

# Briefing Select Committee on Finance

## INDEPENDENT REGULATORY BOARD FOR AUDITORS

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Chief Executive Officer

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CFO

- **Part 1 –Annual Report 2019**
  - Highlights of the year
  - Significant features summary
  - Governance
  - Financial Highlights
  - Report on Financial Statements
  - Performance Information
- **Part 2 – IRBA**
  - Legislative mandate
  - Role of Auditors and Audit Regulators
  - Principles of Effective Regulation
- **Part 3 – Auditing Profession Act Amendments**
  - Context and process
  - Overview of key amendments
- **Part 4 - Update on recent activities**
  - Restoring Confidence
  - MAFR
  - Comprehensive Regulation
- **Part 5 – Update on high profile cases**
  - Current status
  - Limitations
  - KPMG

Part 1

# ANNUAL REPORT 2019

# Highlights of the year

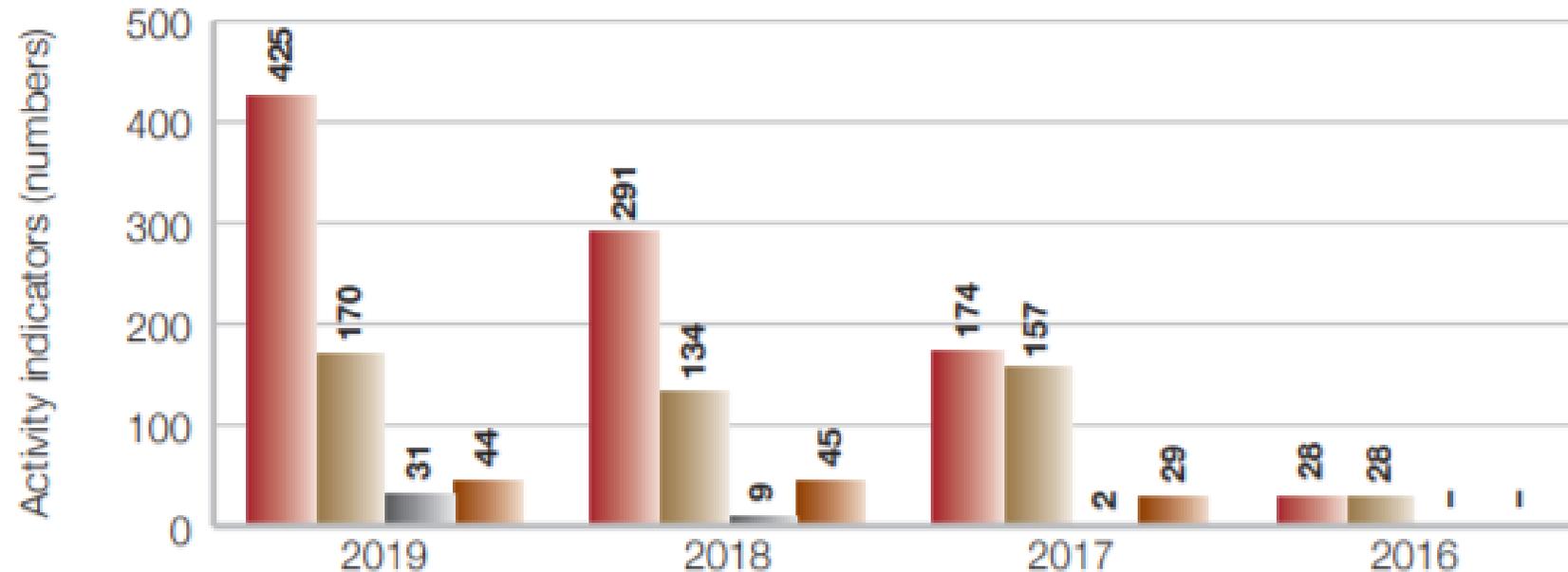
- Rebuilding trust – restoring confidence projects
- Audit quality – AQIs, Transparency reports, MAFR, Inspections report
- Ethics – revised code
- Education and transformation – ADP candidates registrations
- Investigations – Linkway
- Governance – 9<sup>th</sup> clean audit, 5<sup>th</sup> integrated report, IFIAR board and audit committee

# Significant Features Summary



# Significant Features Summary

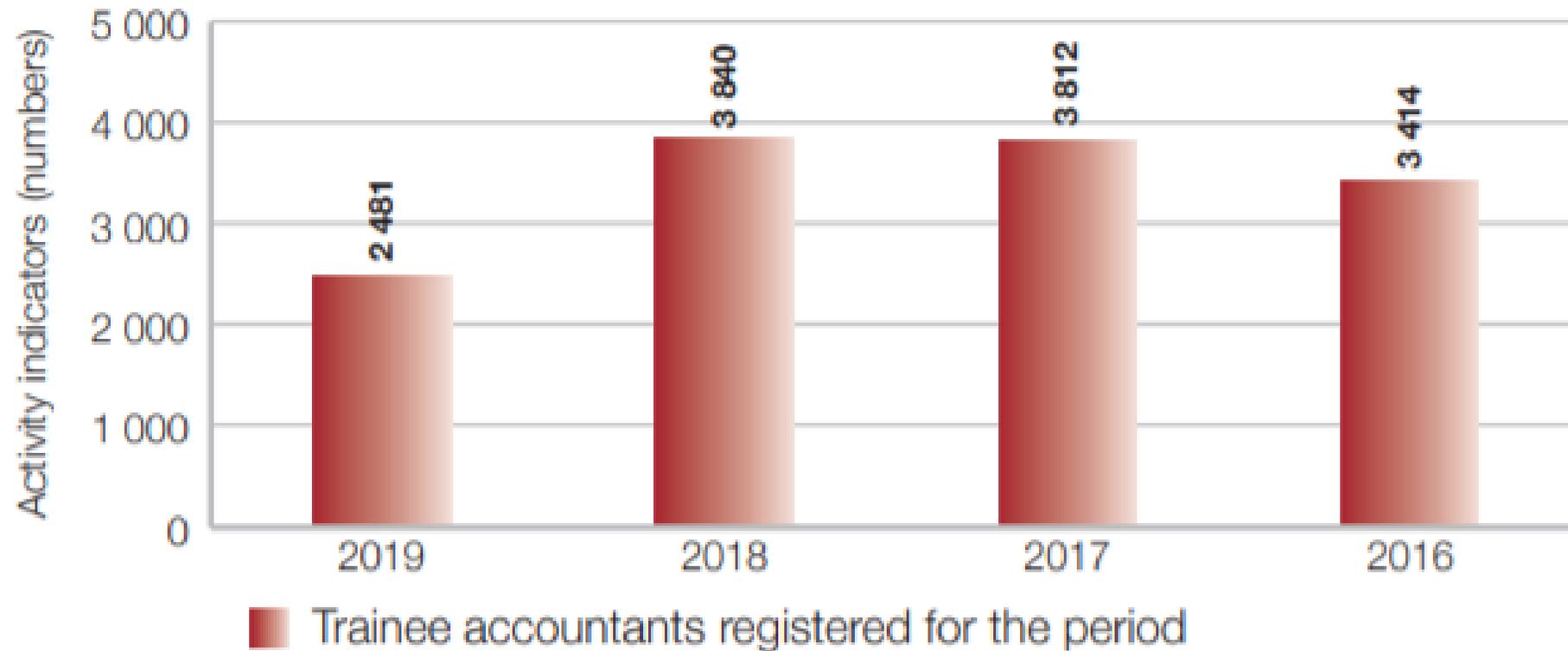
## Audit Development Programme



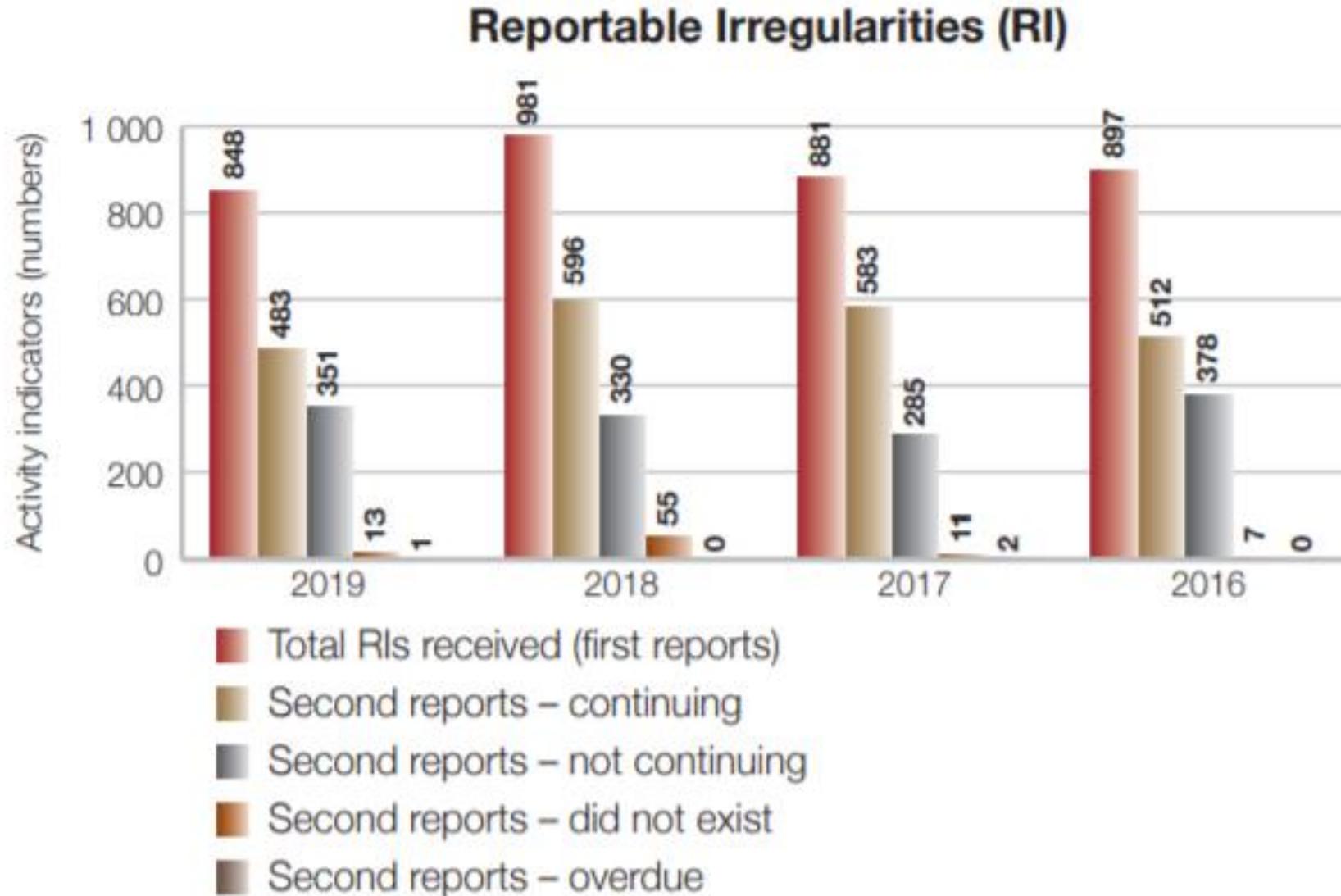
- Registered candidate auditors at year-end
- New ADP registrations for the period
- RCAs who successfully completed the ADP
- Number of firms monitored during the period

# Significant Features Summary

## Training Contracts

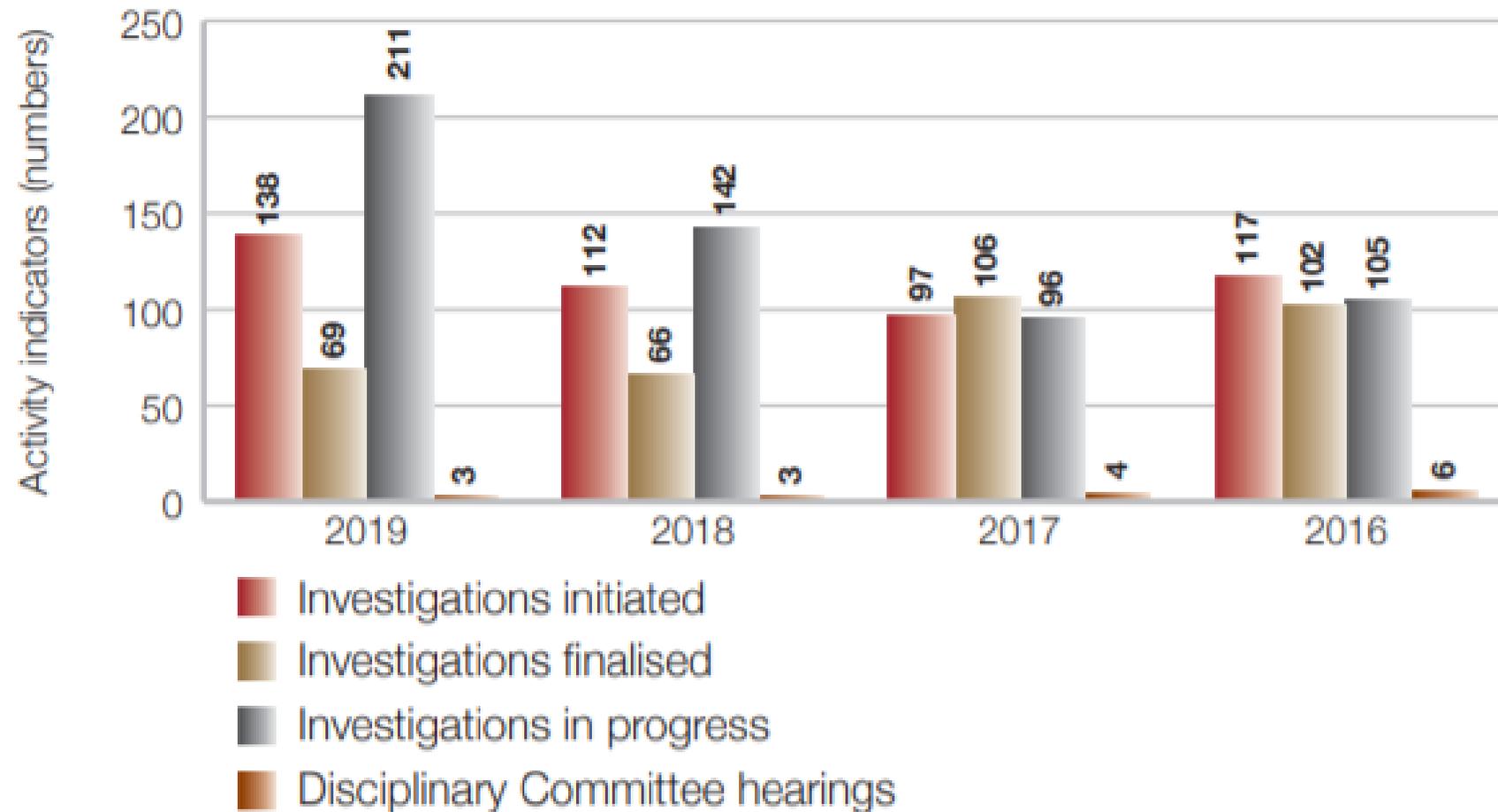


# Significant Features Summary



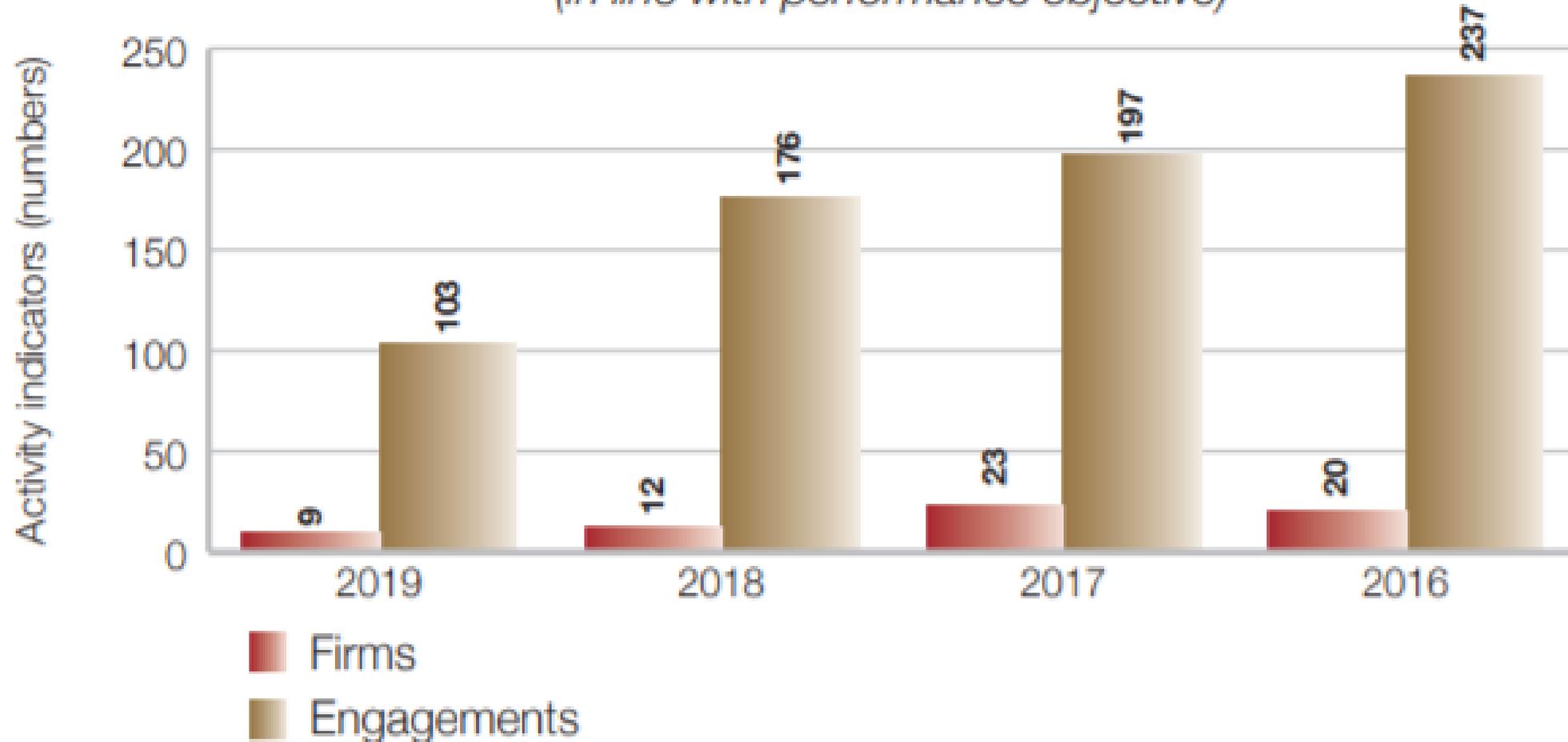
# Significant Features Summary

## Disciplinary matters



# Significant Features Summary

**Inspections performed**  
*(in line with performance objective)*



# Governance

- Board
- Statutory committees
- CEO recruitment process

# Financial statements

<b>STATEMENT OF FINANCIAL PERFORMANCE</b>			
<b>'000</b>			
<b>YEAR</b>	<b>2019</b>	<b>2018</b>	
<b>Government Grant</b>	40 874	39 624	
<b>Total other income</b>	78 556	74 230	
<b>Expenses</b>	131 416	115 072	
<b>Surplus/(Deficit)</b>	<b>(11 986)</b>	<b>(1 218)</b>	
<b>Transferred (to) reserves</b>	(1 507)	(915)	
<b>Accumulated Surplus</b>	<b>1 043</b>	<b>14 537</b>	

# Financial statements

<b>INCOME SOURCES '000</b>				
<b>YEAR</b>	<b>2019</b>	<b>2018</b>	<b>% Variance</b>	
<b>Government grants</b>	40 874	39 624	3.15%	
<b>Revenue from Regulatory functions</b> (License, monitoring, registration fees and training contract levies)	33 660	33 633	0.08%	
<b>Non-exchange transactions</b> (Assurance fees and contributions towards enforcement)	41 347	35 995	14.87%	
<b>Other Income</b>	261	417	(37.41)	
<b>TOTAL REVENUE</b>	<b>116 142</b>	<b>109 670</b>	<b>5.90%</b>	

# Financial statements

EXPENSES '000			
YEAR	2019	2018	% Variance
Employee costs	83 263	81 974	1.57%
Disciplinary and investigation expenses	22 814	8 378	172.31%
Committee expenses	3 467	2 132	62.61%
Lease of building	5 954	5 348	11.33%
Auditors' remuneration	953	1 472	(35.26%)
Raising Awareness and Branding	534	702	(23.93%)

# Report of the Auditor General

FOR 2019- AND 2018-YEAR ENDS

- **Clean Audit report for 9 consecutive years**  
*regarding*
  - **REPORT ON THE FINANCIAL STATEMENTS**
  - **REPORT ON OTHER LEGAL REGULATORY REQUIREMENTS**
    - **Predetermined objectives**
    - **Compliance with laws and regulations**
  - **INTERNAL CONTROL**

# Performance information

Strategic Measurable objective	Performance Targets	
	2019/18	Achievement 31 March 2019
<b><u>AUDITING AND ETHICAL STANDARDS</u></b>	<b>To develop and maintain auditing and ethics standards which are internationally comparable</b>	
Issued auditing pronouncements, auditor reports and comment letters.	85%	<b>Achieved</b> 100%
To monitor the programmes and Institutional requirements of accredited professional bodies.	100% Compliance	<b>Achieved</b> 100%

# Performance information

Strategic Measurable objective	Performance Targets	
	2019/18	Achievement 31 March 2019
<b><u>PROGRAMME EDUCATION AND TRANSFORMATION</u></b>	<b>Providing an appropriate framework for the education and training of properly qualified auditors</b>	
To monitor the environment in which the Audit Development Programme is offered.	90%	<b>Achieved</b> 92%
Monitoring reports of the recognised Programmes of accredited professional bodies.	100% adherence to assessment programme	<b>Achieved</b> 100%

# Performance information

Strategic Measurable objective	Performance Targets	
	2019/18	Achievement 31 March 2019
<b><u>INSPECTIONS</u></b>	<b>To monitor registered auditors' compliance with professional standards</b>	
To inspect and review the work of registered auditors on a regular basis	85% adherence to the Inspection Plan.	<b>Achieved</b> 89% was achieved
<b><u>INVESTIGATIONS</u></b>	<b>To investigate and take appropriate action against registered auditors in respect of improper conduct</b>	
To finalise all complaints received timeously	80% of complaints received closed within 18 months	<b>Not Achieved</b> 62% was achieved. The target was not achieved due to prioritising the high-profile public interest matters that are more complex to investigate.

# Performance information

Strategic Measurable objective	Performance Targets	
	2019/18	Achievement 31 March 2019
<b><u>OPERATIONAL EFFECTIVENESS</u></b>	<b>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</b>	
Systems, policies and processes that ensure compliance, accountability and sound management of revenue, expenditure, assets and liabilities.	100% clean report.	<b>Achieved</b>

Part 2

# THE INDEPENDENT REGULATORY BOARD FOR AUDITORS

# Legislative Mandate

The Independent Regulatory Board for Auditors (IRBA) was established in terms of section 3 of the Auditing Profession Act, 2005 (Act no. 26 of 2005).

The objects of the Act 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; and
- To provide for procedures for disciplinary action in respect of improper conduct

# Political will for legislative mandate

Legislation which establishes an independent regulator creates an environment in which:

- There is a clear framework and principles to contribute to the **protection of the public** who rely on the services of registered auditors
- **Auditors are supported and legally required** to carry out their duties competently, fearlessly and in good faith
- An environment in which the **audit regulator's independence** is secured and respects
- Create an environment in which there is **support from the legislative authorities** for the regulator

# The role of auditors

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



# The role of the audit regulator

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



# Key principles for effective regulation

- Independence from profession (but remain the custodian of the profession)
- Understanding the difference between regulator and professional bodies
- Enabling audit legislation
- Sufficient financial resources
- Composition of governance structures must ensure independent and effective regulation
- High quality and sufficient staff
- Enforcement powers to respond to the environment/appropriate sanctions
- Regulation of the financial reporting chain

# Regulatory Philosophy

Balanced regulation ('right-touch' regulation)

Right-touch regulation is:

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



Part 3

# OVERVIEW OF ACT AMENDMENTS

# Context to changes

- Criticisms of the IRBA by the public and parliament
  - Investigations take too long
  - Sanctions are too lenient to have any real deterrent effect
- Current environment
  - High-profile scandals
  - Corruption – public and private sector
  - Systemic failures (governance, business, audit)
  - Lack of professional skepticism and independence
  - Unethical behavior
  - Market Concentration
  - Lack of transformation
  - Fragmented Regulation
- IRBA and parliament agreed to work together to speed up an amendment process

# Process

- Amendments made in 2015 – next round of amendments started during 2017
- Cabinet approved the submission to Parliament of the Auditing Profession Amendment Bill at its meeting on 13 December 2019.
- The version approved is the January 2019 version which was included in the Financial Matters Amendment Bill.
- The Bill has now been certified by the Chief State Law Adviser and will be introduced to the National Assembly.

# APA Amendments Bill

- It mainly focuses on improvements to the investigation and disciplinary process and strengthening the regulator's enforcement powers
  - Inclusion of search and seizure powers
  - Power to subpoena in the investigation process
  - Simplification of the disciplinary hearing process
  - Increasing sanctions and providing the Minister of Finance with power to determine maximum fines
- Increased sanctions amounts will act as real deterrent and disincentive to unethical or negligent behavior by registered auditors, but does not address accountants

Part 4

# UPDATE ON RECENT ACTIVITIES

# Key themes underlying Restoring Confidence

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



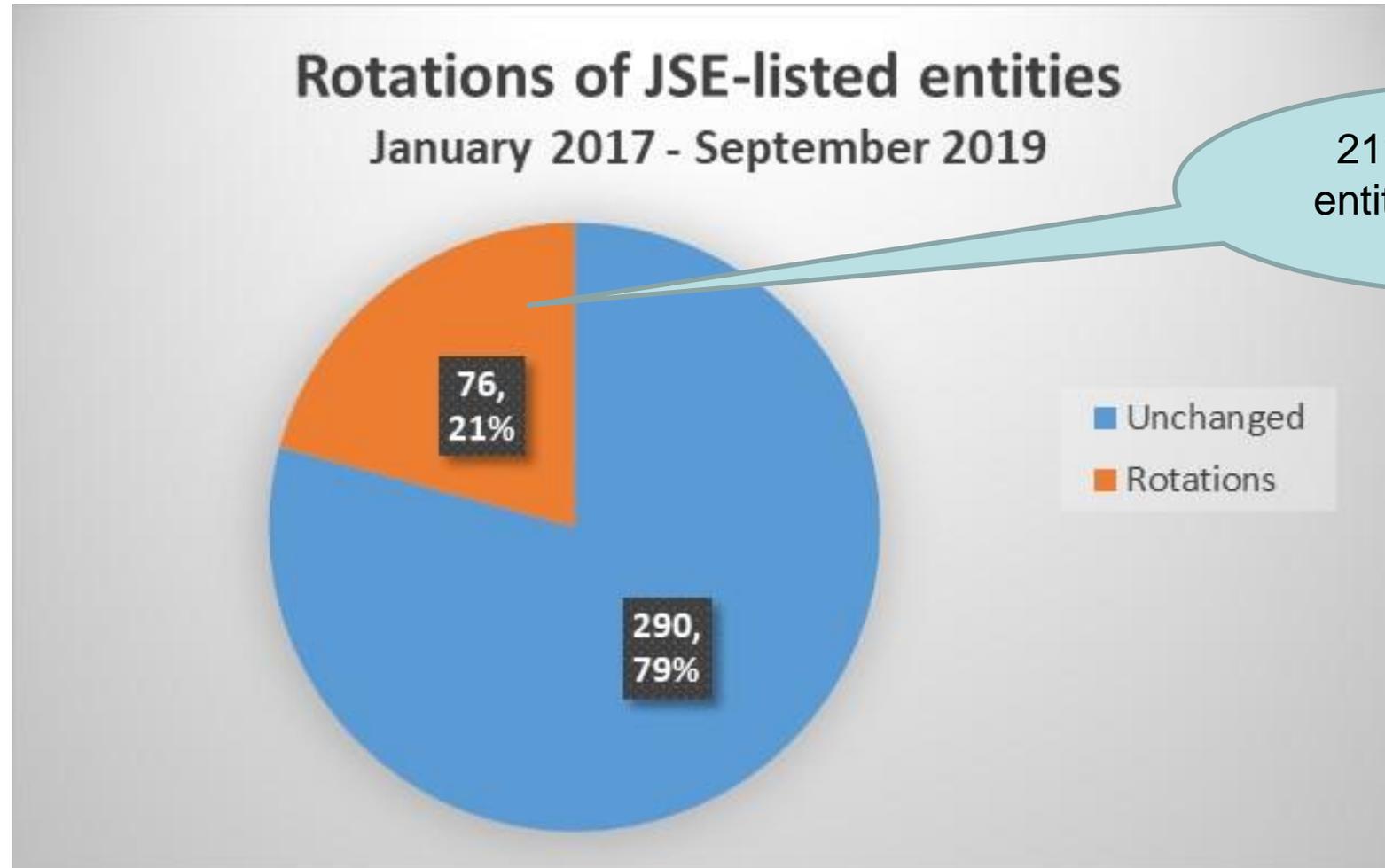
# IRBA Initiatives to Restore Confidence

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

# Mandatory Audit Firm Rotation

- Announced MAFR 2 June 2017 and gazetted 5 June 2017
- Marked pre- and post-rule change of rotation activity – number of rotations increased significantly, with JSE being the first rotation to comply with MAFR
- Effective 1 April 2023, whereafter maximum tenure on an audit is ten years
- Tracking rotation of audits of companies on the JSE
- Significant voluntary rotation has already occurred as companies with long tenure seek to comply ahead of the effective date

# Current status of rotation

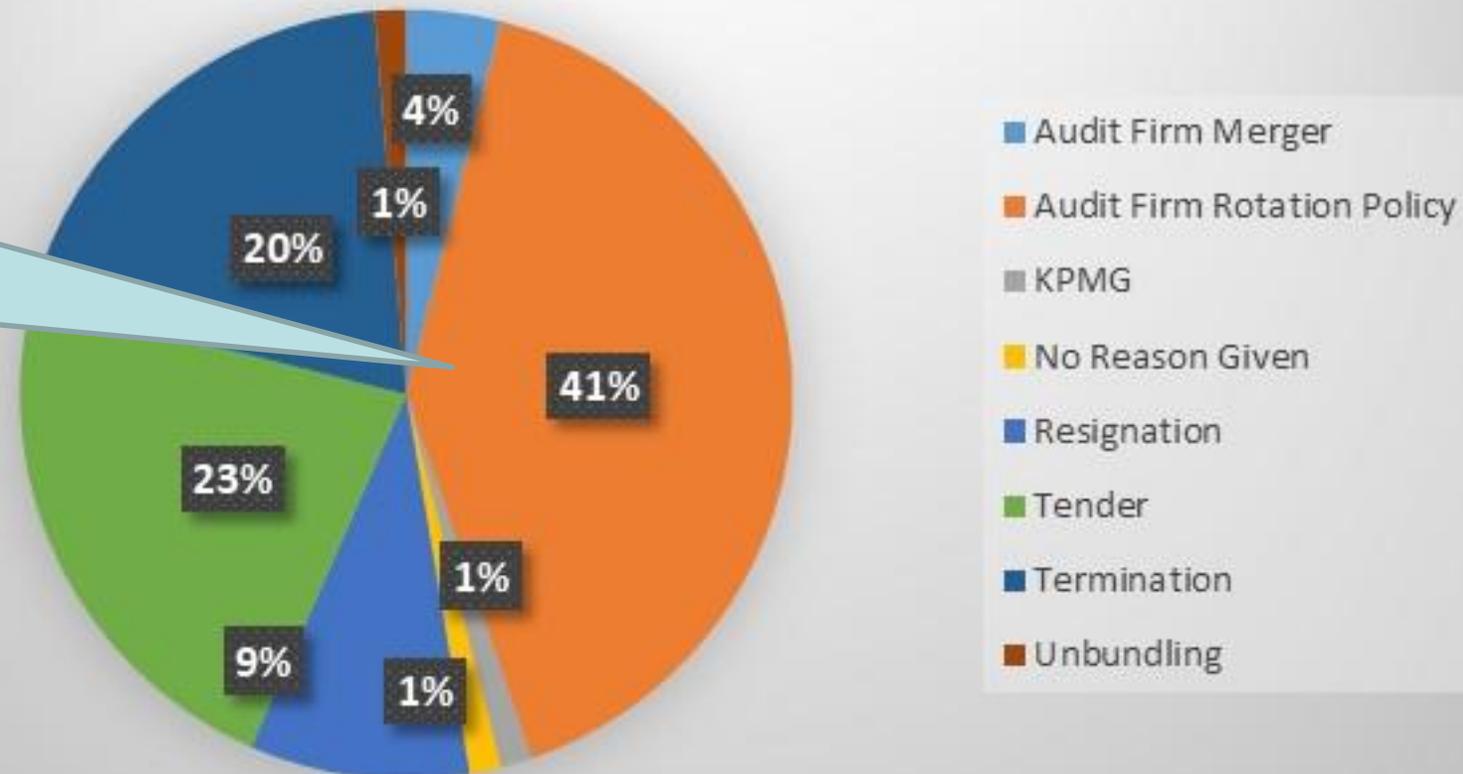


21% of JSE-listed entities have rotated audit firms

\* Rotations are calculated based on the issuer list as at 2017 when MAFR was gazette. Excludes subsequent listing and delisting)

# MAFR leading reason for rotation

Reason for rotation  
January 2017 - September 2019



41% of entities which changed their audit firm cited MAFR compliance

# Comprehensive Regulation

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

# Risk of fragmented regulation

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

Part 5

# UPDATE ON HIGH PROFILE CASES

# Recent High Profile Cases



**Deloitte.**



**Deloitte.**



**Deloitte.**



# Capacity Limitations

- Increased number of cases and increased complexity of investigations
- Resource constraints:
  - Increasing the number of investigators to increase investigation capacity
  - Funding of current disciplinary cases
  - Considering the extent of complaints received, a further 5 positions are required in Enforcement (3 have been approved)
- Impacts on disciplinary matters
- Impacts on investigations matters

# Funding Limitations

- The Board has considered the resources required to reduce the 219 open matters and 11 cases referred for disciplinary hearings.
- This has resulted in legal costs of R44m being included in the 2020 budget.
- Overall the impact of these increased legal costs results in deficits for the MTEF period as follows:
  - 2020/21 R32.9m
  - 2021/22 R36.2m
  - 2022/23 R40.7m

# KPMG Remediation Process

- Closer oversight and monitoring of KPMG's programmes to address areas of concern
- KPMG has cooperated in this process which required it to develop an remedial action plan on which it reports quarterly to the IRBA board
- The KPMG quarterly report was received by the IRBA on 15 August 2019. The projects as reported per the 15 May 2019 report seem consistent and progress was noted in areas such as the appointment of a CEO, in-flight reviews, quality reviews and the roll-out of CLARA.

# Thank you

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