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**GOVERNMENT NOTICES • GOEWERMENTSKENNISGEWINGS**

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**NATIONAL TREASURY**

NO. 1435

27 October 2021

**AUDITING PROFESSION ACT, 2005: REGULATORY STRATEGY FOR  
INDEPENDENT REGULATORY BOARD FOR AUDITORS**

I, E Gondongwana, Minister of Finance, hereby, in terms of section 4(3)(c)(ii) of the Auditing Professions Act, 2005 (Act No. 26 of 2005), publish the approved regulatory strategy for the Independent Regulatory Board for Auditors, as set out in the Schedule.



**E GODONGWANA  
MINISTER OF FINANCE**



## REGULATORY STRATEGY

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**FOREWORD**

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) (APA), and it came into effect on 1 April 2006. The objects of the Act, as set out in section 2, are as follows:

- To protect the public in the Republic by regulating audits performed by registered auditors;
- To provide for the establishment of an Independent Regulatory Board for 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 the Republic;
- 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.

The recent promulgation of the Auditing Profession Act Amendments, in April 2021, has further strengthened the IRBA's independence and powers to deliver more effectively on its mandate. Consequently, this regulatory strategy – which should be read with our most recent five-year strategy – defines our regulatory philosophy and actions to enhance our effectiveness as an internationally recognised audit regulator that is best positioned to fulfil its mandate of serving the interest of the investing public.

External auditors remain a key stakeholder in protecting the interests of the investing public. Worldwide, there is broad consensus among regulators, investors and stakeholders that further interventions are necessary to enhance the financial reporting and governance ecosystem, including the auditing profession, to respond to investor risks and needs.

As a founding member of the International Forum of Independent Audit Regulators' (IFIAR) since 2006, the IRBA adopted the IFIAR Core Principles on audit oversight.

Therefore, through more collaboration with key stakeholders, the IRBA will continue to focus on further strengthening the regulator and the auditing profession, in addition to influencing reforms in the financial reporting and governance system in South Africa.

**Fulvio Tonelli**

**Chairman of the Board**

**PART A: GENERAL INFORMATION****PURPOSE OF THIS DOCUMENT**

The amendments to the APA, which became effective on 26 April 2021, require, in section 4(3), that:

- “(a) The Regulatory Board must determine a regulatory strategy for performing its functions in terms of subsection (1).
- (b) The Regulatory Board must submit the regulatory strategy to the Minister for approval within three months after the date that the Auditing Profession Amendment Act, 2021, takes effect<sup>1</sup>.
- (c) The Minister:
  - (i) may, after consulting the Regulatory Board, make amendments to the strategy referred to in paragraph (b); and
  - (ii) must publish in the *Gazette* the approved regulatory strategy within six months after the date that the Auditing Profession Amendment Act, 2020 (sic), takes effect.
- (d) The Minister or the Regulatory Board may request an amendment to the regulatory strategy published in terms of paragraph (c) or a new regulatory strategy be determined in accordance with paragraph (c).”

This document, therefore, addresses these requirements and outlines the following:

- Key priorities and strategic outcomes;
- Guiding principles when performing our regulatory activities; and
- Engagement with stakeholders, as we implement our regulatory strategy.

**OVERVIEW OF THE IRBA**

The IRBA is the statutory body controlling the auditing profession in South Africa. The general functions ascribed to it, in terms of the APA, are as follows:

- “4. (1) The Regulatory Board must, in addition to its other functions provided for in this Act:
  - (a) Take steps to promote the integrity of the auditing profession, including:
    - (i) investigating alleged improper conduct;
    - (ii) conducting disciplinary hearings;
    - (iii) imposing sanctions for improper conduct; and
    - (iv) conducting practice reviews or inspections;
  - (b) Take steps it considers necessary to protect the public in their dealings with registered auditors;
  - (c) Prescribe standards of professional competence, ethics and conduct of registered auditors;
  - (d) Encourage education in connection with, and research into, any matter affecting the auditing profession; and
  - (e) Prescribe auditing standards.
- (2) The Regulatory Board may:
  - (a) Participate in the activities of international bodies whose main purpose is to develop and set auditing standards and to promote the auditing profession;
  - (b) Publish a journal or any other publication, and issue newsletters and circulars containing information and guidelines relating to the auditing profession;
  - (c) Cooperate with international regulators in respect of matters relating to audits and auditors; and
  - (d) Take any measures it considers necessary for the proper performance and exercise of its functions or duties or to achieve the objects of this Act.”

<sup>1</sup> The Act was assented to by the President on 23 April 2021 and it took effect on 26 April 2021 when it is published in the *Gazette*.

### **The IRBA Strategic Focus**

Our strategic focus is to protect the financial and non-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**

To be a preeminent, internationally respected and locally recognised audit regulator, whose purpose is to protect the public interest and safeguard the integrity of the South African financial markets by creating an enabling environment in which auditors can deliver high-quality audits.

### **The IRBA Mission**

We endeavour to protect the financial interests of the investing community by creating and enhancing regulatory tools and principles, to empower registered auditors to carry out their duties competently, independently and in good faith.

### **The IRBA Objectives**

In line with our legislative mandate, the IRBA's objectives are to:

- Build credibility for the IRBA, as a proactive regulator of the auditing profession.
- Demonstrate relevance and responsiveness (to changes/market expectations) by initiating improvements in the auditing profession.
- Increase audit firm transparency.
- Align auditor behaviour and integrity with ethical requirements.
- Align auditor skills to the Competency Framework.
- Improve the quality of audits and address investor expectations.
- Manage the public's (private and public sectors) expectations of the auditor's role.
- Promote stability and growth in capital markets.

### **The IRBA Goal**

Our goal is to be seen as an effective and impactful regulator that can change the behaviour of auditors and influence other role-players in the financial reporting system to:

- Improve audit quality;
- Improve ethics and independence; and
- Improve the transparency of audit firm practices.

### **Regulatory Philosophy**

The IRBA's regulation is focused on the protection of the public's financial and non-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 financial reporting system, while creating an enabling environment for auditors who practise the auditing profession in good faith, thereby contributing to the protection of the public's financial and non-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 employees 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. Therefore, it is important that we act with integrity and objectivity in our deliberations, decisions and actions.

### **Commitment to Public Interest**

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**

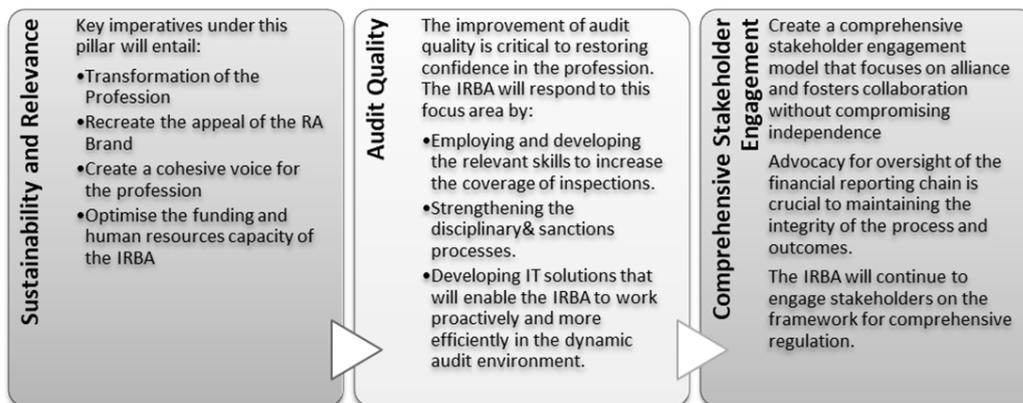
As a public entity in the overall delivery structure of the South African government, and a beneficiary of public funds, we promote transparency in our interactions with the relevant stakeholders and recognise our accountability to the Parliament of South Africa and the Minister of Finance as our Executive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

### **Legislative Mandate**

As noted in the Foreword, the IRBA was established in terms of section 3 of the APA, and the objects of the Act are clearly set out in section 2.

### **Our Key Priorities and Strategic Outcomes**

The IRBA is committed to enhancing audit quality and addressing gaps in the auditing profession and the broader financial reporting and governance ecosystem, with a specific focus on three areas that affect audit quality, and thereby ensuring the continued sustainability and relevance of both the IRBA as a regulator and the profession.



The focus areas are expanded in more detail in Part B: IRBA Mandate.

### **Guiding Principles When We Perform Our Regulatory and Operational Activities**

The IRBA has committed itself to the following relevant guiding principles:

- Ensuring that it is effective, transparent and accountable.
- Respecting the constitutional status, powers and functions of organs of State, statutory or regulatory bodies.
- Exercising its powers and performing its functions in a manner that does not encroach on the geographical, functional or institutional integrity of organs of State, statutory or regulatory bodies.
- Co-operating with organs of State, statutory or regulatory bodies in mutual trust and good faith by fostering friendly relations and assisting and supporting these, as allowed within the limitations of the APA.
- Informing other regulators, institutions and government entities of, and consulting with them on, matters of common interest.
- Co-ordinating its actions and regulatory actions with other relevant persons or bodies.
- Adhering to the relevant provisions of the Public Finance Management Act 1999 (Act No. 1 of 1999) (PFMA).
- Ensuring that in the procurement of goods or services, it does so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective.

### **Our Engagement with Stakeholders as We Implement Our Regulatory Strategy**

We recognise that we have a statutory obligation to drive and influence broader systemic change and reforms within the profession.

However, for our strategic review to be encompassing and meet the legislative mandate of the IRBA, we need to engage more broadly with relevant stakeholders and seek their participation in the review process.

As such, through our targeted engagements we will continue to collaborate with our stakeholders, who have expressed a need for a more collaborative regulator that will enable the formation of a cohesive voice for the profession to restore trust and confidence, while maintaining our regulatory independence.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

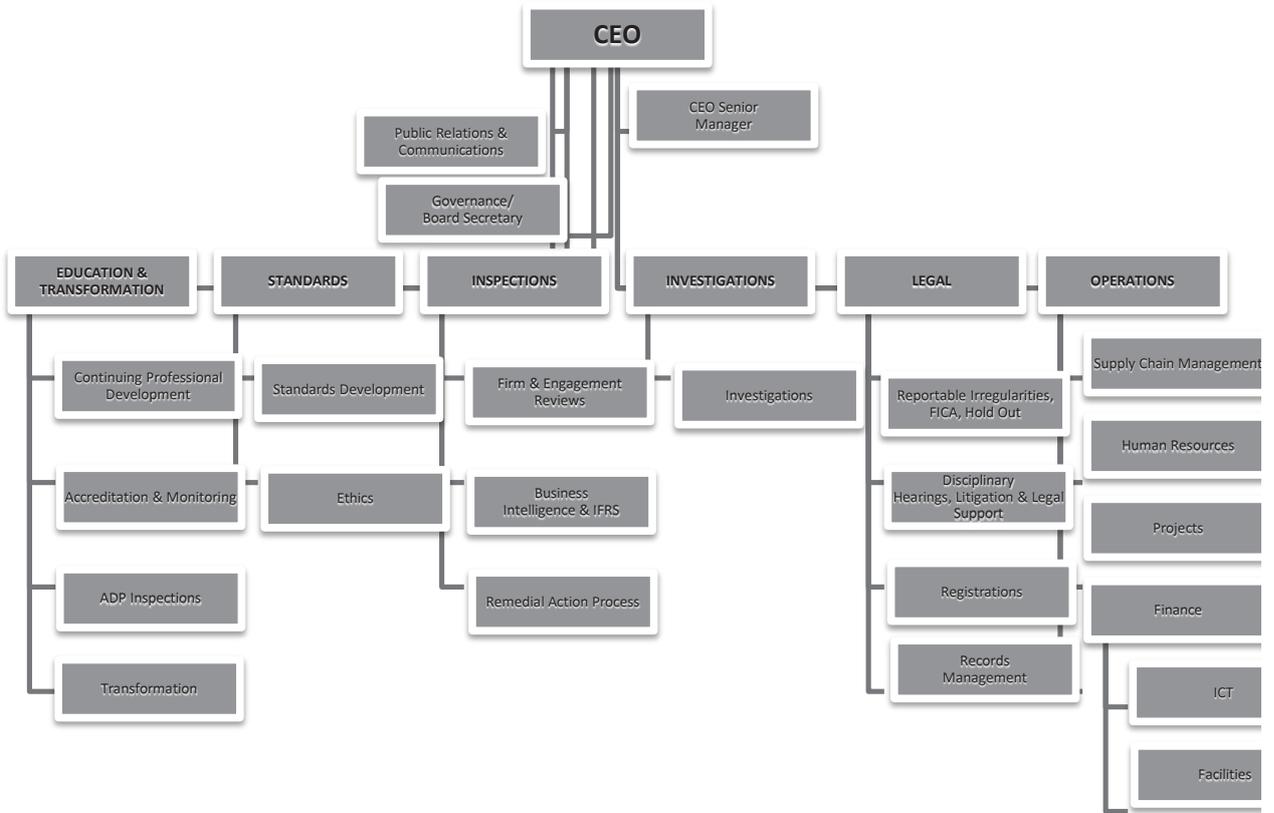
### GOVERNANCE STRUCTURE

The IRBA is a juristic person established in terms of section 3 of the APA and is listed as a National Public Entity in Part A of Schedule 3 to the PFMA.

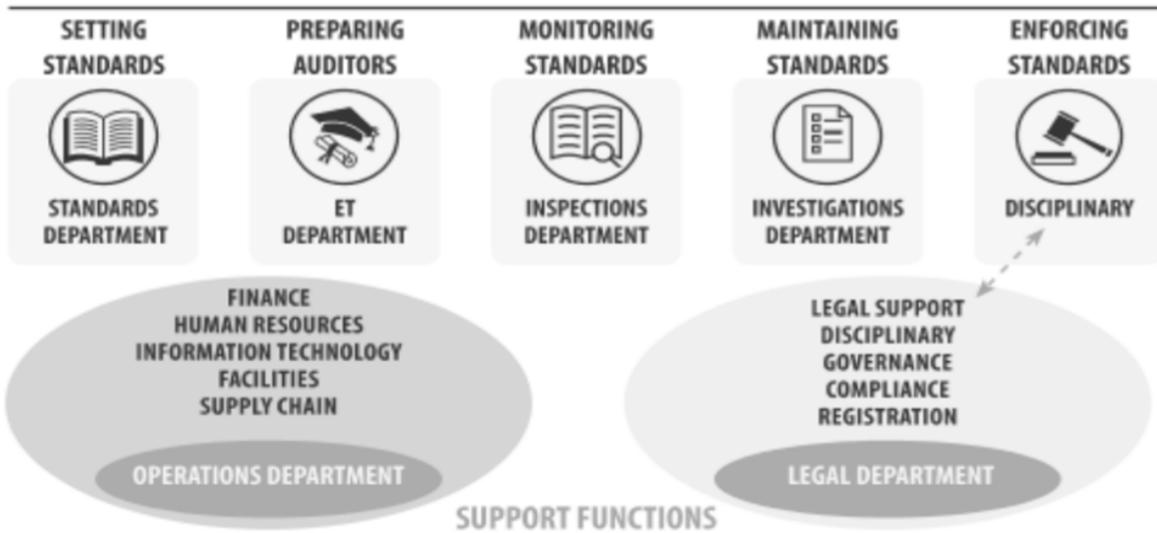
The Board is established in terms of the APA and has the governance structure and reporting lines described in the diagram below.



**ORGANISATIONAL FUNCTIONS AND THE ENABLING STRUCTURE**



**STRATEGIC FUNCTIONS**



## OUR FUNCTIONS THAT FULFIL OUR MANDATE

### Education and Transformation

Section 7 of the APA includes functions that we have to undertake with regard to the education, training and professional development of registered auditors (RAs). Part of our mandate is to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession. The Education and Transformation Committee and our Education and Transformation Department are tasked with ensuring that these objectives, which are essential to restoring and upholding confidence in the profession, are achieved. To do this, the following are the key focus areas:

- **Competency Framework:** This framework is the basis for developing the standards of competence for registered candidate auditors and RAs. These competencies are a benchmark for the accredited professional bodies' programmes and the Continuing Professional Development (CPD) framework.
- **Audit Development Programme (ADP):** This is the IRBA's 18-month specialist programme for the development of RAs into the profession; and its success is critical for the sustainability of the RA register.
- **Accreditation and monitoring of professional bodies:** These linked functions create the pipeline for entry into the ADP; and also set the standard for the underlying academic, core and professional development programmes and competencies that will lead to the registration of future RAs.

### Transformation of the Auditing Profession

To give effect to government policy on transformation, our strategic approach to transformation is to identify transformation initiatives that will address the real challenges and factors that have an impact on transformation in the RA profession. Those are initiatives that will result in more impactful outcomes that go beyond only increasing awareness; and they will be structured across the four stages of the RA career lifecycle depicted in the graphic below.

It should be emphasised, though, that to effectively influence the advancement of transformation of the profession with regard to raising awareness of the RA profession, the audience for these initiatives should include trainees, students (school learners and university students) and audit managers across the RA career lifecycle.

### Standards

Important focus areas for us with regard to setting standards, as required by our mandate and achieved through our two statutory committees – the Committee for Auditor Ethics (CFAE) and the Committee for Auditing Standards (CFAS) – are to:

- Determine what constitutes improper conduct by RAs by developing rules and guidelines for professional ethics, including a code of professional conduct (CFAE); and
- Develop, maintain, adopt, issue or prescribe auditing pronouncements (CFAS).

Through setting standards that are internationally comparable and responsive to our local environment, the activities assigned to the Standards Department contribute to the organisation's initiatives to restore confidence in the auditing profession and protect the public in its dealing with RAs.

South Africa presently adopts the entire suite of International Standards issued by the International Auditing and Assurance



Standards Board (IAASB). Also, the country has adopted the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), which has been published as the IRBA Code (Revised November 2018), with additional requirements for RAs in South Africa.

Our philosophy around audit and ethics standard setting is to first and foremost maintain South Africa's comparability and competitiveness with international peers. This is followed by a need to make targeted enhancements to standards for the local environment, without eroding the baseline. We then supplement our authoritative standards with local guides, industry-specific guidance and other non-authoritative materials.

Standard setting is conducted using a multi-stakeholder approach that draws on the insights and skills of stakeholders and by adopting a due process that includes formal public consultations. Standard-setting priorities are shaped by a combination of a local call for projects and the agendas of the global standard-setting boards. The projects that get assigned resources are those that are scored to be of greatest public interest, by considering the extent of engagements and practitioners affected, the law or regulation driving the change, international developments, insights from the IRBA's regulatory functions and the availability of other guidance.

## Inspections

In terms of section 47 of the APA, we are required to, among others, inspect or review the practices of RAs. This is a crucial regulatory function that gives effect to our mandate and strategy to protect the public interest and ensure that candidate auditors receive effective training, in accordance with the prescribed and applicable standards of professional competence, ethics and conduct.

The inspections, undertaken by our Inspections Department, are performed in three-year cycles. A risk-based approach is followed in selecting audit firms and engagement files for inspections, in line with international best practice.

In response to the current environment, we continue to focus on audit engagements with a higher public interest exposure, such as audits of public interest entities and state-owned companies. The Inspections Department, as a result of the concerning trend of recurring deficiencies at the audit firms, has introduced theme-based supplementary inspections.

Our mandatory Remedial Action Process plays a critical role in identifying the most appropriate follow-up action where deficiencies have been reported. These actions may include a follow-up on the Root Cause Analysis and the Remedial Action Plan; verifying specific action required by the Inspections Committee; and/or they could trigger a specific follow-up inspection or a follow-up during the next firm-wide inspection. We have also enhanced this process to include a proactive monitoring function that provides an opportunity for the audit firm and auditors to immediately remediate any deficiencies identified, with an opportunity to obtain a supplementary report that highlights the remediation process undertaken by the firm or auditor and the effectiveness thereof.

## Investigations

A key legislative mandate of the APA is to investigate allegations of improper conduct and provide for disciplinary action regarding the improper conduct of RAs and registered candidate auditors (RCAs). The Investigations Department is tasked with investigating complaints (both external and internal) and presenting these findings to the Investigating Committee (INVESCO). The Enforcement Committee (ENCOM) is responsible for dealing with the recommendations of INVESCO. Where there is evidence of improper conduct, ENCOM will mainly follow the admission of guilt process, in a small number of instances, where warranted refer the matter to the Disciplinary Committee (DISCOM).

Investigating and taking disciplinary action ensure that there are consequences when improper conduct is identified in the profession. This is an important aspect of protecting the public interest and safeguarding the integrity of the financial markets, as the reliance on audit opinions and financial statements is a cornerstone of a financial market that operates effectively.

The sanctions that ENCOM may impose for improper conduct by RA's and RCA's are: a caution or reprimand, a monetary fine, and non-monetary sanctions such as training or the enhancement of internal controls.

Through this function, we enforce compliance with the international accounting and auditing I standards and the IRBA Code of Professional Conduct by administering sanctions against RAs and RCAs who act improperly. Our objective is to promote public confidence through the regulation of the auditing profession and the way in which improper conduct is addressed.

## Legal

The department delivers on its legislative mandate through four functions: Registry, Reportable Irregularities (RIs), Legal and Records Management.

In addition to the above, the department is a support function to the organisation, mandated to protect the IRBA's interests by managing legal and compliance risks, through the provision of sound legal advice, mitigation of litigation and contractual risks, as well as supporting the organisation's compliance with legislation.

### **Registry: Registration of Auditors and Audit Firms**

Registry works closely with the Education and Transformation Department to ensure the competency of auditors and firms that are entered into the register of auditors. This inter-departmental co-operation promotes knowledge and skills sharing, while streamlining processes, resulting in greater efficiencies and quality in the registration processes.

It is through these processes that the IRBA is able to ensure that RAs who are entered into the register are competent, fit and proper to practise the auditing profession, thereby ensuring the credibility and reliability of auditors, maintaining the integrity of the profession, fostering public confidence in audit products and safeguarding the interests of those who utilise the services of RAs.

### **RIs: Administration of Reportable Irregularities**

RAs have a statutory duty to report any unlawful act or omission committed by persons responsible for the management of an entity for which the RA is engaged. Such acts include those that may result in material financial loss for the entity, are fraudulent or may result in a material breach of that person's fiduciary duty to the entity.

The duty to report RIs is particularly important because of the duty owed by an RA to act in the public interest.

The IRBA's primary function with regard to RIs is the onward reporting of the irregularities reported by the RA to the relevant regulator with authority to take appropriate action against the entity concerned and/or its management, thus creating scope for the irregularity to be dealt with appropriately and the affected interests to be vindicated.

#### **Legal: Disciplinary Hearings**

An RA/RCA charged with improper conduct by the IRBA may be subject to a disciplinary hearing, if ENCOM refers the matter to DISCOM. To preserve the impartiality and credibility of disciplinary hearings, the APA obliges the IRBA to establish a disciplinary committee constituted by independent, non-RA members who are not within the employ of the IRBA and/or any registered audit firm. Members appointed to DISCOM are also required to possess sufficient qualifications, skills and expertise, to ensure the fairness and appropriateness of the disciplinary outcomes.

The decisions of DISCOM are final and binding to both the IRBA and the RA/RCA, and are only subject to a review in terms of the Promotion of Administration of Justice Act 3 of 2000, read together with Rule 53 of the Superior Court Rules. This then mitigates delays in the actual finalisation of matters.

The IRBA acknowledges that the current state of the profession has increased the number and complexity of disciplinary matters requiring determination by DISCOM. To address this, the IRBA has adopted a disciplinary processes strategy that is premised on three focus areas: *agility*, *efficiency* and *effectiveness*. The overall objective of the strategy is to focus on moving matters quickly from referral to conclusion, with minimum wasted effort and/or expenses, while ensuring the achievement of optimal results for the IRBA, thus, minimising risks, restoring confidence and preserving the integrity of the IRBA and its processes.

The sanctions, as outlined in the APA, are inclusive of a permanent and temporary disqualification from practice; non-monetary sanctions, such as training and the enhancement of internal controls; increased monetary sanctions; and the mandatory publication of the outcomes of disciplinary matters, to ensure that we achieve both the deterrence and rehabilitation of RAs and RCAs subjected to disciplinary hearings.

#### **Records Management: Protection and Access to Information and Records**

The records management function, while mandated to ensure the IRBA's record-keeping complies with relevant records management legislation, is equally tasked with ensuring our compliance with section 57 of the APA and the POPI Act.

#### **Operations**

As a national public entity, the IRBA is subject to the governance, financial control and reporting framework of the PFMA. In terms of the PFMA, the IRBA is required to establish effective, efficient and transparent systems of financial and risk management and internal control, to manage and safeguard the assets, as well as manage the revenue, expenditure and liabilities of the organisation.

The Operations Department is responsible for the preparation of the IRBA's strategic and annual performance plans, in accordance with National Treasury guidelines. This includes the annual and periodic reporting of performance against predetermined targets to National Treasury, the Minister of Finance and Parliament.

Compliance, accountability and the proper management of revenue, expenditure, assets and liabilities are some of the important measures that we use to assess our operational effectiveness. The measurable indicator of how well these measures are functioning is a clean external auditor's report, which we have obtained annually since 2010.

Our overall focus areas are:

- The effective, efficient and economical use of IRBA resources.
- Maintaining an IT infrastructure that supports the optimal functioning of the IRBA.
- Remaining an employer of choice, to enable the attraction and retention of our most critical resources – our employees.
- Complying with relevant legislation and maintaining an effective system of internal controls.

The challenges of the COVID-19 pandemic have been felt keenly within the IRBA and by our stakeholders. Despite the situation, the safety and wellbeing of our employees and stakeholders have been key priority areas for us. As we navigate the newly defined and constantly evolving work environment, we will continue to comply with all relevant legislation and guidance from the health and labour authorities.

## PART B: IRBA MANDATE

### CONSTITUTIONAL MANDATE

The IRBA subscribes to the principles of co-operative government and good inter-governmental relations. Similar to Chapter 9 institutions, the IRBA is independent and subject only to the Constitution and the laws of the Republic of South Africa. As an independent regulator, it must be impartial, exercise its powers and perform its functions without fear, favour or prejudice, and always do so in the public interest.

Independent regulation of the auditing profession by the IRBA results in:

- A positive impact on the auditing profession through inspections, standard-setting and ethical requirements.
- Addressing the protection of the public-interest by dealing appropriately with RA's and RCA's found guilty of improper conduct.
- Monitoring of audit quality and the ADP, which enable the IRBA to identify weaknesses, risks and challenges in the auditing profession.
- Participation in global standard-setting and oversight activities, to maintain an objective and independent approach to standard setting and regulation to respond to identified weaknesses in auditing standards and then strengthen auditing standards.
- Educating stakeholders on the role of auditing and auditors in contributing to a positive effect on capital markets, ensuring that investors' trust in the independence of auditors and the strength of regulation is enhanced.
- Developing and maintaining RAs' competencies through the Competency Framework, accreditation and monitoring of professional bodies and monitoring of CPD.

### LEGISLATIVE AND POLICY MANDATE

As a Schedule 3A public entity, the IRBA supports the State's policy outcomes; and its five-year Strategic Plan demonstrates how it contributes to selected outcomes. The IRBA Strategic Plan is also aligned to the National Development Plan (NDP), and the IRBA has an important role to play on the road to government's desired destination.

The IRBA continues to support the national initiative in respect of transformation in relation to its employment policies as well as its procurement policies; and it also takes advantage of opportunities to appoint and procure the services of women and people with disabilities.

The strategy addresses the IRBA's mandate with reference to two programmes:

- Programme 1: The current mandate, which arises from the APA.
- Programme 2: The extended mandate, which includes sub-programmes that are designed to coordinate specific interventions to address issues and challenges in the profession and the current economic environment, and in response to government's priorities for economic growth. These proposed interventions will allow the IRBA to contribute significant added value to the efforts of government to grow the economy, while also being critical success factors in support of delivering effectively on its own primary mandate.

#### Programme 1: Regulation of Auditors – Legislative Mandate

##### *Our Changing Legislative Context*

The independent regulation of auditing was implemented based on recommendations from the 2003 World Bank Report on the Observance of Standards and Codes for Accounting and Auditing (ROSC), as adopted by the Minister of Finance. Subsequently, the APA was promulgated in 2006. The IRBA then became the successor body to the Public Accountants' and Auditors' Board. Further amendments to the Act were made in 2015, following recommendations from the 2013 World Bank ROSC report to the Minister.

A further round of amendments commenced in 2017, in response to corporate and audit failures that had occurred or were emerging, including:

- African Bank/Deloitte;
- Linkway Trading/KPMG;
- Steinhoff/Deloitte;
- Tongaat /Deloitte; and
- VBS Mutual Bank/KPMG.

## Programme 2: Institutional Responsibility

The IRBA acknowledges its institutional responsibility to also focus on identifying and addressing current challenges in the auditing profession. As a responsible and responsive regulator, our strategy has been revised to respond to challenges in the market, as outlined below.

### ***The New Institutional Responsibility Strategic Areas***

Arising out of the situational analysis, the three strategic focus areas are:

1. Sustainability and Relevance

The sustainability of the IRBA is dependent on its financial and human capitals to execute on its mandate. The increased volume of complaints and disciplinary matters, however, has placed a severe strain on both capitals.

Going forward, the IRBA will be focusing on redefining business processes, harnessing the efficiencies to be gained from technology and looking at alternative funding models to ensure its sustainability.

2. Audit Quality

Stimulating economic growth requires confidence in the capital markets and in attracting increased foreign direct investment. Likewise, rebuilding confidence locally will unlock private-sector investment. Improving investor sentiment is key to how the IRBA can contribute to one of the core elements of the NDP, which is "*strong, sustained and inclusive economic growth to sharply reduce unemployment, poverty and inequality*".

Improving audit quality is also a critical success factor in rebuilding confidence; and the IRBA is committed to engaging with the profession, locally and internationally, to identify and rectify issues of poor audit quality.

In addition, the IRBA is committed to performing a gap analysis of the auditing profession and implementing measures to address significant gaps.

By restoring investor confidence in auditing and audit quality, and rebuilding trust in the financial statements of public interest entities, it is possible for the IRBA to play its role in supporting government's efforts to promote an economic recovery, in line with national and public interest.

3. Comprehensive Stakeholder Engagement

Some discussion on our stakeholder engagement is covered in Part C of this document. In addition to that, the following are key focus areas:

- Adequate resourcing of the IRBA; and
- Digital transformation.

## Our Regulatory Philosophy

Participation in global regulatory meetings of IFIAR, of which South Africa is one of the 55 member countries, and in the African Forum of Independent Audit and Accounting Regulators (AFIAAR), of which South Africa is a founding member and one of the 11 member countries, is key to benchmarking the IRBA against international developments and best practice in audit regulation.

Consequently, the IRBA subscribes to the following IFIAR Core Principles in developing its regulatory philosophy:

### ***The Structure of Audit Oversight***

- Principle 1: The responsibilities and powers of audit regulators should serve the public interest and be clearly and objectively stated in legislation.
- Principle 2: Audit regulators should be operationally independent.
- Principle 3: Audit regulators should be transparent and accountable.

### ***The Operations of Audit Oversight***

- Principle 4: Audit regulators should have comprehensive enforcement powers which include the capability to ensure that their inspection findings or recommendations are appropriately addressed; these enforcement powers should include the ability to impose a range of sanctions including, for example, fines and the removal of an audit license and/or registration.
- Principle 5: Audit regulators should ensure that their staff is independent from the profession and should have sufficient staff of appropriate competence.
- Principle 6: Audit regulators should be objective, free from conflicts of interest, and maintain appropriate confidentiality arrangements.

Principle 7: Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other third parties.

***Audit Inspection Principles***

Principle 8: Audit regulators should, as a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities in order to assess compliance with applicable professional standards, independence requirements and other laws, rules and regulations.

Principle 9: Audit regulators should ensure that a risk-based inspections program is in place.

Principle 10: Audit regulators should ensure that inspections include effective procedures for both firm wide and file reviews.

Principle 11: Audit regulators should have a mechanism for reporting inspections findings to the audit firm and ensuring remediation of findings with the audit firm.

**Regulating the Financial Reporting Chain**

The ROSC<sup>2</sup> highlighted the need for broader regulatory oversight over the financial reporting chain. As such, comprehensive regulation continues to form part of the IRBA's broader stakeholder engagement strategy; and the IRBA has assisted National Treasury by formulating a proposal for ways in which this could be implemented.

The IRBA is also committed to performing a gap analysis, in the broader financial reporting and governance ecosystem, of factors that adversely affect audit quality; and then to make recommendations to relevant stakeholders and decision-makers.

**STRATEGIC LINKS TO THE NATIONAL DEVELOPMENT PLAN**

As a public entity, our strategic objectives are closely linked to government's *National Development Plan: Vision for 2030*, which is a "blueprint for the country's development". In essence, economic development is at the heart of the NDP, with the main focus being to achieve "inclusive growth, prosperity and improvements in the quality of life for the country's citizens", according to the National Planning Commission.

It is in that spirit then that the IRBA's guiding frameworks, including its strategic and performance plans, have been created. Along with having these designed to ensure a proper implementation of the regulator's mandate, various initiatives have also been put in place to strengthen the IRBA's responsibility to protect the public interest.

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<sup>2</sup> There are a significant number of people working as accountants who are not members of any of the recognized professional accountancy organizations—this situation can cause reputational risk to the accountancy profession (paragraph 3.29). There is a need for a comprehensive arrangement to supervise and regulate PAOs to ensure that all PAOs serve public interest, a move that would also contribute to enlisting all accountants to be members of PAOs (2013 World Bank Report on the Observance of Standards and Codes for Accounting and Auditing, <http://documents.worldbank.org/curated/en/661381468302454182/pdf/824940ROSC0P130official0use0only090.pdf>.)

## PART C: COMPREHENSIVE STAKEHOLDER ENGAGEMENT

### COMMUNICATION APPROACH

The IRBA embarked on a strategy refresh to realign our plans to the new realities and expectations, and this included a refreshed stakeholder engagement plan that will allow us to interact and proactively share pertinent information with all our stakeholders.

Our stakeholder principles of engagement set the standards to which we aspire in building consistent, open and respectful working relationships with all our stakeholders, while maintaining our regulatory independence. These principles are:

- **Purposeful:** Every engagement must be clear on what we want to achieve.
- **Inclusive:** Identify relevant stakeholders and group them according to their level of interest and influence.
- **Timely:** Involve stakeholders from the start and agree on when and how to engage.
- **Transparent:** Have open and honest engagements, and set clear expectations.
- **Respectful:** Acknowledge and respect the expertise, perspectives and needs of stakeholders.

Strategic Stakeholders	Interest	Influence	Reason for Stakeholder Identification
Registered auditors	High	High	Mandate from the Act.
Auditing firms	High	High	Mandate from the Act.
Executive authority	High	High	IRBA reporting authority.
Investing public and investor groups	High	High	Mandate from the Act.
International standard-setting bodies	High	High	Global standard-setting bodies – IRBA serves on a number of committees.
IFIAR	High	High	Global body setting core principles for independent auditors – IRBA a founding and current member.
Professional Accounting Organisations accredited by the IRBA	High	High	Professional Body whose members may apply for registration with the IRBA.
Auditor-General of South Africa	High	High	Supreme audit institute for South African public sector.
University students	Medium	Medium	Future pipeline for registered auditors.
Professional bodies driving the transformation of the profession	Medium	Medium	To address challenges with transformation numbers in the profession.
Other regulators in the financial services sector (CIPC, FSCA, JSE, etc.)	High	High	Enforcement authorities in the financial reporting chain.
Regional partners on the continent	Medium	Medium	Future growth and cooperation on the continent.
IRBA staff	High	High	To implement the IRBA mandate.
Media	Medium	Medium	To disseminate IRBA messages.

The IRBA adopts different stakeholder engagement methods, which include scheduled meetings with stakeholders (one-on-one with the CEO); information roadshows for RAs; training sessions with auditors, to update them on developments within the profession; conversations with the boards of directors at the auditing firms; briefings to Parliament and the Minister of Finance; and through addressing strategic forums of affected stakeholders.

### CONNECT WITH THE IRBA

Collaboration and communication with our stakeholders are a cornerstone of our strategy. To enable this, our website ([www.irba.co.za](http://www.irba.co.za)) is structured to provide relevant and timely information to our stakeholders. This includes guidance on standards, disciplinary rules and our quarterly newsletter, IRBA News.

In addition, there are links to the following institutions:

- International Forum of Independent Audit Regulators: <https://www.ifiar.org/>
- **International Auditing and Assurance Standards Board: <https://www.iaasb.org/>**
- International Ethics Standards Board for Accountants: <https://www.ethicsboard.org/>

Our engagement with prospective registered auditors is furthered through our learning website (<https://www.irbalearning.co.za/>).

**PART D: FUNDING OF THE IRBA**

Section 8 of the APA outlines the following in respect of fees and charges:

- (1) The Regulatory Board must prescribe—
- (a) Accreditation, registration, registration renewal and re-registration fees;
  - (b) Annual fees, or a portion thereof in respect of a part of a year;
  - (c) The date on which any fee is payable; and
  - (d) The fees payable in respect of any examination referred to in section 37, conducted by an accredited professional body or the Regulatory Board.
- (2) The Regulatory Board may prescribe—
- (a) Any fees payable for the purposes of the education fund referred to in section 7(2);
  - (b) Fees payable for an inspection or review undertaken by the Regulatory Board in terms of section 47; and
  - (c) Fees payable for any other service rendered by the Regulatory Board.”

The IRBA's funding is sourced mainly from the following:

- National Treasury Grant.
- Assurance fees based on audit fees declared by registered auditors.
- Annual fees for accreditation, registration renewal and re-registration.

Funding is utilised in the execution of the mandated functions, in terms of sections 4-7 of the APA.

**PART E: IRBA GENERAL INFORMATION**

<b>Registered Name</b>	Independent Regulatory Board for Auditors
<b>Physical Address</b>	Building 2, Greenstone Hill Office Park, Emerald Boulevard, Modderfontein, 1609
<b>Postal Address</b>	PO Box 8237, Greenstone 1616
<b>Telephone Number</b>	087 940 8800
<b>Fax Number</b>	087 940 8873
<b>Email Address</b>	board@irba.co.za
<b>Website Address</b>	www.irba.co.za
<b>External Auditors</b>	Auditor-General of South Africa
<b>Bankers</b>	Standard Bank of South Africa
<b>Board Secretary</b>	Ms Jill Levendal

**LIST OF ABBREVIATIONS**

<b>ADP</b>	Audit Development Programme
<b>AGSA</b>	Auditor-General of South Africa
<b>APA</b>	Auditing Profession Act, 2005 (Act No.26 of 2005), as amended
<b>CFAE</b>	Committee for Auditor Ethics
<b>CFAS</b>	Committee for Auditing Standards
<b>ENCOM</b>	Enforcement Committee
<b>DISCOM</b>	Disciplinary Committee
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IAESB</b>	International Accounting Education Standards Board
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IFIAR</b>	International Forum of Independent Audit Regulators
<b>INVESCO</b>	Investigating Committee
<b>IRBA</b>	Independent Regulatory Board for Auditors
<b>PAO</b>	Professional Accounting Organisation
<b>PFMA</b>	Public Finance Management Act, Act No. 1 of 1999, as amended
<b>RA</b>	Registered Auditor
<b>RCA</b>	Registered Candidate Auditor
<b>RI</b>	Reportable Irregularity

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