations without compromising the due process. I am pleased that the hearing for the two

partners responsible for the audit of African Bank Investment Limited and African Bank has resumed and that work on some of our big cases is progressing well.

The IRBA has faced a difficult year but the Board believes that with all the planned initiatives to streamline processes, improve regulations and restore confidence in the profession, it will emerge stronger as a regulator and will demonstrate its leadership on a global stage once again.

As the Board, we are committed to steering the IRBA in the right direction as it has been entrusted to us by the Minister of Finance and to help restore trust and confidence in the profession.

I wish to thank my fellow Board members, the Chief Executive Officer, as well as the directors and staff of the IRBA for their valuable contribution and support during the year. Let us all heed the call by the president to "send me" to work for the betterment of our profession and our country as we implement our mandate to protect the public's financial interests.



Abel Dlamini

Chairman

Chief Executive Officer's Overview



Bernard Peter Agulhas

It is my pleasure to present the IRBA's 12th annual report.

This past year we learnt how hard-won reputations can be lost quickly and how the power of media and social activism can destroy the reputation of a once trusted profession. We also rapidly learnt that not everything is as it seems and that taking things at face value is no longer wise.

The auditing profession was thrust into the spotlight – and not in a beguiling way. Our once admired profession was now being criticised the most by the very public it is meant to protect. The surprise leak of the emails from the Amabhungane journalists in June 2017 which came to be known as the “Gupta Leaks” implicated one of the big four firms in the Linkway Trading wedding scandal and the link to state capture. While the profession was still reeling from that exposé, the firm admitted to shortcomings in one of its reports that was used to advance a system of patronage, which nearly caused the country's economic collapse.

Media headlines continued to suggest that the profession was complacent and part of a corrupt system that failed to protect the public. While there are many good auditors that continue to do good work and deliver excellent audit quality, these just don't make the headlines. So, to say we have a failed system is a misguided perception; however, that does not mean that the profession does not have issues to address.

To respond to the risks of market concentration and the lack of transformation, we encouraged dialogue and continued to implement our extended mandate, which comprises the following four pillars:

- Independence;
- Transformation;
- Leadership in Africa; and
- Comprehensive Regulation.

Independence

On 2 June 2017, then Minister of Finance, Malusi Gigaba, hosted a media briefing to announce that the IRBA had set down a Mandatory Audit Firm Rotation (MAFR) rule to address concerns with auditor independence and excessively long tenures with audit clients.

MAFR is still five years away and it will not provide short-term reassurance to the market that auditors are independent and applying professional scepticism, especially in the current environment in which the profession finds itself. We will have to look at other measures to demonstrate that as a profession we are taking firm and decisive action to continue to strengthen auditor independence.

We are encouraged by those companies that have adopted MAFR early and rotated their auditing firms. We continue to engage with the profession and various stakeholders to discuss and find practical solutions and interventions in preparation for the implementation of MAFR.

We are hopeful that faced with the recent public outcry, growing shareholder activism and the increased expectation for the profession to perform its public protection role to the highest standard, we will have greater cooperation from auditors and their clients as we implement regulatory measures such as MAFR.

Transformation

Transformation in the profession remains one of our principal challenges despite the efforts and work done by the profession as a whole. Following the research commissioned by the IRBA, we hosted workshops around the country with auditors to share the outcomes.

Irrespective of that, the debates and inputs from these workshops proved to us that as a profession we need to have a different conversation about transformation. We also need to start to look at gender transformation and diversity and not only focus on race as a key measure of transformation.

The IRBA has always maintained that transformation is not and cannot be about numbers but about the opportunities afforded to black people and women within the firms. We need to give black accountants and auditors long-term prospects in the profession that are equivalent to those of their counterparts. This requires a cultural shift and a more inclusive approach that will provide black and female auditors with a positive experience at the firms, resulting in higher retention. Transformation is about financial inclusion, ownership and access to markets and opportunities.

The IRBA serves on the CA Charter Council, but it did not sign the charter. This was not to delay transformation in the profession but to lodge our disagreement with the targets as set out in the charter. We continue to engage with the CA Charter Council chairman to reach consensus on our proposed targets.

Leadership in Africa

The IRBA, in partnership with the Public Accountants and Auditors Board (PAAB) of Zimbabwe, worked together to establish the African Forum of Independent Accounting and Auditing Regulators (AFIAAR).

The aim of the forum is to encourage cooperation and collaboration between regulators through, for example, the exchange and sharing of information to enhance regulatory surveillance, risk assessment and complementary enquiries into specific transactions. Eleven countries – Botswana, Ethiopia, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe – attended the inaugural meeting that was held at Victoria Falls in Zimbabwe. The countries agreed to sign a charter to formally establish AFIAAR and elect office bearers. The officers of the AFIAAR were elected as follows: Chairman – Zimbabwe, Deputy Chairman – South Africa and Third Officer – Ethiopia.

We will employ our best endeavours to strengthen accounting and auditing regulation, financial reporting and governance on the continent.

Our work on the continent also saw us conclude a memorandum of understanding with the PAAB of Namibia to assist it in setting up and strengthening its regulatory function. This has included having some of our team members spend time in Namibia to help guide the PAAB on implementation.

We continue to engage with a number of our African counterparts and have hosted members from Botswana, Lesotho, Namibia and Zimbabwe as observers on our committees. The Director Education and Transformation continues to serve on the Education Committee of PAAB Zimbabwe, and the Secretary of the PAAB Zimbabwe is a member of our Investigating Committee.

Comprehensive Regulation

The IRBA continues to pursue the recommendations of the World Bank Report on the Observance of Standards and Codes (ROSC), which were adopted by the Minister of Finance in 2014, to enact appropriate legislation to provide for the regulation of Professional Accountancy Organisations.

As a result of the challenges faced by some companies in the country, we are seeing an increased need for comprehensive oversight by means of regulating everyone involved in the financial reporting chain. Business failures, such as the collapse of Steinhoff, increasingly highlight the deficiency of regulating only auditors; and security exchanges and oversight structures worldwide are consequently taking a stronger position in responding to accounting and auditing failures from a systemic point of view.

Restoring the Reputation of the Auditing Profession

A few errant auditors have negatively impacted the auditing profession and it is time for everyone in the profession to start taking responsibility for restoring confidence in the profession.

While the current crisis is because of the conduct of a few auditors and decisions some firms made, the IRBA concedes that the crisis in the profession precipitated by the revelations of the past 11 months has been a testing time for the profession, including many audit firms that continue to serve their clients with integrity.

Chief Executive Officer's Overview *(continued)*

As a regulator we can only do so much within our mandate. So, when auditor conduct is under question, it is the auditors themselves who must counter the misperceptions. In the current socio-political climate, auditing is receiving far more media attention than ever before; and when something goes wrong, the level of public interest is far higher than ever before. This is not going to change unless the auditors change their behaviour.

We have seen in recent developments how actions by just a few auditors have had significant impact and caused collateral damage to many other committed professionals.

The IRBA has put in place measures to help restore the confidence in the profession, including a number of projects that will be rolled out over the next two years. We believe that working together with the profession, we can rebuild the trust in our auditors and subsequently bring back the confidence that the public has always had in the profession.

The Board has identified a number of initiatives to be rolled out to restore confidence in the profession, and these include:

- Business process review of all functions within the IRBA to ensure effective and efficient operations that respond to the public expectation;
- Cooperation with other regulators within the financial sector to address fragmentation;
- Implementation of MAFR to address auditors' independence and lack of scepticism;
- Reviewing audit firms' business models to address fee structures and capital requirements, in addition to looking at the role of audit-only firms;
- Inspecting audit firm governance and addressing the firms' client acceptance processes and lack of transparency;
- Strengthening audit committees and improving audit quality through measures such as audit quality indicators;
- Focusing on auditor behaviour to address unethical behaviour and the culture of complacency; and
- Revisiting the audit product to address the expectation gap and improve the public's understanding of the audit product.

Audit Quality

The 2017 Inspections Report showed a continued decline in audit quality as well as recurring themes that require intervention. Following the risk-based approach, inspections in 2017 focused on audits with higher public interest exposure. This resulted in fewer inspections that took longer

to complete due to a broader scope to address potential systemic risks.

Significant deficiencies were noted on 70% of the 23 inspected firms and 63% on inspected audit files. Even though the findings are in line with the global inspections survey results released by the IFIAR, we continue to be concerned. We encourage auditors to communicate with their clients and audit committees and to be transparent with their inspection results. Leadership must also take responsibility for audit quality and auditor independence in their firms.

International Participation

The IRBA continued to participate and influence standards and regulation on various international platforms. The CEO was appointed as the chairman of the Audit and Finance Committee of the IFIAR. The Director Inspections serves on the IFIAR Inspections Working Group while the Professional Manager in the Executive Department was appointed as a member of the IFIAR Enforcement Working Group.

The CEO continues to serve on the International Accounting Education Standards Board and the Director Education and Transformation serves as his Technical Advisor. The Director Standards serves on the International Auditing and Assurance Standards Board as a board member, with the Professional Manager Standards as his technical advisor, and the Professional Manager Ethics continues to serve as the technical advisor to the Sri Lankan member of the International Ethics Standards Board for Accountants.

Stakeholder Engagements

The IRBA regards ongoing engagement with stakeholders as a crucial ingredient in building collaborative and constructive relationships that can benefit all stakeholders. We continue to engage with all our stakeholders and have identified others who we need to build relationships with in order to create more awareness on the role of the IRBA as an audit regulator and protector of the financial interests of the public.

Human Resources, Financial Matters and Performance

Matters relating to human resources are set out in the section on Human Resources Management and financial matters are covered in the Report of the Accounting Authority and the Annual Financial Statements. The performance of the IRBA against its predetermined objectives is included under Part B of this annual report.

Below are explanations for some of the changes in the Significant Features Summary:

- We are pleased with the steady increase in the number of registered candidate auditors (RCAs) entering the profession. We look to these RCAs to uphold the high standards of the profession as we continue to restore confidence in the auditing profession.
- The Inspections Department continued to follow a risk-based approach and the number of inspections fell mainly due to an increased focus on assurance engagements with higher public interest exposure, such as assurance work performed on listed entities, public interest entities and state-owned entities. This resulted in fewer inspections that have a broader scope to address potential risks. The focus was more on inspecting the quality of specific components rather than the quantity of inspections completed.
- The Investigating Committee has seen an increase in the complexity of matters referred to it over time. These included a number of high-profile matters that required more capacity and took longer to investigate.
- The decline in the number of auditors can be attributed to more non-assurance auditors opting not to be registered with the IRBA anymore. This, however, will not have a major impact on the total population of auditors required to continue servicing the listed companies and the public interest entities.

Appreciation

I take this opportunity to thank the Board, the management team, the staff of the IRBA, the statutory committees as well as our stakeholders for the support and commitment on which we inevitably rely in driving the IRBA's strategy towards achieving our objectives.

This past year has taught us how important it is to be committed to doing the right thing. I encourage all our registered auditors to recommit to doing the right thing for the good of our profession so that the auditing profession can reclaim its respected position in the hearts and minds of our people.



Bernard Peter Agulhas

Chief Executive Officer

Organisational Structure

The organisation operates through an Executive and a total staff complement of 85 employees. The Executive reports to the Board, the members of which are appointed by the Minister of Finance.

Members of the Board



Abel Dlamini CA (SA)
Chairman
Appointed April 2015



Martie Janse van Rensburg
CA (SA)
Deputy Chairman
DAC Chairman
Appointed May 2017



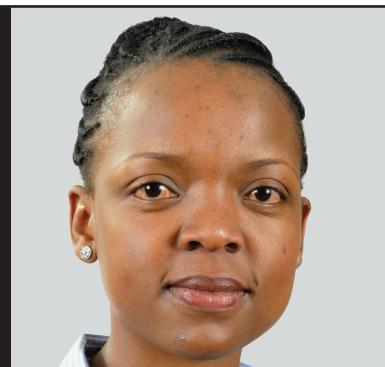
Iqbal Motala B Proc
Appointed May 2017



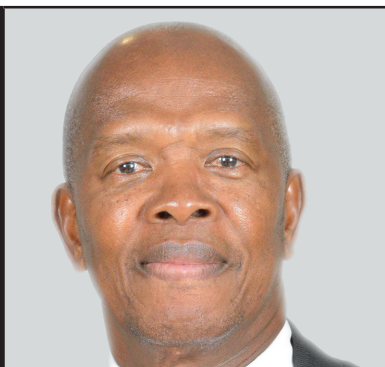
Matshepo More CA (SA)
Appointed December 2016



Zuziwe Ntsalaze CA (SA)
Appointed May 2017



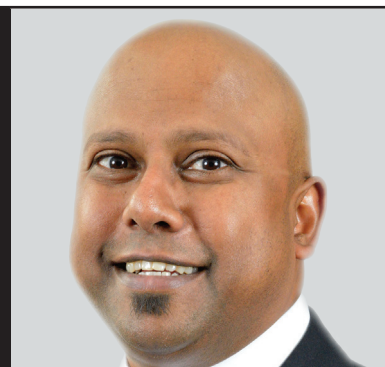
Nkabaneng Mashile CA (SA)
Appointed May 2017



Joe Lesejane CA (SA)
OPSCOM Chairman
Appointed December 2016



Madoda Petros CA (SA)
Appointed May 2017



Thiru Pillay CA (SA), RA
ARMCO Chairman
Appointed April 2015

Executive



Bernard Agulhas CA (SA)
Chief Executive Officer
Appointed June 2003



Jane O'Connor BA, LLB
Director: Legal
Appointed June 1986



Willemina de Jager
CA (SA), FCMA
Director: Operations
Appointed May 2009



Jillian Bailey CA (SA), RA
Director: Investigations
Appointed November 2015



Robert Zwane CA (SA)
Director: Education and Transformation
Appointed October 2016



Imran Vanker CA (SA), RA
Director: Standards
Appointed May 2014



Imre Nagy CA (SA), RA
Director: Inspections
Appointed February 2013

Part B

Performance Against Measurable Objectives

For the year ended 31 March 2018



Performance Against Measurable Objectives

Strategic Focus Area 1: Auditing and Ethics Standards

| STRATEGIC OBJECTIVE | To develop and maintain auditing and ethics standards which are internationally comparable | | | | |
|---|--|--|--|---------------------|---|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2017/2018 | Status for the 12 months ended 31 March 2018 |
| Standards and Guidance issued. | Issued auditing pronouncements, auditor reports and comment letters. | High-quality audits. | Target dates for issuing audit pronouncements, audit reports and comment letters, as per the CFAS Project Timetable adjusted on a quarterly basis. | 85% | Achieved: 100% 7 projects planned and 7 completed. <i>Project management according to the plan and availability of resources to complete work with no unplanned delays.</i> |
| To adopt and/or develop and issue additional guidance on ethical issues based on the IRBA Code of Professional Conduct. | Issued additional guidance on ethical issues, comment letters and Code amendments. | To provide auditors with a Code consistent with International Codes and one that enables the IRBA to take disciplinary action where necessary. | Target dates met for issuing additional guidance on ethical issues, comment letters and Code amendments, as per the CFAE Project Timetable adjusted on a quarterly basis. ¹ | 85% | Achieved: 100% 8 projects planned and 8 projects completed. <i>Project management according to the plan and availability of resources to complete work with no unplanned delays.</i> |

¹ The CFAS and the CFAE deliver on projects according to Work Plans that are updated for progress and approved at each meeting of the committees. This is vital as standard-setting projects necessarily extend over more than one reporting period and it is therefore not always possible to complete particular projects within a specific period. Projects are also influenced by a variety of external factors, such as unexpected delays caused by stakeholders who are critical to the project and comments on exposure drafts that could take considerable time to address. Therefore, although the targets appear static, these consist of different projects that are at different stages of progress at any point in time.

Performance Against Measurable Objectives *(continued)*

Strategic Focus Area 2: Education and Transformation

| STRATEGIC OBJECTIVE | To provide an appropriate framework for the education and training of properly qualified auditors and to establish processes so that only competent candidates enter the audit profession | | | | |
|--|---|---|--|---------------------|--|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2017/2018 | Status for the 12 months ended 31 March 2018 |
| To monitor the environment in which the Audit Development Programme is offered. | Monitoring reports. | To ensure that the environment is conducive to the development of audit competence. | Number of monitoring visits completed in accordance with the monitoring plan approved by ADCOM on a quarterly basis. | 90% | <p>Achieved: 105%</p> <p>A total of 45 firms were monitored, including follow-up visits, while a total of 43 firms were approved by ADCOM for monitoring.</p> <p><i>The number of monitoring visits exceeded the planned visits due to several follow-up visits being conducted. Follow-up monitoring visits require less time than initial visits, therefore more could be done.</i></p> |
| To monitor the programme and institutional requirements of accredited professional bodies. | Monitoring reports. | To ensure compliance with the Accreditation Model. | Date of submission of final monitoring reports to the accredited professional body. Final monitoring reports to be submitted to the accredited professional body 10 working days after EDCOM's third quarter meeting or on an earlier date, provided EDCOM's approval has been obtained. | 100% compliance. | <p>Achieved: 100%</p> <p>EDCOM's third quarter meeting was held on 23 November 2017. The Final Monitoring Reports were sent to SAICA on 6 December 2017. Therefore, the Final Monitoring Reports were sent to SAICA on the 9th working day after EDCOM's third quarter meeting.</p> |

Strategic Focus Area 3: Inspections

| STRATEGIC OBJECTIVE | To monitor registered auditors' compliance with professional standards | | | | |
|--|--|---|--|--|--|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2017/2018 | Status for the 12 months ended 31 March 2018 |
| Inspections performed in accordance with the Inspections Plan. | Inspection reports. | Compliance of firms (including individually registered auditors) with the auditing and ethical standards. | Number of inspections completed in accordance with the Inspections Plan. | 85% adherence to the Inspections Plan. | Achieved: 106% Target: 177 Inspections Actual: 188 Inspections performed. <i>Eleven (11) more inspections were performed during the year mainly due to lesser vacancies than expected.</i> |

Strategic Focus Area 4: Investigations

| STRATEGIC OBJECTIVE | To investigate and take appropriate action against registered auditors in respect of improper conduct | | | | |
|---------------------------|---|---------------------------------|---|---------------------|---|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2017/2018 | Status for the 12 months ended 31 March 2018 |
| Completed investigations. | Closed case files. | Public trust in the profession. | Percentage of complaints closed within 18 months of receipt of complaint. | 80% | Not achieved. 74 out of 100 matters (74%) were closed within 18 months in this period. The target was not achieved due to the complexity of the matters currently under investigation. |

Performance Against Measurable Objectives *(continued)*

Strategic Focus Area 5: Operational Effectiveness

| STRATEGIC OBJECTIVE | Strengthening the IRBA's organisational capability, capacity and performance to deliver on its mandate in an economically, efficient and effective manner, in accordance with the relevant regulatory frameworks | | | | |
|---|--|---|--|---------------------|---|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2017/2018 | Status for the 12 months ended 31 March 2018 |
| Reports from internal and external audit. | Systems, policies and processes that ensure compliance, accountability and sound management of the revenue, expenditure, assets and liabilities. | Financial sustainability to deliver on the mandate. | A clean audit report regarding financials, compliance and performance information. | Clean audit report. | Achieved: 100% Clean audit report received for the financial year ending 31 March 2017. |

Part C

Governance



Governance

The Board

The Board is the designated accounting authority and it governs the Independent Regulatory Board for Auditors (IRBA) in accordance with the provisions of the Auditing Profession Act, No. 26 of 2005 (the Act), the Public Finance Management Act, 1999 (PFMA), and good corporate governance principles.

In line with its policy to adhere to best practice, the IRBA considers and monitors relevant codes on governance and any further available guidance that will enhance current practices. No material issues were identified to suggest shortcomings in governance.

Composition of the Board

Board members are all non-executive members appointed by the Minister of Finance. In terms of the Act, the Minister must appoint not less than six but not more than 10 persons as members of the Board. The Minister appoints competent persons, who include a registered auditor, to effectively manage and guide the activities of the IRBA based on their knowledge and expertise. With effect from 1 December 2016, two new members were appointed and added to the previous Board and they continue to serve with the current Board, which was appointed with effect from 10 May 2017. The Board consists of nine members.

The roles of the Chairman of the Board and the Chief Executive Officer are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. The Chairman of the Board has no executive functions.

Board Meetings

The Board met seven times during the year under review. Attendance at the Board (inclusive of special Board meetings) and subcommittee meetings for 2017/2018 is set out below.

| Board Member | Board | Operations Committee (OPSCOM) | Audit and Risk Management Committee (ARMCO) | Disciplinary Advisory Committee (DAC) |
|--|-------|-------------------------------|---|---------------------------------------|
| Total Number of Meetings | 7 | 5 | 3 | 6 |
| A Dlamini (Chairman) | 5 | n/a | n/a | n/a |
| M Janse van Rensburg Deputy Chairman* | 5 | n/a | n/a | 6 |
| J Lesejane | 7 | 5 | n/a | 5 |
| N Mashile | 6 | n/a | 3 | n/a |
| M More | 2 | 3 | n/a | n/a |
| M Motala | 5 | n/a | n/a | 6 |
| Z Ntsalaze | 6 | n/a | 3 | n/a |
| M Petros | 4 | 5 | n/a | n/a |
| T Pillay | 5 | n/a | 3 | n/a |

*Appointed as Deputy Chairman with effect from February 2018.

During the year under review the Board members were as follows:

| Name | Qualifications | Designation | Date appointed to the Board | Position/Directorships |
|--|--|-------------------------|-----------------------------|--|
| Mr Zolile Abel Dlamini (Chairman) | B Com (Acc) B Compt (Hons) | CA (SA) | 15 April 2015 | Executive Chairman at SekelaXabiso SekelaXabiso CA Incorporated SekelaXabiso Financial Services Cross Border Life Cover Alpha Conference Centre SKX Foundation Pazocap Julosol Sportsfam International |
| Ms Martie Jacoba Janse Van Rensburg (Deputy Chairman and Chairman of DAC) | B Com B Compt Hons | CA (SA) | 10 May 2017 | Development Bank of Southern Africa Sephaku Holdings Ltd Savetnet Cyber Security Pnc |
| Mr Joe Lesejane (Chairman of OPSCOM) | B Com B Com (Hons) B Compt | CA (SA) FCMA | 1 December 2016 | Attorneys Insurance Indemnity Fund Government Employees Medical Scheme |
| Ms Nkabaneng Tebogo Mashile | B Acc Sci M Com | CA (SA) | 10 May 2017 | Senior Lecturer at Wits University Phenyo Entertainment Unlimited (Pty) Ltd Phepo Holdings (Pty) Ltd Potego Properties (Pty) Ltd |
| Ms Matshepo More | B Bus. Sc B Bus. Sc (Hons) B Com (Hons) | CA (SA) | 1 December 2016 | Chief Financial Officer and Executive Director at the Public Investment Corporation Ltd Grit Real Estate Income Group Industrial Development Corporation ADR International Airports South Africa |
| Mr Mohamad Iqbal Motala | B Proc | Attorney | 10 May 2017 | Partner at a law firm None |
| Ms Zuziwe Ntsalaze | B Com Accounting Honours MBA (cum laude) | CA (SA) | 10 May 2017 | Operational Risk Manager at Investec Drivers Licence Card Authority |
| Mr Madoda Alfred Petros | B Com Advanced Tax Certificate | CA (SA) | 10 May 2017 | Chief Risk Officer at Ubank None |
| Mr Thiru Pillay (Chairman of ARMCO) | B Compt B Compt (Hons) | CA (SA) CIA (SA), RA | 15 April 2015 | Group Executive at Liberty Holdings Ltd None |

On the Board, the Minister is represented by the Acting Accountant-General.

Governance *(continued)*

Responsibility

The Board is responsible for overseeing the preparation, integrity and fair presentation of the financial statements and related information included in this annual report. It is also ultimately responsible for ensuring that adequate accounting records and effective systems of internal control are maintained. To enable it to meet its responsibilities, it employs appropriately trained and skilled personnel to implement and maintain the accounting records and systems of control in line with the requirements of the PFMA and Treasury Regulations. The Board also exercises its functions in accordance with the Auditing Profession Act, No. 26 of 2005.

The Board is assisted by the following committees in the execution of its duties:

Audit and Risk Management Committee

The objective of the committee is to assist the Board with the responsibility of safeguarding assets, maintaining effective and efficient internal controls, reviewing the financial information, overseeing the preparation of the annual financial statements and ICT governance.

The committee operates in accordance with terms of reference authorised by the Board, and these are reviewed annually. The auditors have unrestricted access to the committee members. The committee is also responsible for overseeing risk management. It ensures that identified risks are monitored and appropriate measures are devised and implemented to manage such risks.

The committee met three times during the period to review matters arising from internal risk analysis; the external audit plan and the budget; matters arising from the completed audit; and for the fair presentation of the financial statements presented to the Board.

Disciplinary Advisory Committee

In terms of the Auditing Profession Act, the Investigating Committee (INVESCO) investigates all complaints and then recommends to the Board whether to charge a practitioner with improper conduct.

INVESCO meets every eight weeks, but the Board does not meet frequently enough to consider recommendations from the committee after each of its meetings. Therefore, the Board has delegated this function to the Disciplinary Advisory Committee (DAC). This committee consists exclusively of Board members. The DAC functions independently from INVESCO and the Disciplinary Committee, and it reports to the Board.

The DAC meets approximately six weeks after each INVESCO meeting and considers the finalised matters on which INVESCO has made a recommendation.

Matters finalised

During the 12 months under review, the DAC met six times (2017: 6) and finalised 60 (2017: 96) matters.

Decisions not to charge

- Six matters in terms of Disciplinary Rule 3.5.1.1 – the respondents were not guilty of improper conduct.
- Four matters in terms of Disciplinary Rule 3.5.1.2 – there were reasonable explanations for the respondent's conduct.
- Four matters in terms of Disciplinary Rule 3.5.1.3 – the conduct of which respondents may be guilty were of a negligible nature or consequence.
- Two matters in terms of Disciplinary Rule 3.5.1.4 – there were no reasonable prospects of succeeding with charges of improper conduct against the respondents.

Decisions to charge and matters finalised by consent order

- Thirty-nine (39) matters were finalised by consent orders, and the respondents were fined.

Decisions to charge and matters referred to the Disciplinary Committee for a full hearing

- Five matters were referred to the Disciplinary Committee for a full hearing.

Operations Committee

The objective of the committee is to assist the Board with human resources, including the annual review of the performance and remuneration of the CEO; regularly assessing staff benefits and trends; and reviewing changes to the personnel policies of the Board. The committee also assists with nominations for all appointments to the IRBA committees by making recommendations to the Board. It is further tasked to consider reports from the directors on operational and functional issues.

The committee operates in accordance with terms of reference authorised by the Board, and these are reviewed annually.

The committee met five times during the financial year to consider and recommend to the Board matters arising from human resources, nominations of members to other IRBA committees and operational issues.

Internal Auditors

The IRBA appointed an internal audit firm effective from 1 August 2016. The Audit and Risk Management Committee (ARMCO) approved a three-year rolling internal audit plan. Internal audit performed its activities as per the plan and tabled progress reports at ARMCO meetings. ARMCO approved the early termination of the contract at its

24 October 2017 meeting due to non-performance. The process to appoint a new internal audit service provider is under way.

External Auditors

The external auditors provide an independent assessment of the IRBA's systems of internal financial control and express an independent opinion on its financial statements. The external auditors' plan is reviewed by ARMCO to ensure that significant areas of concern are covered, and this is done without infringing on the external auditors' independence and right to audit. The Auditor-General South Africa is the auditor of the IRBA.

Strategic Plan and Budget

The IRBA management prepares the business plan, strategic plan and budget for Board consideration and approval. The strategic plan and budget are duly submitted to National Treasury for consideration and approval. Quarterly reports, including the management accounts, performance information and the PFMA compliance checklist, are submitted to National Treasury as per the requirements of the PFMA and Treasury Regulations.

Social Responsibility

The Corporate Social Responsibility Committee is the IRBA's formal approach for its involvement with charitable organisations. The functions and projects of this committee are managed mostly through donations from staff members and these are then matched rand-for-rand by the IRBA. During the 2017/2018 financial year the IRBA decided to honour one of its late staff members, Ms Salaminah Moremi-Kayizzi, who was very involved in charity work before her tragic passing. The IRBA took responsibility of supporting her community with various donations, including clothes, books, stationery and groceries.

Below is the list of projects that were undertaken by the committee during the year under review.

● **Mandela Day Project – Light of Revelation Care Centre**

The Light of Revelation Care Centre is a church facility that offers after-care to children in the community of Orange Farm. The facility is run through donations from church members and caters for about 150 children, most of whom are abandoned or living with unemployed parents.

The IRBA partnered with the care centre as part of its Mandela Day project and donated a double-door fridge, groceries, clothes, toys and stationery. The staff also spent the afternoon with the children and served them lunch.

● **The Haven Night Shelter**

The IRBA hosted a staff potjiekos competition with celebrity guest judge Mr Brent Lindeque of the GoodThingsGuy.com website and chose to support the Haven Night Shelter, one of the community projects that he is involved with.

The Haven Night Shelter was established in 1978 in Cape Town. It offers temporary shelter, rehabilitation opportunities, social welfare services, family reunification services, physical care and support services to adults who are living on the streets and committed to reintegration.

The shelter employs full-time staff to encourage people to come off the streets, and it then reintegrates the homeless person back into his/her community. The process of getting a person back to their loved ones usually involves introducing them to a shelter like the Haven. They do this by:

- Logging the person on the relevant city database of homeless people.
- Using whatever contact details they have to find the person's family.
- Making contact with the family to find ways to get the person back to them.
- Making travel arrangements, depending on the availability of funds.
- Ensuring the person gets to the train or bus station.
- Calling the family the following day to ensure that their loved one has arrived and is safe.

Each shelter has a manager and four supervisors; and almost every shelter has a social worker whose responsibility is to undertake an in-depth assessment and help the homeless person construct a personal development plan.

A donation of R5 000 was made to the Haven Night Shelter.

● **Light of Revelation Care Centre Christmas Donations**

The IRBA team went back to the Light of Revelation Care Centre and donated Christmas gift packs for 211 children ranging from three-month-old babies to 16-year-olds. The Christmas gift packs included a stationery item, snacks, toys and clothes.

Governance *(continued)*

Corporate Governance Environment in Relation to the King IV Report on Corporate Governance

The consideration and application of the recommended practices are proportionally in line with the IRBA's size and resources, as well as the extent and complexity of its activities.

| | |
|--|---|
| <p>PRINCIPLE 1</p> <p>Leadership</p> <p>The Board should set the tone and lead ethically and effectively.</p> | <p>Explanation</p> <p>The Board members hold one another accountable for decision-making and act in a way that displays the ethical characteristics stated in King IV. The chairman of the Board has been tasked to monitor this as part of his duties. Also, we have scheduled performance assessments of individual Board members, and these include peer evaluations of their ethical behaviour.</p> |
| <p>PRINCIPLE 2</p> <p>Organisational Ethics</p> <p>The Board should ensure that the organisation's ethics are managed effectively.</p> | <p>Explanation</p> <p>The organisation's guiding values are independence, integrity and objectivity. Our code of conduct is applicable to employees and is also part of contractual arrangements with parties in the supply chain. Behavioural competency evaluations of employees also include an assessment of ethical conduct and a consequence management system is in place to address breaches.</p> |
| <p>PRINCIPLE 3</p> <p>Responsible Corporate Citizenship</p> <p>The Board should ensure that the organisation is a responsible corporate citizen.</p> | <p>Explanation</p> <p>The organisation strives to integrate responsible corporate citizenship as part of the way we do things, and performance measures in respect thereof are shared across functions and the departments. The Board oversees and monitors (using agreed performance indicators and targets) the organisation's status as a good corporate citizen in areas such as compliance, stakeholder perceptions and employment equity in line with the Strategic Plan of the organisation. Compliance is monitored by the compliance officer. Quarterly reports are submitted to management, ARMCO and the Board.</p> |
| <p>PRINCIPLE 4</p> <p>Strategy and Performance</p> <p>The Board should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.</p> | <p>Explanation</p> <p>The Board steers and sets the direction, purpose and strategy of the organisation. Management has been delegated with the formulation of the Strategic Plan. During the process, risks and opportunities, resources and relationships, among others, are considered. Through the Board and the relevant committees there is ongoing assessment and response to any negative consequences for the economy and public interest in general.</p> |
| <p>PRINCIPLE 5</p> <p>Reporting</p> <p>The Board should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.</p> | <p>Explanation</p> <p>This report and the integrated report provide users with a holistic, clear, concise and understandable presentation of the organisation's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. To further refine its performance regarding this principle, the organisation is actively soliciting input from key users of our reports so as to enhance our reporting.</p> |
| <p>PRINCIPLE 6</p> <p>Primary Roles and Responsibilities of the Board</p> <p>The Board should serve as the focal point and custodian of corporate governance in the organisation.</p> | <p>Explanation</p> <p>These roles and responsibilities are documented in the Board charter, reflected in the work plan and executed through the duties and decision-making with which Board members are tasked.</p> |

| | |
|---|--|
| <p>PRINCIPLE 7</p> <p>Composition of the Board</p> <p>The Board should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.</p> | <p>Explanation</p> <p>During the past year, the Board, with the Operations Committee, considered its composition in terms of balance of power, skills, experience, diversity, independence and knowledge, including whether all this enables it to effectively discharge its role and responsibilities. It did this when submitting the short-list of nominations for the new Board to the Minister for approval. As a result of this consideration, the Board identified that there was a need for more diversity to add depth to discussions. A Request for Nominations was published in the Government Gazette and national newspapers to ensure a variety of submissions. In January 2018, the Board approved a skills matrix for the Board and Statutory Committees.</p> |
| <p>PRINCIPLE 8</p> <p>Committees of the Board</p> <p>The Board should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.</p> | <p>Explanation</p> <p>Membership of the committees is as recommended in King IV. The composition of the Board committees and the distribution of authority between the respective chairs and other individuals lead to neither the chairs nor any other individual(s) being able to dominate decision-making or cause undue dependency on such individual(s).</p> |
| <p>PRINCIPLE 9</p> <p>Evaluation of the Performance of the Board</p> <p>The Board should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.</p> | <p>Explanation</p> <p>Discussions by the Board on its performance and that of its committees, its chair and its members is scheduled for July 2018, a year after its appointment. This appraisal is conducted once during the two-year term of the Board. The first external performance evaluation of the Board is scheduled for September 2018. A detailed delegation of authority is in place. The CEO does not have work commitments outside the organisation. Refer to page 17 for the executive structure, including the role and relevant qualifications of each executive member. The organisation has appointed a Board Secretary with the requisite knowledge and experience. The Board Secretary's performance is assessed by the CEO every year. The CEO is satisfied that the Board Secretary and the functions that she oversees are performing well.</p> |
| <p>PRINCIPLE 10</p> <p>Appointment and Delegation to Management</p> <p>The Board should ensure that the performance evaluations of the Board, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness.</p> | <p>Explanation</p> <p>Assessments of the performance of the CEO, management and the Board Secretary, are conducted annually. It is the opinion of the Board that it, and its structures, should function in an integrated manner. The Board, with the assistance of the Board Secretary, continues to take a holistic view of its charter.</p> |
| <p>PRINCIPLE 11</p> <p>Risk Governance</p> <p>The Board should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.</p> | <p>Explanation</p> <p>The Board sets the approach for risk governance within the IRBA. ARMCO has been tasked to assist the Board with the governance of risk and has approved the risk management policy. As risk management permeates all aspects of the operations of the organisation, risk is overseen at executive level and continuously assessed by the accounting authority.</p> |

Governance *(continued)*

| | |
|---|--|
| <p>PRINCIPLE 12</p> <p>Technology and Information Governance</p> <p>The Board should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.</p> | <p>Explanation</p> <p>The Board assumes responsibility for the governance of technology and information by setting the direction for how technology and information should be approached and addressed in the organisation to achieve its strategic objectives. Information governance documents and policies for technology and information are in place and approved by ARMCO, which has been delegated with the responsibility over information technology governance.</p> |
| <p>PRINCIPLE 13</p> <p>Compliance Governance</p> <p>The Board should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.</p> | <p>Explanation</p> <p>Compliance with all applicable laws is governed by the Board in a way that allows the organisation to achieve its strategic objectives and also allows the organisation to be an ethical and good corporate citizen. There were no regulatory penalties, sanctions or fines for contraventions of, or noncompliance with, statutory obligations.</p> |
| <p>PRINCIPLE 14</p> <p>Remuneration Governance</p> <p>The Board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.</p> | <p>Explanation</p> <p>The Board ensures that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes of the organisation in the short, medium and long terms.</p> |
| <p>PRINCIPLE 15</p> <p>Assurance</p> <p>The Board should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.</p> | <p>Explanation</p> <p>This report gives detailed information on assurance provided. The disclosure by the ARMCO on internal financial and reporting controls is also included in this report. A Combined Assurance Plan was approved by the Board in May 2018.</p> |
| <p>PRINCIPLE 16</p> <p>Stakeholders</p> <p>As part of its decision-making in the best interests of the organisation, the Board should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.</p> | <p>Explanation</p> <p>The organisation has identified key stakeholder groupings as well as their legitimate and reasonable needs, interests and expectations. Stakeholder relationship programmes have been developed to ensure continual engagement. Also, strict requirements and processes have been developed for the dissemination of content to our stakeholders.</p> |

Part D

Human Resources Management



Human Resources Management

The Value of Human Capital

The IRBA is a service entity and, as such, its most valuable asset is its staff. The staff complement, excluding contract workers, was 85 as at 31 March 2018. At year-end, three positions were vacant due to staff turnover. The total staff expenditure was R82 million (2017: R73 million), which represents 71% (2017: 71%) of the IRBA's total expenses.

Overview of HR Practices

The IRBA ensures that it complies with employment legislation, i.e. the Labour Relations Act (Act 66 of 1995); the Basic Conditions of Employment Act (Act 75 of 1997); the Employment Equity Act (Act 55 of 1998); the Skills Development Act (Act 97 of 1998); the Occupational Health and Safety Act (Act 181 of 1993); and various human resources (HR) codes of best practice. To ensure ongoing communication with staff members, the Chief Executive Officer and/or senior management hold monthly staff meetings to provide feedback on relevant matters.

The IRBA has a manual of human resource policies and practices that is reviewed regularly. During the year under review the following policies were updated and approved by the Board:

- Disciplinary Policy.
- Incapacity Policy.
- Performance Management Policy.
- Remuneration & Reward Policy.
- Leave Policy.

Employee Reward and Performance Management Framework

The IRBA recognises that reward is a business issue and not just a human resources issue, as it has a direct impact on operational expenditure, culture, employee behaviour and ultimately the sustainability of the organisation. As such, the IRBA's approach to reward is consistent with its objectives and strategic value drivers.

The objectives of the IRBA's reward programme are to assist it to:

- Compete for talent in an increasingly competitive labour market.
- Retain competent employees who enhance business performance.
- Motivate individual and team performance that drives stakeholder value for the IRBA.
- Achieve most effective returns (employee productivity) for total employee costs.
- Ensure sufficient equity levels.

To achieve these objectives, the IRBA rewards employees in a way that reflects the dynamics of the market and the context in which it operates. All components of the reward strategy, including the fixed pay portion, variable pay, performance management, learning and personal growth and the work environment, are aligned to the strategic direction and specific value drivers of the IRBA. The reward strategy is fully integrated into other management processes.

The performance measurement of staff is extended to include the behavioural competencies of the staff by including a 360-degree evaluation of behaviours. All employees took part in the development of the evaluation technique, which was successfully implemented.

Human Resources Oversight Statistics

Staff Complement

The workforce (excluding contract staff) over the past five years, as at 31 March, was as follows:

| | 2018 | % | 2017 | % | 2016 | % | 2015 | % | 2014 | % |
|--------------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| Black Female | 33 | 40 | 33 | 41 | 24 | 33 | 25 | 36 | 26 | 37 |
| White Female | 16 | 19 | 16 | 20 | 20 | 27 | 18 | 26 | 19 | 27 |
| Black Male | 26 | 29 | 23 | 27 | 18 | 24 | 15 | 21 | 15 | 21 |
| White Male | 10 | 12 | 10 | 12 | 12 | 16 | 11 | 17 | 11 | 15 |
| TOTAL STAFF | 85 | 100 | 82 | 100 | 74 | 100 | 69 | 100 | 71 | 100 |

Personnel Cost of Permanent Staff by Salary Band

| Level | Personnel Expenditure R | % of Personnel Expenditure to Total Expenditure | Number of Employees | Average Personnel Cost per Employee R |
|--------------------------|-------------------------|---|---------------------|---------------------------------------|
| Top management | 3 631 475 | 5% | 1 | 3 631 475 |
| Senior management | 12 542 230 | 18% | 6 | 2 090 372 |
| Professionally qualified | 43 888 660 | 60% | 42 | 1 044 968 |
| Skilled | 5 567 260 | 8% | 12 | 463 938 |
| Semi-skilled | 5 385 623 | 8% | 20 | 269 281 |
| Unskilled | 642 512 | 1% | 4 | 160 628 |
| TOTAL | 71 657 760 | 100% | 85 | 843 032 |

Training Costs

| Level | Personnel Expenditure R | Training Expenditure R | Training Costs as % of Personnel Costs | Number of Employees Trained | Average Training Cost per Employee R |
|--------------------------|-------------------------|------------------------|--|-----------------------------|--------------------------------------|
| Top management | 3 631 475 | 16 138 | 0.4% | 1 | 16 138 |
| Senior management | 12 542 230 | 127 129 | 1.0% | 6 | 21 188 |
| Professionally qualified | 43 888 660 | 266 253 | 0.6% | 37 | 7 196 |
| Skilled | 5 567 260 | 37 175 | 0.7% | 8 | 4 647 |
| Semi-skilled | 5 385 623 | 33 887 | 0.6% | 14 | 2 421 |
| Unskilled | 642 512 | 1 042 | 0.2% | 1 | 1 042 |
| TOTAL | 71 657 760 | 481 624 | 0.7% | 67 | 7 188 |

Human Resources Management *(continued)*

Performance Rewards

| Level | Performance Rewards R | Personnel Expenditure R | % of Performance Rewards to Personnel Expenditure |
|--------------------------|--------------------------|----------------------------|---|
| Top management | 1 071 900 | 3 631 475 | 30% |
| Senior management | 1 018 360 | 12 545 224 | 8% |
| Professionally qualified | 3 069 100 | 43 888 660 | 7% |
| Skilled | 346 670 | 5 567 260 | 7% |
| Semi-skilled | 323 825 | 5 385 623 | 6% |
| Unskilled | 30 175 | 642 512 | 5% |
| TOTAL | 5 878 030 | 71 660 754 | 8% |

Employment and Vacancies

| | 2016/2017 No. of Employees | 2017/2018 Approved Posts | 2017/2018 No. of Employees | 2017/2018 Vacancies | % of Vacancies |
|--------------------------|----------------------------------|--------------------------------|----------------------------------|------------------------|-------------------|
| Top management | 1 | 1 | 1 | - | - |
| Senior management | 6 | 6 | 6 | - | - |
| Professionally qualified | 38 | 43 | 42 | 1 | 5% |
| Skilled | 11 | 12 | 12 | - | - |
| Semi-skilled | 21 | 22 | 20 | 2 | 13% |
| Unskilled | 5 | 5 | 4 | 1* | 20% |
| TOTAL | 82 | 89 | 85 | 4 | 7% |

All vacant positions were filled after year-end and the vacancies, therefore, only relate to resignations that were in the process of recruitment at year-end.

*This position was terminated during the year and the cleaning function was partially outsourced.

Employment Changes

The changes in employment over the financial year were as follows:

| Salary Band | Employment at Beginning of Period | Appointments | Terminations | Employment at End of Period |
|--------------------------|-----------------------------------|--------------|--------------|-----------------------------|
| Top management | 1 | | | 1 |
| Senior management | 6 | | | 6 |
| Professionally qualified | 38 | 7 | 3 | 42 |
| Skilled | 11 | 1 | | 12 |
| Semi-skilled | 21 | 1 | 2 | 20 |
| Unskilled | 5 | | 1 | 4 |
| TOTAL | 82 | 9 | 6 | 85 |

The IRBA experienced a low staff turnover rate during the year, a sign of tough economic conditions in the country and the IRBA being seen as competitive with a good work environment.

Reasons for Staff Leaving

| Reason | Number |
|--------------|----------|
| Resignation | 4 |
| Dismissal | 2 |
| TOTAL | 6 |

Labour Relations: Misconduct and Disciplinary Action

| Nature of Disciplinary Action | Number |
|-------------------------------|--------|
| Written warning | - |
| Final written warning | - |
| Dismissal | 2 |
| Referral to CCMA | 1 |

Human Resources Management *(continued)*

Equity Target and Employment Equity Status

Target 2018

| TOTAL | Male | Female | African | Coloured | Indian | White | Non-SA | Disabled |
|-------|------|--------|---------|----------|--------|-------|--------|----------|
| 100 | 43 | 57 | 53 | 7 | 10 | 29 | 1 | 2 |
| 100% | 43% | 57% | 53% | 7% | 10% | 29% | 1% | 2% |

Actual 2018

| TOTAL | Male | Female | African | Coloured | Indian | White | Non-SA | Disabled |
|-------|------|--------|---------|----------|--------|-------|--------|----------|
| 85 | 36 | 49 | 39 | 6 | 13 | 26 | 1 | 4 |
| 100% | 42% | 58% | 46% | 7% | 15% | 31% | 1% | 5% |

The total target for black employees is 70% against the actual of 68%. The IRBA, therefore, has almost achieved its target overall.

The IRBA made every effort to achieve its employment equity targets for the period. This is addressed by incorporating the premium approach into the Recruitment and Selection Policy. This method is being used in pursuance of establishing an equitable staff composition for the IRBA.

The Employment Equity Forum, consisting of eight staff members representing all areas of employment equity, is also making every effort to become more involved in the recruitment process to ensure compliance with the policy as well as fairness and transparency throughout all recruitment drives within the IRBA.

The Employment Equity Plan was revised, updated and approved by the Board in December 2015 for the five years from 2016 to 2020.

Employment Equity status per level is as follows:

| | 2017/2018 No. of Employees | African | Indian | Coloured | White | Foreign |
|--------------------------|----------------------------------|-----------|-----------|----------|-----------|----------|
| Top management | 1 | | | 1 | | |
| Senior management | 6 | 1 | 1 | | 4 | |
| Professionally qualified | 42 | 13 | 12 | 2 | 15 | 1 |
| Skilled | 12 | 5 | 1 | 2 | 4 | |
| Semi-skilled | 20 | 16 | | 1 | 3 | |
| Unskilled | 4 | 4 | | | | |
| TOTAL | 85 | 39 | 13 | 6 | 26 | 1 |

Part E

Feedback from Statutory Committees



Education and Transformation Committee



R Malahleha

| Members | Number of Meetings Attended | Membership Status |
|----------------|-----------------------------|-------------------------------------|
| Ms R Malahleha | 3 of 4 | Chairman |
| Ms T Naidoo | 4 of 4 | Deputy Chairman |
| Ms S Mokoena | 4 of 4 | Member |
| Ms B Jackson | 0 of 4* | Member |
| Mr B Nyembe | 4 of 4 | Member |
| Mr V Pangwa | 1 of 4 | Member |
| Prof K Barac | 4 of 4 | Member |
| Ms P Mvulane | 2 of 4 | Member |
| Mr S Marota | 1 of 3 | Resigned effective 22 February 2018 |
| Ms M Olivier | 2 of 4 | SAICA Observer |

*Ms Jackson was on an extended leave of absence during the financial year under review.

It gives me great pleasure to report on the Education and Transformation Committee's (EDCOM) current and strategic activities for the 2017/2018 financial year.

Transformation of the Profession

Transformation of the auditing profession remains critical to the IRBA. Although the IRBA relies on collaboration with other stakeholders, it developed a strategy that addresses areas where it could influence the advancement of transformation in the profession. In this regard, the Board approved a Transformation Project List, which is updated annually. During the period under review the IRBA conducted workshops across the country with key stakeholders to share and discuss the results of its transformation research study, as well as establish common ground and solutions for a way forward.

On 15 March 2018 the Education and Transformation Department hosted the Educators Workshop, which the IRBA runs once every two years, to raise awareness, share

innovative ideas about teaching and learning models used in auditing and the role of education in an ever-changing accountancy profession. The theme for the year was: "How can education contribute towards rebuilding confidence in the profession?"

I am also pleased to report that the Alexandra Mathematics and Science Academy is in its third year of existence. I thank SAICA for its continued commitment in the administration of this project.

The Audit Development Programme (ADP)

The South African audit profession has recently come under scrutiny. As such, with calls for better equipped registered auditors (RAs), we believe that the ADP is doing its part to better prepare the auditors of the future by ensuring that those who are eligible to register as auditors have obtained higher levels of experience before registration as RAs.

During the period under review 132 candidates registered for the ADP. The IRBA continues to raise awareness of the ADP through trainee and firm events as well as ADP workshops, with a focus on candidates who may register and be signed-off within a period shorter than the prescribed 18 months due to the recognition of prior learning (RPL).

I would like to take this opportunity to congratulate the nine candidates who successfully completed the ADP during the period under review. I wish them all the success in their roles within the profession. I also extend our thanks to their firms and Oversight RAs for their commitment to the development of RAs.

Through the ADP monitoring activities, the firms are encouraged to improve upon their quality structures. During the financial year, 45 training offices were monitored. Some of these training offices have already developed action plans based on the IRBA's monitoring reports. Through the ADP, our relations with neighbouring countries have been growing strong. To this end, two of our neighbouring countries recently adopted the ADP.

Finally, I turn my attention to all the registered candidate auditors (RCAs) who are currently registered for the ADP. In this time when the profession seems to be losing the public's confidence, you, as the RCAs, hold great power. We look to you to hold the profession high.

Competency Framework

In my previous report I reported that the IRBA, in collaboration with SAICA, commissioned an academic research study to propose a competency framework that will ensure that chartered accountants (CAs) and RAs of the future continue to have the skills and competencies necessary to perform high-quality jobs, while also serving the public's interests and the needs of the economy. I am pleased to report that this research is on track and is scheduled to be completed in the first half of 2019.

Monitoring of Recognised Programmes

Central to achieving the objectives of the IRBA is the monitoring of the institutional and programme requirements to be complied with by accredited professional bodies. SAICA, currently the only accredited professional body, submitted its self-evaluation and regular formal reports for the programme and institutional requirements. EDCOM concluded that SAICA's programmes were of an appropriate standard and the IRBA will continue to accredit SAICA and its programmes.

As part of the accreditation model, trainees that select the audit and assurance elective are required to first register their training contract with the IRBA. During the year under review 3 840 training contracts were successfully invoiced.

Continuing Professional Development (CPD)

In the period under review, the IRBA selected a random sample of RAs and reviewed their CPD records. I am pleased to report that the majority of RAs completed their CPD and endeavour to remain competent for the work that they undertake. As CPD is a critical aspect of an RA's professional life, and since the IAESB has been reviewing its CPD standard, the IRBA has already initiated a process to review its CPD policy.

Proficiency Interviews

During the period under review the IRBA conducted 15 proficiency interviews. The results of the interviews were as follows:

- One candidate had already submitted a Practice Plan, a Quality Manual and appointed a quality reviewer. Therefore, the panel recommended that the candidate's registration as an RA should proceed.
- Eleven candidates were required to draft a Practice Plan, a Quality Manual, appoint a quality reviewer and update their CPD.
- Three candidates were required to draft a Practice Plan, a Quality Manual, appoint a quality reviewer, update their CPD and schedule another interview.

Some of these candidates have already complied with the above requirements and have been registered as RAs.

Participation on the International Accounting Education Standards Board (IAESB)

EDCOM's former Chairman, Prof Amanda Dempsey, serves as a member of the Consultative Advisory Group (CAG) of the IAESB. During the year under review she participated in the CAG meetings.

The IRBA CEO and the Director Education and Transformation serve on the IAESB as a member and technical advisor respectively. During the year under review they participated in the Board's meetings where projects, such as professional scepticism, behavioural competence, information, communication and technology, and continuing professional development were discussed.

Appreciation

My sincere gratitude is extended to the committee members for their valuable contributions and support in delivering on EDCOM's mandate. Without the commitment of all members, our achievements this year would not have been possible.

EDCOM is supported by its sub-committees, the ADP Committee (ADCOM) and the Monitoring Committee (MCOM). I, therefore, would like to extend EDCOM's gratitude to both sub-committees for their continued commitment in delivering on EDCOM's mandate.

Finally, I wish to thank the staff of the Education and Transformation Department for their commitment and support in delivering on the mandate of EDCOM.

R Malahleha

Chairman

Committee for Auditing Standards



| Members | Number of Meetings Attended | Membership Status |
|---------------------------------|-----------------------------|------------------------------|
| Ms R Fourie | 4 of 4 | Chairman |
| Mr M du Toit | 4 of 4 | Deputy Chairman ² |
| Ms J Christian | 4 of 4 | Member |
| Ms L du Plessis | 4 of 4 | Member |
| Mr W Kinnear | 3 of 4 | Member |
| Ms Y Lange | 3 of 4 | Member |
| Ms D Lawrence ³ | 2 of 4 | Member |
| Mr N Maree ⁴ | 3 of 4 | Member |
| Ms C Mbili | 3 of 4 | Member |
| Mr Z Rashid | 2 of 4 | Member |
| Mr J van Schalkwyk ⁵ | 1 of 4 | Member |
| Ms S West ⁶ | 3 of 4 | Member |

Four CFAS meetings were held during the year under review in May, August, November 2017 and March 2018.

It gives me pleasure to present this report on the strategic activities of the Committee for Auditing Standards (CFAS) for the 2017/2018 financial year.

²Mr M du Toit was appointed as deputy chairman of CFAS at the November 2017 CFAS meeting.

³Mr G Motadi attended two meetings on behalf of Ms D Lawrence, as her alternate.

⁴Ms I Peter attended one meeting on behalf of Mr N Maree, as his alternate.

⁵Ms L le Roux attended two meetings on behalf of Mr J van Schalkwyk, as his alternate.

⁶Ms S West was on maternity leave at the time of the March 2018 meeting.

CFAS Standing Committees

To address demands for auditing pronouncements, the CFAS maintains the following standing committees:

- CFAS Steering Committee;
- Regulated Industries and Reports Standing Committee (RIRSC);
- Public Sector Standing Committee (PSSC);
- Sustainability Standing Committee (SSC); and
- Integrated Reporting Standing Committee (IRSC).

CFAS Strategy 2015-2019

The CFAS strategy focuses the activities of the CFAS, establishes predetermined objectives and prioritises projects that address emerging issues. The CFAS strategy for 2015-2019 is based on the IRBA's public interest mandate, the IRBA's Four Pillar Strategy, the IAASB's Strategy for 2015-2019 and demands for local projects with a high public interest.

The CFAS strategy for 2015-2019 comprises the following three focus areas:

- Develop and maintain high-quality local auditing and assurance pronouncements, including the development of local implementation guidance.
- Consider and respond to developments in the IAASB international standards, and consider the adoption of new and revised international standards.
- Monitor jurisdictional legislative and regulatory requirements and work with stakeholders and regulators to develop auditing pronouncements that are relevant to jurisdictional needs.

The CFAS has commenced work on its new strategy.

International and Regional Liaison

The secretariat is engaged in a programme of liaising with relevant African and international bodies. The Director Standards, Mr Imran Vanker, is an IAASB Board Member and Professional Manager Standards, Ms Nicolette Bester, is the Technical Advisor to Mr Vanker. In addition, Mr Vanker is a member of two IAASB Task Forces dealing with the development of international standards, namely, Quality Control and Agreed Upon Procedures.

The IRBA provides ad-hoc assistance to the Pan-African Federation of Accountants' (PAFA) Technical and Standard Setters Forum's Steering Committee with the formation of the forum's structures and processes.

CFAS Projects Identified and Outputs Achieved to Fulfil the Strategy

| Project Outputs | |
|--|---|
| Local Auditing and Assurance Pronouncements and Guidance | |
| South African Assurance Engagements Practice Statement (SAAEPS) 1: Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria | Exposure Draft issued in December 2017. The comment period closed on 29 March 2018. |
| SAAPS 2 (Revised 2018) – Financial Reporting Frameworks and the Auditor's Report | Issued in March 2018, effective for periods ending on or after 1 April 2018. |
| Repository on the IRBA website, as a central source of all guidance or other information currently available, issued by various organisations, regarding assurance on integrated reports | |
| International Standards | |
| Comment on International Consultation Papers and Exposure Drafts and Engagement with International Stakeholders | |
| IAASB's Exposure Draft, ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures | Comment letter submitted to the IAASB on 1 August 2017. |
| Jurisdictional, Legislative and Regulatory Requirements | |
| Proposed revised Guide for Registered Auditors: Access to Working Papers. | Exposure draft issued in November 2017, with the comment period closing on 28 February 2018. |
| Illustrative ISAE 3420 Report – Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus | Issued in March 2018. The revised report is effective for reports issued on or after 30 March 2018. |

Appreciation

I wish to express my appreciation to the members of the CFAS, its standing committees, the various task groups, the South African Institute of Chartered Accountants, the Auditor-General South Africa, the Financial Sector Conduct Authority, the Johannesburg Stock Exchange, the South African Reserve Bank, the South African Revenue Service, the auditing firms that support the CFAS with resources and the staff of the Standards Department for their commitment and support in delivering on the mandate of the CFAS.

R Fourie

Chairman

Committee for Auditor Ethics



| Members | Number of Meetings Attended | Membership Status |
|-------------------|-----------------------------|--|
| Mr V Naicker | 4 of 5 | Chairman |
| Mr S Davies | 5 of 5 | Deputy Chairman |
| Ms M Bezuidenhout | 2 of 5 | Member |
| Mr A Bulbulia | 3 of 5 | Member Appointed from 1 April 2017 |
| Ms E Hamman | 4 of 5 | Member Retired as member on 31 March 2018 |
| Mr R Mahabeer | 5 of 5 | Member |
| Mr F Mitchell | 4 of 5 | Member Appointed from 1 April 2017 |
| Ms L Ratsoma | 4 of 5 | Member |

It gives me pleasure to present this report on the strategic activities of the Committee for Auditor Ethics (CFAE) for the 2017/2018 financial year.

Code of Professional Conduct and Rules Regarding Improper Conduct (the IRBA Code)

The CFAE focused its activities during the year on updates to the Code and on ongoing updates to address emerging needs aligned with maintaining auditor independence. It also continued to reflect on the developments in the audit profession in South Africa, and then consider how these developments impact on the work of the committee.

CFAE Strategy

The CFAE aligned its annual work plan and activities with the IRBA's Four Pillar Strategy and its associated objectives for the period 2015-2019.

The CFAE Strategy encompasses:

- Advocating for the implementation of the IRBA Code;
- Monitoring international developments and their effect on the South African environment;
- Risk identification and emerging issues; and
- Strengthening the membership of the CFAE.

Activities of the Task Groups

The following CFAE task groups supported the CFAE in researching emerging ethics issues and developing guidance for auditors.

Restructure of the IRBA Code

The Restructure Task Group is responsible for drafting the South African paragraphs in the IRBA Code in line with the IESBA Restructure Drafting Convention.

Non-compliance with Laws and Regulations (NOCLAR)

The NOCLAR Task Group responded to questions raised on the recent NOCLAR amendments to the IRBA Code, including the link between NOCLAR obligations and other legislative reporting obligations applicable to registered auditors, such as reportable irregularities (RI) under Section 45 of the Auditing Profession Act.

Long Association of Personnel with Audit and Assurance Clients

The Long Association Task Group considered the final amendments made to the IESBA Code and recommended these amendments to the IRBA Board for adoption. The changes enhance the independence provisions in the IRBA Code.

Custody of Client Assets

The Custody of Client Assets Task Group finalised amendments to the IRBA Code to include more comprehensive guidance on the custody of clients' monies.

IESBA and National Standard-Setters Meeting

The IRBA maintains contact with the IESBA by attending its meetings, and meets annually with other national standard setters, under the auspices of the IESBA.

Comment Letters Provided on International Pronouncements

Comment letters were submitted to the IESBA during the year on the following:

- The IESBA's Exposure Draft on Proposed Changes Relating to the Use of Safeguards in the Code – Phase 2;
- The IESBA's Exposure Draft on Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2;

- The IESBA's Strategy Survey Questionnaire;
- The IESBA's Exposure Draft on Proposed Application Material Relating to Professional Scepticism and Professional Judgment; and
- The IESBA's Exposure Draft on Accepting and Receiving Inducements.

Outlook

The CFAE has two priorities for the immediate future:

- The adoption of the Restructured IESBA Code during 2018/2019, which presents a formidable change to all features of the IRBA Code.
- Responding appropriately in its work programme to environmental factors in South Africa, and any relevant outcomes of the IRBA's other regulatory functions.

Appreciation

I wish to express my appreciation to the members of the CFAE and its task groups for their professional contributions, commitment and support, as well as the staff of the IRBA Standards Department in delivering on the mandate of the CFAE.

I would like to thank the retiring member, Ms Ethel Hamman, who has been with the CFAE for the past six years, for her invaluable support and commitment to the work of the committee.

V Naicker

Chairman

Inspections Committee



| Members | Number of Meetings Attended | Membership Status |
|-------------------|-----------------------------|----------------------------|
| Mr G Joubert | 2 of 2 | Chairman until August 2017 |
| Ms L du Plessis | 3 of 4 | Member |
| Ms E Nyandoro | 3 of 4 | Chairman from March 2018 |
| Mr Z Rashid | 4 of 4 | Member |
| Mr N Ngaka | 3 of 3 | Member |
| Mr G Mnguni | 2 of 3 | Member |
| Ms E Goodchild | 3 of 3 | Member |
| Ms P van der Wouw | 3 of 3 | Member |

It gives me great pleasure to report on the Inspections Committee's (INSCOM) current and strategic activities for the 2017/2018 financial year.

Background to the Inspections Process

Inspections are performed in terms of Section 47 of the Auditing Profession Act, 2005. One of the objects of the Act is to protect the public by regulating audits performed by registered auditors (RAs).

There are two types of inspections that are performed: firm inspections and engagement inspections. The objective of a firm inspection is to monitor compliance by the firm to current standards of quality control; and that of an engagement inspection is to monitor compliance by individual RAs with applicable professional standards, codes and legislation in the performance of assurance work. The Inspections team follows a risk-based approach when selecting engagement files for inspection and determining the scope of the inspection and the sections within an engagement file to be inspected. This is in line with international best practice.

Findings from inspections are reported quarterly, on an anonymous basis, to INSCOM, which is responsible for

determining the final outcome of an inspection. All members of the committee are independent of the audit firms and have extensive knowledge and experience in auditing. The final outcome of an inspection is determined in terms of predetermined criteria applicable to the inspection cycle.

Firm and engagement inspections receive one of the following outcomes from the committee:

- Satisfactory, meaning an inspection only in a subsequent cycle. However, action is required by the firm/engagement partner to address findings raised by the inspector;
- Unsatisfactory, meaning some significant matters still require attention before a satisfactory outcome can be achieved. Remedial action plans are required to be submitted to the IRBA, and a follow-up inspection will be scheduled; or
- Referral to the Investigating Committee, meaning possible disciplinary action by the IRBA following an investigation. A follow-up inspection will be scheduled following the completion of the investigation process.

INSCOM may also grant a conditional result, at its members' discretion. Attached to the conditional result will be requirements that the firm and/or the engagement partner has to implement. These are followed up on and, depending on evidence presented on actions taken, INSCOM's decision may change.

Focus during the 2017/2018 Financial Year

Inspections are performed in three-year inspection cycles and the period under review represents the third and last year of the sixth inspection cycle. During the period, the Inspections team continued to strengthen its inspections capacity and process, and bedded down procedures implemented in the previous year, such as the stringent quality control process, the business intelligence function, financial reporting reviews and specialisation.

Following the risk-based approach, inspections during the period continued to focus on assurance engagements with higher public interest exposure, such as assurance work performed for listed entities, entities deemed to be public interest entities and state-owned companies. This resulted in fewer inspections that, however, have a broader scope to address potential risks. Our focus was, therefore, on inspecting the quality of specific components of selected audit files rather than the quantity of inspections completed, which is in alignment with the IRBA's objective to prioritise quality before quantity. There were less firm inspections planned and performed in the last year of the cycle; and inspectors' capacity was focused on engagement file inspections to measure the effectiveness of the firms' systems of quality control in ensuring audit files that are of consistent high quality.

Firm Inspections

The objective of a firm inspection is to inspect the design and implementation of a firm's quality control system in

accordance with ISQC 1. Various elements of ISQC 1 are monitored during a firm inspection, depending on the size of the firm. A full scope inspection is performed for firms categorised as larger, where all elements of ISQC 1 are assessed. For smaller firms, the scope of the inspection is limited to inspecting selected elements of ISQC 1. The classification of the firm is done based on the size of the firm (per assurance fees) and the level of public interest of its engagement portfolio. In the current year, 11 (2017: 23) firm inspections were reported to INSCOM, and of those inspections seven (64%) were satisfactory, three (27%) received an unsatisfactory outcome and one (9%) was referred for investigation to the IRBA's Investigations Department. Overall, five of these inspections were re-inspections and all five received a satisfactory outcome.

The decreased number of firm inspections reported during the period is a result of the fact that this was the last year in the inspection cycle, and the Inspections team's focus was more on engagement re-inspections.

Engagement Inspections

The objective of an engagement inspection is to inspect the individual engagement partner's compliance with relevant standards, codes and legislation in performing assurance work. In the current period, 188 (2017: 197) engagement inspections were reported to the committee. Of these, 101 (54%) received a satisfactory outcome and 61 (32%) were unsatisfactory. Twenty-six (14%) inspections reported to the Inspections Committee were referred for investigation to the IRBA's Investigations Department. Eighty-nine of these inspections were re-inspections, following the Remedial Action Process, and 61 (69%) of them received a satisfactory outcome.

The decreased number of engagement inspections reported during the period is a result of the Inspections team's focus on assurance engagements with higher public interest exposure demanding more in-depth inspections that take longer to perform.

Remedial Action Process

During the current period, the Inspections Department continued with implementing its Remedial Action Process. The process requires firms and/or engagement partners, following an unsatisfactory inspection outcome, to submit root cause analyses and action plans to the IRBA. These root cause analyses and action plans are reviewed and discussed with the firm and/or engagement partners to ensure effective remediation. The process has, thus far, been well received by auditors. We encourage auditors to fully engage in the remediation process so as to not only improve their outcome during a re-inspection but to achieve the common goal of better audit quality across all engagements.

The IRBA has noted an improvement whereby more likely root causes were identified compared to the previous year. This resulted in more effective improvement strategies and

processes being developed by the firms to address areas of concern identified by the inspections process.

Looking Forward to 2018/2019

The IRBA's seventh inspection cycle, commencing on 1 April 2018, will increasingly focus on firm leadership, which is ultimately responsible for promoting a culture of quality that ensures consistent, sustainable high quality on all audits within the firm, including that any reported quality control review or inspection findings are promptly evaluated, internally communicated and remediated as part of the firm's ongoing quality improvement processes. There will also be significant changes in the manner in which inspection deficiencies will be rated, communicated and reported, with a strong focus on the actions required to help improve audit quality. In addition, there will be a specific focus on ethics, including the integrity and independence of auditors, as well as areas of public interest. (The Seventh Cycle Strategy and Process can be accessed on the IRBA website.)

Communicating Findings

The IRBA's latest Public Inspections Report highlights common firm and engagement file inspection themes reported to INSCOM during the 2016/2017 financial year. Feedback on the remediation process is also included in the report. The report is available on the IRBA website. I encourage auditors to study the report and use it as a reference to enhance audit quality within their firms and/or engagements.

Confidentiality is maintained over all inspection findings and outcomes, as required by statute. I encourage audit committee members, in fulfilling their responsibilities, to request from their appointed audit firm and/or engagement partners their most recent IRBA inspection reports, outcomes and remedial action plans. I also request audit firms and engagement partners to share these results with audit committees and to be transparent.

Appreciation

I wish to extend my sincere appreciation to the Inspections Department for its commitment to the monitoring of auditors in serving the public interest. I am grateful to the committee members for their time and dedication to the inspections process and ensuring that inspection results are fair. I extend my appreciation to audit firms and engagement partners for their co-operation during the inspections process and their commitment to the Remedial Action Process.

E Nyandoro

Chairman

Investigating Committee



| Members | Number of Meetings Attended | Membership Status |
|-----------------|-----------------------------|-------------------|
| Mr S Masuku | 5 of 5 | Chairman |
| Mr M Gani | 5 of 5 | Member |
| Prof B Stobie | 5 of 5 | Member |
| Ms K Govender | 3 of 5 | Member |
| Mr A Ndurunduru | 5 of 5 | Member |
| Mr B Maasdorp | 5 of 5 | Member |
| Ms C Schoeman | 4 of 5 | Member |
| Mr R McKaiser | 3 of 5 | Member |
| Ms L Tromp | 1 of 1 | Member* |
| Mr D Mahony | 1 of 1 | Member* |

*Appointed on 1 February 2018

It gives me great pleasure to report on the Investigating Committee's (INVESCO) activities for the 2017/2018 financial year. The committee comprises chartered accountants, attorneys and members with business qualifications.

An investigation is initiated either once a complaint is received from an external party or has been initiated from within the IRBA.

Externally-originated complaints are lodged by members of the public or are matters referred by courts or other regulators. Internally-originated complaints are raised by the IRBA itself, with an example being those arising out of the inspections process or matters where investigations are initiated by the IRBA as a result of information that comes to its attention, mostly through the media.

Complaints lodged with the IRBA are required (by the Disciplinary Rules) to be on an affidavit. This requirement is an indication of the seriousness of lodging a complaint. Furthermore, this is essential when the information is solely within the knowledge of the complainant. The Disciplinary

Rules also stipulate that the affidavit should set out clearly what is being complained of.

Once a complaint is received and it is verified that the respondent is a registered auditor with the IRBA, the complaint is then perused by the Investigations Department's investigators to ascertain whether further information is needed from the complainant, or if specific information is needed from the respondent.

After a preliminary investigation has taken place, the Director Investigations must decide, in terms of Section 48 (1) of the Auditing Profession Act of 2005 (the Act), whether to refer the matter to INVESCO. Most matters will be referred and INVESCO must then investigate the matter in terms of Section 48 (3) of the Act. INVESCO then deliberates on the matters before the committee and recommends to the Disciplinary Advisory Committee whether to (a) dismiss the matter, (b) refer it for a disciplinary hearing, or (c) impose a monetary and/or non-monetary sanction.

Year under Review

During the year under review, 112 new investigations were initiated. This figure represents only matters where case files were opened, and excludes matters resolved on an informal basis, or at an early stage, without the necessity of a case file being opened. These investigations concerned registered auditors from audit firms across the spectrum, from the smallest to the largest firms, and covered various conduct issues.

Investigations Concluded

The committee met five times during the year under review and 82 matters were referred to the Disciplinary Advisory Committee with recommendations.

Appreciation

I commend my fellow committee members for their dedication and professional input, and thank them for their support over the past year.

INVESCO has seen a marked increase in the complexity of matters referred to it over time. These include a number of high profile matters, resulting in a capacity strain for the Investigations Department. The committee sincerely appreciates the level of commitment and dedication of the Director Investigations and her staff, despite the increase in their workload. They have done and continue to do a tremendous amount of work in compiling the matters for the committee's consideration and we would not be able to operate without their well-documented support.

S Masuku

Chairman

Disciplinary Committee



During the period under review the committee included the chairman, Adv AC Dodson SC, and two vice-chairmen, Adv IV Maleka SC and Adv JMA Cane SC.

The registered auditors who served on the committee were Messrs S Sooklal and N Russouw. The non-auditor members were two lawyers, Adv GN Muvangua and Mr LX Pierce; and four chartered accountants, Ms RA van Wyk, Mr A Moosa, Mr H Griffiths and Mr C Qually.

The following table reflects the number of sessions attended by these individuals. (Note: Some sessions extended over several days.)

| Members | Number of Sessions Attended |
|----------------------------------|-----------------------------|
| Adv AC Dodson SC (Chairman) | 1 |
| Adv IV Maleka SC (Vice-Chairman) | 1 (as chairman) |
| Adv JMA Cane SC (Vice-Chairman) | 1 (as chairman) |
| Mr A Moosa | 3 |
| Mr H Griffiths | 3 |
| Mr LX Pierce | 2 |
| Mr CR Qually | 2 |
| Mr N Russouw | 2 |
| Ms R van Wyk | 3 |
| Adv N Muvangua | 0 |
| Mr S Sooklal | 2 |

During the period under review the committee dealt with three matters, one of which was finalised within the year. These cases appear below.

First Matter – 26 October 2017

| The Charge | Plea | Outcome |
|---|--------------------|---------|
| Failure to answer or appropriately deal with and/or comply with correspondence and requests from the IRBA (Rules 2.12 and 2.13 of the Rules regarding Improper Conduct) | Pleaded not guilty | Guilty |

Sanction

1. The practitioner was suspended from the right to practice as a registered auditor for a period of three years, i.e. he would not be permitted to do audit or assurance work. This, in turn, was suspended for three years on condition that the practitioner was not subsequently found to be in contravention of Rules 2.12 and/or 2.13 in relation to conduct and/or work performed during that period.
2. The practitioner was ordered to pay a fine of R50,000.00, of which R25,000.00 was suspended for three years on condition that he was not subsequently found to be in contravention of Rules 2.12 and/or 2.13 in relation to conduct and/or work performed during that period.
3. Furthermore, the practitioner was ordered to pay the suspended portion of a previous fine imposed by the IRBA in the amount of R5,000.00 and he was ordered to contribute R15,000.00 towards the IRBA's legal costs.
4. In respect of publication, the committee authorised publication in IRBA News of a summary of the charge, the facts, findings and sentence without naming the practitioner or his firm.

Disciplinary Committee *(continued)*

Second Matter

On 4 and 5 December 2017 the committee commenced with a matter that was postponed to 4 and 5 February 2018 for the cross-examination of the practitioner. The matter did not proceed in February and has been remanded to 9 and 10 July 2018 for continuance.

Third Matter

On 19, 23, 27 and 28 March 2018 the committee commenced with a matter against two practitioners concerning the audit of a bank that was placed under curatorship in 2014. The matter will continue for several days between September and December 2018.

Farewell

At the end of this reporting period we bid farewell to two members of the committee, namely, Messrs Costa Qually and Akhter Moosa. Mr Qually served on the committee for 11 years for both the IRBA and its predecessor, the PAAB, while Mr Moosa served on the committee for three years. I thank them for their outstanding and diligent service to the profession and to the committee and wish them well. Their presence on the committee will be missed. Special mention should be made of Mr Qually's well-presented and helpful training seminars for the committee.

Appreciation

On behalf of the committee, I express my sincere gratitude to the Director and her department for the exceptionally efficient and effective manner in which the proceedings of the committee are convened, administered and supported.

AC Dodson

Chairman

Part F

Financial Information



Report of the Audit and Risk Management Committee (ARMCO)

Statement of Responsibility

The Board is responsible for overseeing the preparation, integrity and fair presentation of the financial statements and related information included in this annual report. This includes ensuring that adequate accounting records and effective systems of risk management and internal control are maintained. To enable it to meet its responsibilities, it employs appropriately trained and skilled personnel to implement and maintain the accounting records and systems of control in line with the requirements of the PFMA and Treasury Regulations. The Board also exercises its functions in accordance with the Auditing Profession Act No. 26 of 2005.

Audit and Risk Management Committee Report

We are pleased to present the report for the financial year ended 31 March 2018.

ARMCO is a subcommittee of the Board and it consists of independent, non-executive Board members. Its overall objective is to assist the Board with its responsibility of ensuring that adequate systems and controls are in place, thus ensuring that the assets are safeguarded; assessing the going concern status; reviewing the financial information; and overseeing the preparation of the annual financial statements.

The committee also assists the Board in fulfilling its responsibilities of risk management by ensuring that management identifies and addresses significant risks affecting its strategic objectives and those associated with the environment within which the IRBA operates.

The committee meets at least three times a year, as per its approved terms of reference. Management, internal auditors and external auditors attend these meetings by invitation. Since this is an oversight committee, it does not perform any management functions nor does it assume any management responsibilities. Its role is that of an independent and objective adviser, and it operates as an overseer, making recommendations to the Board for final approval.

During this reporting year three meetings were held. Meeting attendance appears on page 24.

Committee Responsibility

The committee has complied with its responsibilities, as set out in Section 38(1)(a) of the PFMA and Treasury Regulation 3.1.

It has also operated within the terms of reference of the committee, regulated its affairs in compliance with the terms of reference and discharged all its responsibilities as contained therein.

Effectiveness of Internal Control

The system of internal control applied by the IRBA over financial risk and risk management is effective, efficient and transparent.

In line with the PFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the committee and management with assurance that the internal controls are adequately designed and operating effectively. This is achieved by means of a risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the internal auditors, the external auditors' independent audit report on the annual financial statements and the management report of the Auditor-General South Africa, it was noted that no significant or material noncompliance with prescribed policies and procedures had been reported. Accordingly, we can report that the system of internal control for the period under review was adequate and effective.

The committee is satisfied with the expertise and adequacy of resources within the Operations Department, which is responsible for the finance function of the IRBA. The committee relies on feedback obtained from both external and internal audits to make these assessments.

Risk Management

The Board has committed the IRBA to a process of risk management that is aligned to the principles of good corporate governance. It has delegated certain aspects of its authority that pertain to risk management to ARMCO.

The risk management policy ensures that the IRBA identifies and manages strategic, operational and, where relevant, project risks. In terms of the risk management policy, a risk plan must be prepared and linked to the risk register as well as back to the objectives of the IRBA. The Risk Governance Framework is based on the IRBA's maturity profile in terms of risk.

The policy has been prepared in terms of the principles prescribed by the King IV Report on Corporate Governance, the PFMA and National Treasury Regulations.

A Risk Management Strategy, incorporating a Fraud Prevention Plan, is in place. Given the dynamic environment within which the IRBA operates, the effectiveness and relevance of these plans are assessed on a regular basis. Risks identified as significant to the IRBA are periodically evaluated and the Risk Management Plan is reviewed accordingly.

The committee is satisfied with the effectiveness of the risk management process.

The committee is also satisfied with the content and quality of quarterly reports prepared and issued by the Accounting Officer of the IRBA during the year under review.

Information and Communication Technology (ICT)

The committee is also responsible for the governance of information and communication technology. Its mandate is to ensure proper and appropriate governance of ICT within the IRBA through the creation and implementation of a suitable governance framework, in line with the principles and practices of corporate governance put forward in the ICT Policy.

The primary objectives of the IRBA's ICT governance framework address the following:

- Business Value: Ensuring that ICT assists and enables the achievement of business objectives and meets the business needs of the IRBA.
- Resource Optimisation: Providing relevant ICT resources (people, processes and technology), organisational structure, capacity and capability to enable ICT service delivery.
- Risk Management: Ensuring that ICT risk is managed and ICT service delivery, performance and conformance to relevant internal and external policies are monitored.
- Transparency to Stakeholders: Ensuring that there is transparency to relevant stakeholders regarding ICT performance and plans.

The committee ensures that its procedures and processes are compliant with the recommendations in the King IV Report on Corporate Governance.

Quarterly Reports

The management has submitted monthly reports to MANCO and quarterly reports to the Board and Executive Authority.

Evaluation of Financial Statements

The committee has:

- Reviewed and discussed with the Auditor-General and the Accounting Officer the audited annual financial statements to be included in the annual report.
- Reviewed the Auditor-General's management report and management's response thereto.
- Reviewed changes in accounting policies and practices, where applicable.
- Reviewed possible significant adjustments resulting from the audit, of which there were none.
- Reviewed the information on predetermined objectives as reported in the annual report.

The committee concurs and accepts the Auditor-General's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

Internal Audit

During the year under review the committee was not satisfied with the quality of service provided by the internal audit service provider. Two independent tender processes were followed to secure the services of a new service provider without success due to the requirement of independence. A process has been started to share internal audit services with National Treasury.

The following internal audit work was completed during the year under review:

- ICT Continuity;
- Inspections process;
- Standards process;
- Corporate Governance and Compliance; and
- Risk Management Review.

External Audit

The committee has met with the Auditor-General to ensure that there are no unresolved issues.

Going Concern

The annual financial statements of the IRBA were prepared on a going concern basis and the committee is satisfied that the IRBA is financially sound and has adequate resources to continue operating for the foreseeable future.

Appreciation

I wish to express my appreciation to the members of the committee and to the Director Operations and the Operations Department staff for their commitment and support in this financial year.

T Pillay

Chairman

Report of the Auditor-General to Parliament on the Independent Regulatory Board for Auditors

Report of the Auditor-General to Parliament on the Independent Regulatory Board for Auditors

Opinion

1. I have audited the financial statements of the Independent Regulatory Board for Auditors (IRBA) set out on pages 55-78, which comprise the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the IRBA as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the IRBA in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedule

7. The supplementary information set out on page 79 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting authority for the financial statements

8. The board, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the PFMA, and for such internal

control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

9. In preparing the financial statements, the accounting authority is responsible for assessing the IRBA's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the IRBA or to cease operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the audit of the financial statements

10. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic focus areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the IRBA. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and

reporting framework, as defined in the general notice, for the following selected strategic focus areas presented in the IRBA's annual performance report for the year ended 31 March 2018.

| Strategic focus areas | Pages in the annual performance report |
|---|--|
| Strategic focus area 1: Auditing and Ethics Standards | 19 |
| Strategic focus area 2: Education and Transformation | 20 |
| Strategic focus area 3: Inspections | 21 |
| Strategic focus area 4: Investigations | 21 |

15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following:
- Strategic focus area 1: Auditing and Ethics Standards
 - Strategic focus area 2: Education and Transformation
 - Strategic focus area 3: Inspections
 - Strategic focus area 4: Investigations

Other matter

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 19-22 for information on the achievement of planned targets for the year and explanations provided for the achievement of targets. This information should be considered in the context of the opinions expressed on the usefulness and reliability of the reported performance information in paragraphs 15-16 of this report.

Report on audit of compliance with legislation

Introduction and scope

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the IRBA with specific matters in key legislation. I performed procedures

to identify findings but not to gather evidence to express assurance.

20. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

21. The IRBA's accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the board chairperson's foreword and the chief executive officer's overview. The other information does not include the financial statements, auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
22. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
23. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

24. I considered internal controls relevant to my audit of the financial statements, the annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor General

Pretoria
31 July 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the Auditor-General to Parliament on the Independent Regulatory Board for Auditors *(continued)*

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected strategic focus areas and on the IRBA's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IRBA's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the members of the Board, which constitutes the accounting authority.
- conclude on the appropriateness of the members of the Board, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the IRBA's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the IRBA to cease continuing as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

Independent Regulatory Board for Auditors

Annual Financial Statements

Index

The reports and statements set out below comprise the annual financial statements presented to Parliament:

Contents

- > **56** Accounting Authority's Responsibilities and Approval
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- > **60** Statement of Financial Position
- > **61** Statement of Financial Performance
- > **62** Statement of Changes in Net Assets
- > **63** Cash Flow Statement
- > **64** Statement of Comparison of Budget and Actual Amounts
- > **65** Accounting Policies
- > **71** Notes to the Annual Financial Statements

The following supplementary information does not form part of the annual financial statements and is unaudited:

- > **79** Detailed Income Statement

Accounting Authority's Responsibilities and Approval

The accounting authority is required by the Public Finance Management Act (Act 1 of 1999) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is its responsibility to ensure that the annual financial statements fairly present the state of affairs of the IRBA as at the end of the reporting period and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any relevant interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting authority acknowledges that it is ultimately responsible for the system of internal financial control established by the IRBA and places considerable importance on maintaining a strong control environment. To enable the accounting authority to meet these responsibilities, it sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the IRBA and all employees are required to maintain the highest ethical standards in ensuring the IRBA's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management at the IRBA is on identifying, assessing, managing and monitoring all known forms of risk across the organisation. While operating risk cannot be fully eliminated, the IRBA endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting authority is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement.

The accounting authority has reviewed the IRBA's cash flow forecast for the year to 31 March 2019 and, in light of this review and the current financial position, it is satisfied that the IRBA has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the IRBA's annual financial statements. The annual financial statements have been examined by the IRBA's external auditors and their report is presented on pages 52-54.

The annual financial statements set out on pages 57-79, which have been prepared on the going concern basis, were approved by the accounting authority on 30 July 2018 and were signed on its behalf by:



A Dlamini
Chairman

Report of the Accounting Authority

The accounting authority submits its report for the year ended 31 March 2018.

1. Introduction

The accounting authority presents its report, which forms part of the Annual Financial Statements of the IRBA for the year ended 31 March 2018, to the Minister of Finance, the Executive Authority, in terms of Section 55 (1)(d) of the Public Finance Management Act (Act 1 of 1999) as amended (PFMA).

2. Principle Activities of the IRBA

The IRBA was established in terms of Section 3 of the Auditing Profession Act, (No. 26 of 2005) (the Act), which had an effective date of 1 April 2006. The objectives of the Act, as set out in Section 2, are as follows:

- to provide for the establishment of an Independent Regulatory Board for Auditors;
- to protect the public in the Republic by regulating audits performed by Registered Auditors;
- to improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in South Africa;
- to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession; and
- to provide for procedures for disciplinary action in respect of improper conduct.

3. Analysis of Financial Statements

3.1 Revenue

The operations of the IRBA are funded by revenue from exchange transactions and non-exchange transactions, including government grants.

Revenue from exchange transactions

Revenue from exchange transactions primarily comprises registration, license and training contract fees. This revenue increased to R33.6 million from R31.8 million. Income from training contracts increased to R8.9 million from R8.1 million as 51 more training contracts were registered. The annual license fees payable by registered auditors increased to R22.0 million from R20.5 million.

Revenue from non-exchange transactions

During the year under review, the IRBA received government grants amounting to R39.6 million (2017: R29.0 million). The higher than inflation increase was due to the restoration of funding cuts from government in the previous years. The funding from National Treasury was primarily used to ensure delivery on the IRBA's mandate in terms of the Act.

Firm fees increased to R33.3 million from R31.0 million primarily due to the increase in high-risk assurance work fees declared by audit firms.

3.2 Expenses

Operating expenses increased to R115.1 million from R103.1 million, representing an increase of 12%. This was mainly due to the increase in employment costs set off by a number of savings and the reduction of activities as explained below.

- Total employment costs increased by 12.13% due to most vacant positions being filled. Salaries increased by an average of 6.63%; including a structural adjustment of 0.07% required to offer more market-related salaries to employees.

Other movements are:

- Disciplinary and investigation expenses increased by R2.2 million due to one specific case that had a total cost of R5.3 million.
- Committee expenses increased by R0.6 million as most vacancies were filled.
- Placement fees decreased by R1 million due to a stable workforce and fewer new position appointments during the year.
- Staff welfare increased by R0.4 million due to a project that was run to benchmark job profiles against industry norm.
- Overseas travel increased by R0.4 million due to more international stakeholder meetings being attended.

Report of the Accounting Authority *(continued)*

3.3 Assets

The procurement of assets was limited to the replacement of computers, furniture and fittings. Website development costs incurred amounted to R0.2 million.

A major portion of current assets is comprised of trade receivables. Most of the outstanding balance, excluding those impaired, was collected subsequent to the year-end.

The cash balance increased to R32.6 million from R30.4 million; R19.4 million of the cash is required to fund the reserves needed to safeguard the IRBA's ability to continue as a going concern.

3.4 Liabilities

Trade and other payables consist of trade payables of R4.8 million, accruals of R2.6 million and an accrual for leave pay of R1.6 million.

3.5 Deficit

In 2017, National Treasury adjusted its budget allocation to the IRBA, in accordance with austerity measures across the public sector. Accordingly, the IRBA secured permission from National Treasury to utilise accumulated reserves in order to fund its budgeted annual deficits. In the current year, the budgeted deficit was R3.9 million, with an actual deficit of R1.2 million (2017: Deficit R4.4 million). The savings in the deficit arose mainly from higher interest received, and better management of departmental overheads.

3.6 Reserves

Reserves include three funds that were approved by National Treasury – a Trust Fund and two contingency funds for disciplinary cases and operational working capital requirements.

- The Trust Fund was established in 2010 as prescribed by the Minister of Finance and it has R10 million, representing the proceeds of the sale of a building previously owned by the IRBA. The R10 million cash to fund the reserve is classified as restricted cash under non-current assets.
- The contingency fund for disciplinary cases was established to protect the operating capacity of the IRBA against the impact of unforeseen, exceptional disciplinary costs.
- The contingency fund for operational working capital requirements was established to accumulate funds for the IRBA's short-term working capital requirements, capital expenditure, budgeted deficit (if any), as well as other unforeseen short-term requirements. This fund is maintained at approximately three months' operational expenditure.

3.7 Budget

The PFMA states the following in Chapter 6: Public Entities, Section 53 (3):

"A public entity which must submit a budget in terms of subsection (1) may not budget for a deficit and may not accumulate surpluses unless the prior written approval of the National Treasury has been obtained."

The final budget was approved by the Board, with a deficit of R3.9 million. National Treasury approved that the IRBA can retain its accumulated surplus of R16.7 million as at 31 March 2017 for specific projects. These projects were included in the budget of the subsequent two years. The approved accumulated reserves to be retained were therefore used against the budgeted deficit to achieve breakeven, as disclosed in the Statement of Comparison of Budget and Actual Amounts.

4. Accounting Authority

| | |
|-----------------------|-------------------|
| A Dlamini | (Chairman) |
| MJ Janse van Rensburg | (Deputy Chairman) |
| T Pillay | |
| J Lesejane | |
| M More | |
| NT Mashile | |
| MI Motala | |
| MA Petros | |
| Z Ntsalaze | |

Board Members' term

| | |
|-------------------------------|---------------------------|
| April 2015 – April 2019 | |
| May 2017 – April 2019 | |
| April 2015 – April 2019 | (Resigned – 30 June 2018) |
| December 2016 – November 2018 | (Resigned – 31 May 2018) |
| December 2016 – November 2018 | |
| May 2017 – April 2019 | |
| May 2017 – April 2019 | |
| May 2017 – April 2019 | |
| May 2017 – April 2019 | |

5. Ministerial Representative

The person in the position of the Accountant-General represents the Minister.

6. Business and Registered Address

| | |
|-------------------------|---|
| Physical address | Building 2 Greenstone Hill Office Park Emerald Boulevard Modderfontein 1609 |
| Postal address | IRBA P O Box 8237 Greenstone 1616 |

7. Bank

Standard Bank of South Africa

8. Auditors

Auditor-General South Africa

Statement of Financial Position

as at 31 March 2018

| Figures in Rand | Notes | 2018 | 2017 |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | | 162 034 | 156 850 |
| Loans receivable | 6 | 357 191 | 371 134 |
| Receivables from exchange transactions | 7 | 1 930 295 | 1 343 671 |
| Receivables from non-exchange transactions | 8 | 2 819 623 | 3 606 580 |
| Cash and cash equivalents | 9 | 32 603 714 | 30 416 846 |
| | | 37 872 857 | 35 895 081 |
| Non-Current Assets | | | |
| Plant and equipment | 3 | 3 133 100 | 3 282 099 |
| Intangible assets | 4 | 1 941 174 | 2 099 427 |
| | | 5 074 274 | 5 381 526 |
| Operating lease asset | | - | 71 627 |
| Restricted cash | 5 | 10 000 000 | 10 000 000 |
| | | 15 074 274 | 15 453 153 |
| Total Assets | | 52 947 131 | 51 348 234 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and other payables from exchange transactions | 10 | 8 985 079 | 6 172 879 |
| Non-Current Liabilities | | | |
| Operating lease liability | | 4 617 | - |
| Total Liabilities | | 8 989 696 | 6 172 879 |
| Reserves | | 29 420 349 | 28 505 319 |
| Accumulated surplus | | 14 537 086 | 16 670 036 |
| Total Net Assets | | 43 957 435 | 45 175 355 |
| Total Net Assets and Liabilities | | 52 947 131 | 51 348 234 |

Statement of Financial Performance

for the year ended 31 March 2018

| Figures in Rand | Notes | 2018 | 2017 |
|-----------------------------|-------|--------------------|--------------------|
| Revenue | 12 | 109 670 197 | 94 808 751 |
| Operating expenses | | (115 072 205) | (103 138 646) |
| Operating deficit | 13 | (5 402 008) | (8 329 895) |
| Investment revenue | | 4 184 088 | 3 918 956 |
| Deficit for the year | | (1 217 920) | (4 410 939) |

Statement of Changes in Net Assets

for the year ended 31 March 2018

| Figures in Rand | Trust Fund | Contingency Fund – Disciplinary Cases | Contingency Fund – Operations | Total Reserves | Accumulated Surplus | Total Net Assets |
|--|-------------------|---------------------------------------|-------------------------------|-------------------|---------------------|-------------------|
| Balance at 01 April 2016 | 10 000 000 | 11 056 206 | 6 386 823 | 27 443 029 | 22 143 265 | 49 586 294 |
| Changes in net assets | | | | | | |
| Deficit for the year | - | - | - | - | (4 410 939) | (4 410 939) |
| Transfer to contingency fund: Disciplinary cases | - | 1 554 392 | - | 1 554 392 | (1 554 392) | - |
| Transfer from contingency fund: Operational | - | - | (492 102) | (492 102) | 492 102 | - |
| Total changes | - | 1 554 392 | (492 102) | 1 062 290 | (5 473 229) | (4 410 939) |
| Balance at 01 April 2017 | 10 000 000 | 12 610 598 | 5 894 721 | 28 505 319 | 16 670 036 | 45 175 355 |
| Changes in net assets | | | | | | |
| Deficit for the year | - | - | - | - | (1 217 920) | (1 217 920) |
| Transfer to contingency fund: Disciplinary cases | - | 805 153 | - | 805 153 | (805 153) | - |
| Transfer from contingency fund: Operational | - | - | 109 877 | 109 877 | (109 877) | - |
| Total changes | - | 805 153 | 109 877 | 915 030 | (2 132 950) | (1 217 920) |
| Balance at 31 March 2018 | 10 000 000 | 13 415 751 | 6 004 598 | 29 420 349 | 14 537 086 | 43 957 435 |

Cash Flow Statement

for the year ended 31 March 2018

| Figures in Rand | Notes | 2018 | 2017 |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Cash receipts from registered auditors and other sources | | 109 931 091 | 93 911 166 |
| Interest income | | 4 184 088 | 3 918 956 |
| | | 114 115 179 | 97 830 122 |
| Payments | | | |
| Cash paid to suppliers and employees | | (110 923 877) | (99 478 836) |
| Net cash flows generated from/(utilised by) operating activities | 16 | 3 191 302 | (1 648 714) |
| Cash flows from investing activities | | | |
| Purchase of plant and equipment | 3 | (880 234) | (973 335) |
| Proceeds from sale of plant and equipment | 3 | 147 271 | 74 169 |
| Purchase of other intangible assets | 4 | (285 414) | (158 599) |
| Net cash flows utilised by investing activities | | (1 018 377) | (1 057 765) |
| Cash flows from financing activities | | | |
| Movement in loans receivable | | 13 943 | (113 044) |
| Net increase/(decrease) in cash and cash equivalents | | 2 186 868 | (2 819 523) |
| Cash and cash equivalents at the beginning of the year | | 30 416 846 | 33 236 369 |
| Cash and cash equivalents at the end of the year | 9 | 32 603 714 | 30 416 846 |

Statement of Comparison of Budget and Actual Amounts

for the year ended 31 March 2018

| Figures in Rand | Approved Budget | Actual Amounts on Comparable Basis | Difference between Final Budget and Actual |
|---|----------------------|------------------------------------|--|
| Statement of Financial Performance | | | |
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Revenue from regulatory functions | 33 166 590 | 33 633 125 | 466 535 |
| Other income | 75 504 | 417 440 | 341 936 |
| Interest received | 2 800 681 | 4 184 088 | 1 383 407 |
| Total revenue from exchange transactions | 36 042 775 | 38 234 653 | 2 191 878 |
| Revenue from non-exchange transactions | | | |
| Government grant | 39 624 000 | 39 624 000 | - |
| Revenue from regulatory functions | 36 666 280 | 35 995 632 | (670 648) |
| Total revenue from non-exchange transactions | 76 290 280 | 75 619 632 | (670 648) |
| Total revenue | 112 333 055 | 113 854 285 | 1 521 230 |
| Expenditure | | | |
| Personnel | (81 087 834) | (81 974 050) | (886 216) |
| Depreciation and amortisation | (2 144 357) | (1 422 135) | 722 222 |
| Lease of building | (5 348 064) | (5 348 065) | (1) |
| Debt impairment | - | (16 316) | (16 316) |
| Committee expenses | (2 398 180) | (2 132 578) | 265 602 |
| General expenses | (8 926 247) | (8 521 829) | 404 418 |
| Direct expenses | (7 939 939) | (9 275 688) | (1 335 749) |
| Departmental expenses | (8 379 639) | (6 381 544) | 1 998 095 |
| Total expenditure | (116 224 260) | (115 072 205) | 1 152 055 |
| Actual Deficit on Comparable Basis as Presented in the Budget and Actual Comparative Statement | | | |
| Approved accumulated reserves to be retained | 3 891 205 | 1 217 920 | (2 673 285) |
| | - | - | - |

Accounting Policies

for the year ended 31 March 2018

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board, in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on the accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, is disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the IRBA will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the annual financial statements. Significant judgements include:

Loans and receivables

The IRBA assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on an individual item basis, based on historical loss ratios.

Impairment testing

The IRBA reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates of expected future cash flows for each group of assets are prepared.

Determination of useful lives for plant and equipment

The nature of the IRBA's operations results in difficulties in determining the useful lives of plant and equipment items. The assets' lives exceed industry norms for similar assets. In re-assessing useful lives, the depreciation charge in the income statement is adjusted.

Effective interest rate

The IRBA uses an appropriate interest rate, taking into account guidance provided in the accounting standards and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rates and periods used.

Adequacy of the leave pay provision

The leave pay provision is based on actual days accrued at the rate of remuneration at the reporting date. Changes in the rate of remuneration are determined annually and are effective from the first date of the financial year. The provision is only required when staff resign, as unused leave is forfeited six months after the year in which it accrued.

Accounting Policies *(continued)*

for the year ended 31 March 2018

1.3 Plant and equipment

Plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others or for administrative purposes; and they are expected to be used during more than one period.

The cost of a plant and equipment item is recognised as an asset when:

- It is probable that future economic benefits or service potential associated with the item will flow to the IRBA; and
- The cost of the item can be measured reliably. Plant and equipment is initially measured at cost.

The cost of a plant and equipment item is the purchase price and other costs attributable to bring the asset to the location and the condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Recognition of costs in the carrying amount of a plant and equipment item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of plant and equipment items have been assessed as follows:

| Item | Depreciation method | Average useful life |
|------------------------|---------------------|---------------------|
| Furniture and fixtures | Straight line | 10 to 15 years |
| Motor vehicles | Straight line | 5 years |
| Computer equipment | Straight line | 3 to 5 years |
| Leasehold improvements | Straight line | 7 years |

The residual value as well as the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in the accounting estimate.

Plant and equipment items are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of a plant and equipment item is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of a plant and equipment item is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

Intangible assets are initially recognised at cost.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale.
- There is an intention to complete and use or sell it.
- There is an ability to use or sell it.
- It will generate probable future economic benefits or service potential.
- There are available technical, financial and other resources to complete the development and to use or sell the asset.
- The expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|--|--------------|
| Computer software and development cost | 3 to 5 years |

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of the IRBA and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from a statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction.

A financial asset is:

- Cash;
- A residual interest of another entity; or
- A contractual right to:
 - Receive cash or another financial asset from another entity; or
 - Exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the IRBA.

A financial liability is any liability that is a contractual obligation to:

- Deliver cash or another financial asset to another entity; or
- Exchange financial assets or financial liabilities under conditions that are, potentially, unfavourable to the IRBA.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by the IRBA in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Classification

The IRBA has the following types of financial assets (classes and category), as reflected in the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Loans and receivables | Financial assets measured at amortised cost, which, due to their short-term nature, closely approximate their fair value. |
| Receivables from exchange/non-exchange transactions | Financial assets measured at amortised cost, which, due to their short-term nature, closely approximate their fair value. |
| Cash and cash equivalents | Financial assets measured at amortised cost, which, due to their short-term nature, closely approximate their fair value. |

The IRBA has the following types of financial liabilities (classes and category), as reflected in the statement of financial position or in the notes thereto:

| Class | Category |
|--|---|
| Payables from exchange/non-exchange transactions | Financial liabilities measured at amortised cost which, due to their short-term nature, closely approximate their fair value. |

Accounting Policies *(continued)*

for the year ended 31 March 2018

Initial recognition

The IRBA recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The IRBA recognises financial assets using trade date accounting.

Derecognition

Financial assets

The IRBA derecognises financial assets using trade date accounting.

The IRBA derecognises a financial asset only when:

- The contractual rights to the cash flows from the financial asset expire, are settled or waived;
- The IRBA transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- The IRBA, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the IRBA:
 - Derecognises the asset; and
 - Recognises separately any rights and obligations created or retained in the transfer.

Financial liabilities

The IRBA removes a financial liability (or part of a financial liability) from its statement of financial position when it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled, expires or is waived.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as other income or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability are recognised as revenue or expense in surplus or deficit.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset or liability.

1.7 Employee benefits

Employee benefits are all forms of consideration given by the IRBA in exchange for services rendered by employees. Termination benefits are employee benefits payable as a result of either:

- The IRBA's decision to terminate an employee's employment before the normal retirement date; or
- An employee's decision to accept voluntary redundancy in exchange for those benefits.

Provision for employee entitlement to annual leave represents the present obligation that the IRBA has to pay as a result of employees' services provided up to the reporting date. The provision has been calculated at undiscounted amounts based on salary rates effective on the reporting date.

1.8 Revenue from exchange transactions

An exchange transaction is one in which the IRBA receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from regulatory functions

Revenue from regulatory functions is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by regulatory functions performed to date as a percentage of total regulatory functions to be performed.

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the IRBA receives value from another entity without directly giving approximately equal value in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Government grants

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the IRBA; and
- The amount of the revenue can be measured reliably.

1.10 Investment income

Investment income is recognised on a time-proportion basis using the effective interest rate method.

1.11 Irregular expenditure

Irregular expenditure as defined in Section 1 of the PFMA is expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) This Act; or
- (b) The State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) Any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note No. 4 of 2008/2009, which was issued in terms of sections 76(1) to 76(4) of the PFMA, requires the following:

“Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.”

“Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.”

Accounting Policies *(continued)*

for the year ended 31 March 2018

1.12 Budget information

The statement of comparison of budget and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.13 Related parties

The IRBA operates in an economic sector of entities directly or indirectly owned by the South African government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the IRBA, including those charged with the governance of the IRBA in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, management in their dealings with the IRBA.

Only transactions with related parties not at arm's-length or not in the ordinary course of business are disclosed.

Related party disclosure for transactions between government entities that took place on terms and conditions that are considered arm's-length is not required in accordance with IPSAS 20, Related Party Disclosure.

1.14 Reserves

The following reserves as approved by National Treasury have been established in order to provide for sufficient cash resources for possible contingencies and the Trust Fund.

Contingency Fund – Disciplinary Cases

This is a fund established to maintain the IRBA's long-term capital requirements and to protect the IRBA's operating capacity against the effects of inflation and unforeseen events. This will further cover the unforeseen expenses for disciplinary cases that cannot be covered within the normal budget parameters. This reserve is maintained at a maximum of approximately 20% of the annual income from registered auditors.

Contingency Fund – Operational

This is a fund established to accumulate funding for the IRBA's short-term working capital requirements, capital expenditure, budgeted deficit (if any), as well as other unforeseen short-term requirements. This fund is maintained at a level of approximately three months' operational expenditure.

Trust Fund

This fund was established to ring-fence the capital proceeds of the sale in 2010 of a building previously owned by the IRBA, as prescribed by the Minister of Finance. The interest income on the funds in the trust is used for the development of previously disadvantaged students who aspire to become registered auditors, and to raise awareness of the auditing profession at various levels.

Notes to the Annual Financial Statements

for the year ended 31 March 2018

Figures in Rand

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The IRBA has not applied the following standards and interpretations, which have been published and are mandatory for the IRBA's accounting periods beginning on or after 01 April 2018 or later periods:

| Standard/ Interpretation | Effective date: Years beginning on or after | Expected impact |
|--------------------------------------|---|--|
| ● GRAP 20: Related parties | No effective date has been determined by the Minister of Finance. | The impact on the financial results and disclosure is considered to be minimal when the Standard is adopted as it has been used to inform current disclosures. |
| ● GRAP 108: Statutory Receivables | No effective date has been determined by the Minister of Finance. | The impact on the financial results and disclosure is considered to be minimal when the Standard is adopted as it has been used to inform current disclosures. |

3. Plant and equipment

| | 2018 | | | 2017 | | |
|------------------------|-------------------|--------------------------|------------------|-------------------|--------------------------|------------------|
| | Cost | Accumulated depreciation | Carrying value | Cost | Accumulated depreciation | Carrying value |
| Furniture and fixtures | 3 003 623 | (2 382 099) | 621 524 | 2 909 803 | (2 336 283) | 573 520 |
| Motor vehicles | 315 783 | (63 157) | 252 626 | 511 129 | (169 326) | 341 803 |
| Computer equipment | 5 733 102 | (4 039 647) | 1 693 455 | 5 305 619 | (3 567 687) | 1 737 932 |
| Leasehold improvements | 5 430 408 | (4 864 913) | 565 495 | 5 348 639 | (4 719 795) | 628 844 |
| Total | 14 482 916 | (11 349 816) | 3 133 100 | 14 075 190 | (10 793 091) | 3 282 099 |

Reconciliation of plant and equipment – 2018

| | Opening balance | Additions | Disposals | Depreciation/ changes in accounting estimate | Total |
|------------------------|------------------|----------------|-----------------|---|------------------|
| Furniture and fixtures | 573 520 | 190 960 | (12 881) | (130 075) | 621 524 |
| Motor vehicles | 341 803 | - | (23 852) | (65 325) | 252 626 |
| Computer equipment | 1 737 932 | 607 505 | (14 032) | (637 950) | 1 693 455 |
| Leasehold improvements | 628 844 | 81 769 | - | (145 118) | 565 495 |
| | 3 282 099 | 880 234 | (50 765) | (978 468) | 3 133 100 |

Reconciliation of plant and equipment – 2017

| | Opening balance | Additions | Disposals | Depreciation/ changes in accounting estimate | Total |
|------------------------|------------------|----------------|-----------------|---|------------------|
| Furniture and fixtures | 686 730 | 46 326 | (10 263) | (149 273) | 573 520 |
| Motor vehicles | 52 037 | 315 785 | - | (26 019) | 341 803 |
| Computer equipment | 1 910 202 | 611 224 | (67 625) | (715 869) | 1 737 932 |
| Leasehold improvements | 1 100 478 | - | - | (471 634) | 628 844 |
| | 3 749 447 | 973 335 | (77 888) | (1 362 795) | 3 282 099 |

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2018

Figures in Rand

4. Intangible assets

| Figures in Rand | Cost | 2018 Accumulated amortisation | Carrying value | Cost | 2017 Accumulated amortisation | Carrying value |
|--|-----------|-------------------------------------|-------------------|-----------|-------------------------------------|-------------------|
| Computer software and development cost | 5 963 559 | (4 022 385) | 1 941 174 | 5 678 145 | (3 578 718) | 2 099 427 |

Reconciliation of intangible assets – 2018

| | Opening balance | Additions | Amortisation/ changes in accounting estimate | Total |
|--|--------------------|-----------|---|-----------|
| Computer software and development cost | 2 099 427 | 285 414 | (443 667) | 1 941 174 |

Reconciliation of intangible assets – 2017

| | Opening balance | Additions | Amortisation/ changes in accounting estimate | Total |
|--|--------------------|-----------|---|-----------|
| Computer software and development cost | 2 328 994 | 158 599 | (388 166) | 2 099 427 |

5. Restricted cash

An amount of R10 million was received from the sale of a building owned by the IRBA. The Minister of Finance restricted the use of the capital amount.

6. Loans receivable

| | 2018 | 2017 |
|--------------------------|----------------|----------------|
| At beginning of the year | 371 134 | 258 090 |
| (Repayments)/Advances | (13 943) | 113 044 |
| | 357 191 | 371 134 |

Loans receivable consist of study loans and travel advances made to staff members. The loans are interest free and the effect of discounting is not material.

| Figures in Rand | 2018 | 2017 |
|--|------------------|------------------|
| 7. Receivables from exchange transactions | | |
| Trade debtors | 1 713 500 | 959 810 |
| Prepaid expenses | 217 643 | 385 184 |
| Sundry – other | 1 891 | 11 772 |
| Less: Impairment provision | (2 739) | (13 095) |
| | 1 930 295 | 1 343 671 |

Trade and other receivables pledged as security

Trade and other receivables are not pledged as security.

Trade and other receivables past due but not impaired

The ageing of amounts past due but not impaired is as follows:

| | | |
|--|----------------|-----------------|
| 1 month past due | 1 248 490 | 843 150 |
| Reconciliation of provision for impairment of trade and other receivables | | |
| Opening balance | (13 095) | (13 587) |
| Provision for impairment | 10 356 | 492 |
| | (2 739) | (13 095) |

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance.

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above.

8. Receivables from non-exchange transactions

| | | |
|--|------------------|------------------|
| Fines, penalties and legal cost recoveries outstanding | 2 773 842 | 4 812 680 |
| Firm fees debtors | 1 748 320 | 2 075 070 |
| Less: Impairment provision | (1 702 539) | (3 281 170) |
| | 2 819 623 | 3 606 580 |

Receivables from non-exchange transactions pledged as security

Trade and other receivables are not pledged as security.

Receivables from non-exchange transactions past due but not impaired

The ageing of amounts past due but not impaired is as follows:

| | | |
|---|--------------------|--------------------|
| 1 month past due | 932 685 | 1 843 648 |
| Reconciliation of provision for impairment of receivables from non-exchange transactions | | |
| Opening balance | (3 281 170) | (3 567 289) |
| Provision for impairment | 1 578 631 | 286 119 |
| | (1 702 539) | (3 281 170) |

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade and other receivables mentioned above.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2018

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|-----------------------|-------------------|-------------------|
| Cash on hand | 5 218 | 1 637 |
| Bank balances | 31 713 720 | 29 530 433 |
| 12-Month Term Deposit | 884 776 | 884 776 |
| | 32 603 714 | 30 416 846 |

The cash and cash equivalents held by the IRBA may only be used in accordance with its mandate. No restrictions have been placed on the use of cash and cash equivalents for the operations of the IRBA.

Cash funded reserves

In order to provide for sufficient cash resources for future expenditure, the following reserves have been established: Contingency Fund – Disciplinary Cases, R13 415 751 (2017: R12 610 598); and Contingency Fund – Operational, R6 004 598 (2017: R5 894 721).

The IRBA maintains an operating cash float of R3.3 million in its current account and call deposit account. The rest is invested in a Reserve Bank CPD account, as instructed by National Treasury.

12-Month Term Deposit

An amount of R884 776 (2017: R884 776) has been pledged as a guarantee in terms of the lease agreement for the current premises.

10. Trade and other payables from exchange transactions

| | | |
|-------------------------------|------------------|------------------|
| Trade payables | 4 820 555 | 2 286 235 |
| Accrued leave pay | 1 558 216 | 1 634 142 |
| Operating lease payables | 45 678 | 137 034 |
| Other accruals | 2 223 235 | 1 551 088 |
| Registration application fees | 337 395 | 564 380 |
| | 8 985 079 | 6 172 879 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average age credit period is less than 30 days. The IRBA considers that the carrying amount of trade and other payables approximates the fair value.

Included in trade and other payables is an accrual for leave pay. Employees' entitlement to annual leave is recognised when it accrues to the employee. An accrual is recognised for the estimated liability for annual leave due as a result of services rendered by employees up to the reporting date.

11. Financial instruments

Financial assets at amortised cost

| | | |
|--|-------------------|-------------------|
| Loans receivable | 357 191 | 371 134 |
| Trade and other receivables from exchange transactions | 1 712 652 | 958 487 |
| Trade and other receivables from non-exchange transactions | 2 819 623 | 3 606 580 |
| Cash and cash equivalents | 32 603 714 | 30 416 846 |
| | 37 493 180 | 35 353 047 |

Financial liabilities at amortised cost

| | | |
|---|------------------|------------------|
| Trade and other payables from exchange transactions | 8 985 079 | 6 172 879 |
|---|------------------|------------------|

| Figures in Rand | | 2018 | 2017 |
|--|--|--------------------|-------------------|
| 12. Revenue | | | |
| Government grants | | 39 624 000 | 28 978 000 |
| Revenue from regulatory functions – exchange | | 33 633 125 | 31 819 722 |
| Revenue from regulatory functions – non-exchange | | 35 995 632 | 33 803 271 |
| Other income | | 417 440 | 207 758 |
| | | 109 670 197 | 94 808 751 |
| The amounts included in revenue from regulatory functions (exchange transactions) are as follows: | | | |
| License fees | | 22 026 875 | 20 557 040 |
| Monitoring fees | | 558 570 | 507 780 |
| Proficiency test fees | | 19 462 | 37 130 |
| Registration fees | | 2 144 228 | 2 597 891 |
| Training contracts and levies | | 8 883 990 | 8 119 881 |
| | | 33 633 125 | 31 819 722 |
| The amounts included in revenue arising from regulatory functions (non-exchange transactions) are as follows: | | | |
| Contributions to disciplinary and investigation expenses | | 120 000 | 250 000 |
| Sanctions for improper conduct | | 2 550 001 | 2 570 000 |
| Firm fees | | 33 325 631 | 30 983 271 |
| | | 35 995 632 | 33 803 271 |
| 13. Operating deficit | | | |
| Operating deficit for the year is stated after accounting for the following: | | | |
| Operating lease charges | | | |
| Building | | | |
| • Lease rentals on operating lease | | 5 348 065 | 5 348 066 |
| Net gain/(loss) on sale of plant and equipment | | 96 507 | (3 718) |
| Amortisation of intangible assets | | 443 667 | 388 166 |
| Depreciation on plant and equipment | | 978 468 | 1 362 795 |
| Employee costs | | 81 974 050 | 73 107 338 |
| 14. Bad debts | | | |
| Bad debts | | 980 304 | 220 494 |
| Contributions/(Reduction) to debt impairment provision | | (963 988) | (286 610) |
| | | 16 316 | (66 116) |

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2018

| Figures in Rand | | 2018 | 2017 |
|---|--|------------------|--------------------|
| 15. Auditors' remuneration | | | |
| Auditors' remuneration – internal | | 366 691 | 475 900 |
| Auditors' remuneration – external | | 1 105 612 | 1 120 340 |
| | | 1 472 303 | 1 596 240 |
| 16. Cash generated from (used in) operations | | | |
| Deficit | | (1 217 920) | (4 410 939) |
| Adjustments for: | | | |
| Depreciation and amortisation | | 1 422 135 | 1 750 961 |
| Net (profit)/loss on sale of assets | | (96 507) | 3 718 |
| Debt impairment | | 16 316 | (66 116) |
| Movements in operating lease | | 76 244 | (1 259) |
| Changes in working capital: | | | |
| Inventories | | (5 184) | 35 633 |
| Receivables from exchange transactions | | (586 624) | 306 447 |
| Impairment provision | | (16 316) | 66 116 |
| Other receivables from non-exchange transactions | | 786 957 | (1 359 953) |
| Trade and other payables from exchange transactions | | 2 812 201 | 2 026 678 |
| | | 3 191 302 | (1 648 714) |
| 17. Commitments | | | |
| Operating leases – as lessee (expense) | | | |
| Minimum lease payments due | | | |
| – within one year | | 1 832 984 | 5 363 177 |
| – in second to fifth year inclusive | | - | 1 832 984 |
| | | 1 832 984 | 7 196 161 |
| 18. Contingencies | | | |
| In terms of the PFMA, all accumulated surplus funds at the reporting date may be forfeited to National Treasury. The total accumulated surplus amounts to R14 537 086, as disclosed in the financial statements for the year ended 31 March 2018. | | | |
| 19. Related parties | | | |
| Relationships | | | |
| Members of key management | Refer to note 20 for the disclosure of Key Management's and Board Members' remuneration. | | |

Figures in Rand

20. Key Management's and Board Members' Remuneration

Key management 2018

| | Annual remuneration | Performance bonuses | Contributions to retirement fund | Telephone allowance | Total |
|--|---------------------|---------------------|----------------------------------|---------------------|-------------------|
| BP Agulhas, CEO | 3 322 799 | 1 071 900 | 308 675 | 16 140 | 4 719 514 |
| PJ O'Connor, Director: Legal | 1 675 670 | 20 370 | 239 819 | 12 240 | 1 948 099 |
| I Vanker, Director: Standards | 2 207 862 | 216 440 | 153 487 | 12 240 | 2 590 029 |
| WH de Jager, Director: Operations | 1 903 666 | 188 370 | 176 843 | 12 240 | 2 281 119 |
| I Nagy, Director: Inspections | 2 210 862 | 216 440 | 153 487 | 12 240 | 2 593 029 |
| J Bailey, Director: Investigations | 1 828 270 | 188 370 | 169 839 | 12 240 | 2 198 719 |
| RP Zwane, Director: Education and Transformation | 1 679 386 | 188 370 | 146 033 | 12 240 | 2 026 029 |
| | 14 828 515 | 2 090 260 | 1 348 183 | 89 580 | 18 356 538 |

2017

| | Annual remuneration | Performance bonuses | Contributions to retirement fund | Telephone allowance | Total |
|---|---------------------|---------------------|----------------------------------|---------------------|-------------------|
| BP Agulhas, CEO | 3 120 000 | 920 000 | 504 213 | 15 240 | 4 559 453 |
| PJ O'Connor, Director: Legal* | 1 564 125 | 385 974 | 223 855 | 11 520 | 2 185 474 |
| I Vanker, Director: Standards | 2 061 497 | 238 156 | 143 312 | 11 520 | 2 454 485 |
| WH de Jager, Director: Operations | 1 777 470 | 207 176 | 165 120 | 11 520 | 2 161 286 |
| I Nagy, Director: Inspections | 2 064 343 | 238 156 | 146 361 | 11 520 | 2 460 380 |
| J Bailey, Director: Investigations (Started November 2015) | 1 715 076 | 164 267 | 159 324 | 11 520 | 2 050 187 |
| RP Zwane, Director: Education and Transformation (Acting director April-September 2016; Promoted to director from October 2016) | 1 532 143 | 164 267 | 117 577 | 5 760 | 1 819 747 |
| | 13 834 654 | 2 317 996 | 1 459 762 | 78 600 | 17 691 012 |

*The performance bonus includes an amount of R178 798 for a 10-year long-service award.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2018

| Figures in Rand | 2018 | 2017 |
|--|----------------|----------------|
| 20. Key Management's and Board Members' Remuneration <i>(continued)</i> | | |
| Board members' fees | | |
| R Kenosi | - | 51 030 |
| A Dlamini | 40 670 | 64 900 |
| Prof A van der Watt | - | 30 560 |
| MJ Janse van Rensburg | 71 700 | - |
| NL Noxaka | - | 34 656 |
| AL Mazibuko | - | 69 632 |
| T Pillay | 36 376 | 57 968 |
| J Lesejane | 89 656 | 16 384 |
| MI Motala | 46 200 | - |
| NT Mashile | 41 896 | - |
| MA Petros | 37 800 | - |
| Z Ntsalaze | 37 800 | - |
| | 402 098 | 325 130 |

21. Risk management

Financial risk management

The IRBA's activities expose it to a variety of financial risks.

Liquidity risk

The IRBA's liquidity risk arises from the funds that are available to cover future commitments. The IRBA manages liquidity risk through an ongoing review of future commitments, timely invoicing and collections.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The IRBA only deposits cash with major banks that have high-quality credit standing, and limits exposure to any single counter-party.

Interest rate risk

The IRBA is exposed to interest rate risk as it places funds in the money market with the Reserve Bank. A significant balance of the cash is invested with the Reserve Bank, as instructed by National Treasury.

22. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and the settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

23. Events after the reporting date

The Accounting Authority is not aware of any matter or circumstances arising, since the end of the financial year to the date of this report, in respect of matters that would require adjustments to or disclosure in the annual financial statements.

Detailed Income statement

| Figures in Rand | Notes | 2018 | 2017 |
|--|-------|----------------------|----------------------|
| Revenue | | | |
| Government grants | | 39 624 000 | 28 978 000 |
| Other income | | 417 440 | 207 758 |
| Revenue from regulatory functions – exchange | | 33 633 125 | 31 819 722 |
| Revenue from regulatory functions – non-exchange | | 35 995 632 | 33 803 271 |
| | | 109 670 197 | 94 808 751 |
| Other income | | | |
| Interest received | | 4 184 088 | 3 918 956 |
| Operating expenses | | | |
| Audit Development Programme assessments | | (289 242) | (13 744) |
| Auditors' remuneration | 15 | (1 472 303) | (1 596 240) |
| Bad debts | 14 | (16 316) | 66 116 |
| Building operating expenses | | (1 925 649) | (1 389 297) |
| Committee expenses | | (2 132 578) | (1 515 933) |
| Computer expenses | | (2 624 348) | (2 680 408) |
| Consulting and professional fees | | (409 259) | (167 912) |
| Depreciation, amortisation and impairments | | (1 422 135) | (1 750 961) |
| Disciplinary and investigation expenses | | (8 378 401) | (6 143 087) |
| Employee costs | | (81 974 050) | (73 107 338) |
| Insurance | | (272 545) | (240 994) |
| Lease of building | | (5 348 065) | (5 348 066) |
| Loss on disposal of assets | | - | (3 718) |
| Other expenses | | (1 829 794) | (1 480 645) |
| Placement fees | | (782 410) | (1 841 706) |
| Printing and stationery | | (386 432) | (403 154) |
| Proficiency tests | | (18 404) | (34 995) |
| Public relations | | (218 537) | (658 695) |
| Publications | | (192 025) | (134 413) |
| Raising Awareness and Branding | | (701 633) | (978 572) |
| Staff welfare | | (1 444 513) | (1 045 542) |
| Travel – local | | (1 257 751) | (1 189 004) |
| Travel – overseas | | (1 937 233) | (1 451 019) |
| Workman's compensation | | (38 582) | (29 319) |
| | | (115 072 205) | (103 138 646) |
| Deficit for the year | | (1 217 920) | (4 410 939) |

The supplementary information presented does not form part of the annual financial statements and is unaudited.

Notes

[illegible]

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