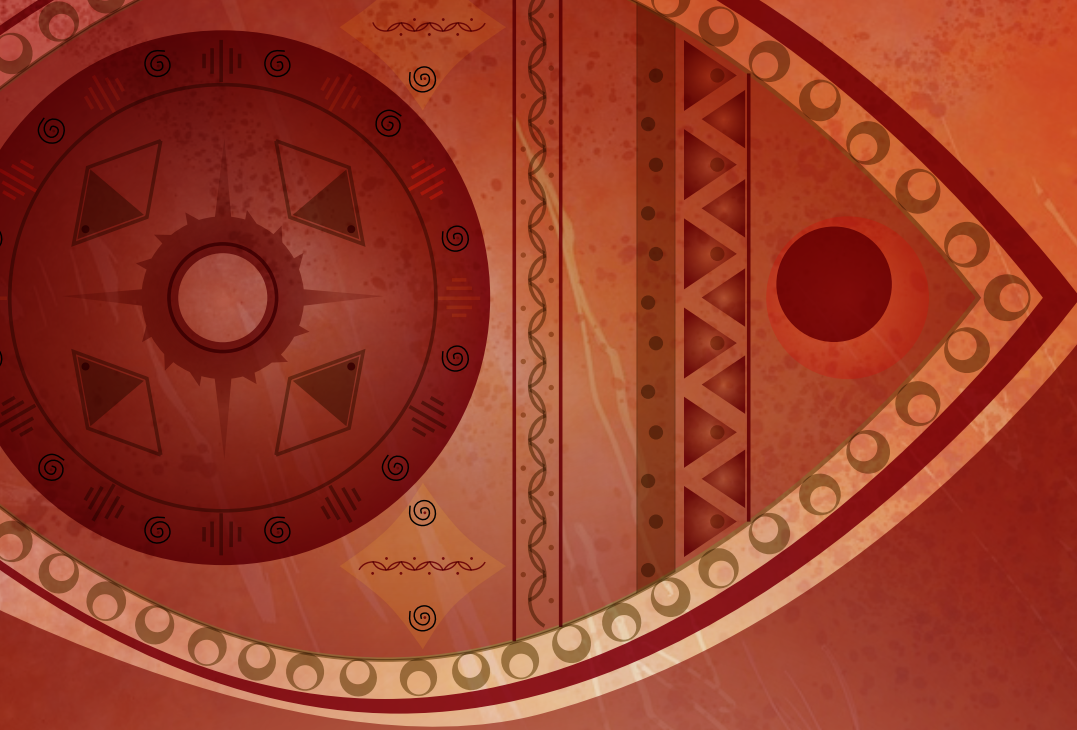


Annual Report 2017

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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 Board took a decision at its March 2017 special meeting to issue a rule on the most appropriate solution for the South African environment to strengthen auditor independence. This followed a long process of consultation with various stakeholders, including auditors, regulators and investors, on a measure that would be appropriate for the South African environment. The Board had to consider three proposed measures – Mandatory Audit Firm Rotation (MAFR), Mandatory Audit Tender (MAT) and Joint Audits (JA) – and it decided on MAFR.
- The IRBA made written submissions to the joint sitting of the Standing Committee on Finance and the Portfolio Committee on Trade and Industry on Transformation of the Financial Sector. Transformation and lack of competition in the auditing profession are secondary objectives of MAFR.
- For the seventh consecutive year, South Africa maintained its number one ranking for the strength of auditing and reporting standards, according to the World Economic Forum's Global Competitiveness Survey for 2016/2017.
- The IRBA was approved as an equivalent competent authority (ECA) under European Union (EU) legislation and by the Federal Audit Oversight Authority (FAOA) of Switzerland. This means the IRBA meets the EU Commission and Swiss FAOA standards for public oversight of statutory auditors and audit firms, and its quality assurance reviews and investigations are sufficiently comprehensive to meet the standards of the commissions.
- The IRBA and the Public Company Accounting Oversight Board (PCAOB) conducted simultaneous regulatory inspections in South Africa, albeit from different jurisdictional perspectives, to share knowledge and limit the regulatory burden on auditing firms.
- The Audit Development Programme produced its first candidate to complete the programme, with Jason Bruhin from JN Chartered Accountants becoming the first to qualify.
- The IRBA Chief Executive Officer was appointed as a member to the board of the International Forum of Independent Audit Regulators (IFIAR). The IRBA is a founding member of the IFIAR, which recently appointed a new board to oversee its functioning. The IFIAR has also recently appointed a permanent secretariat that is based in Tokyo, Japan.
- The IRBA issued its second Public Inspections Report, which reflects on key inspection findings recorded. The report analyses a total of 23 audit firms and 197 engagement inspections based on the decisions of the Inspections Committee.
- The IRBA prescribed International Standard on Auditing (ISA 701), Communicating Key Audit Matters in the Independent Auditor's Report, for registered auditors' use in South Africa, together with revisions to the existing reporting standards. ISA 701 deals with the auditor's responsibility to communicate Key Audit Matters (KAM) in the auditor's report. KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. The disclosure of KAM fundamentally transforms the auditor's report. The changes are intended to improve audit quality or users' perceptions thereof. This, in turn, may increase the confidence that users have in the audit and the financial statements, which is in the public interest.

List of Abbreviations

| | |
|----------------|-----------------------------------------------------------|
| ADP | Audit Development Programme |
| 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

| Activity Indicators (numbers) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------------------------------------------------------------|---------|---------|---------|---------|---------|
| Registered auditors at year-end | 4 259 | 4 359 | 4 311 | 4 281 | 4 306 |
| New registrations for the period | 220 | 209 | 276 | 219 | 306 |
| Registered candidate auditors at year-end | 157 | 28 | - | - | - |
| Trainee accountants registered for the period | 3 812 | 3 414 | 5 440 | 2 722 | 3 128 |
| Reportable Irregularities (RIs) Received | | | | | |
| Total RIs received (first reports) | 881 | 897 | 1 123 | 611 | 710 |
| Second reports – continuing | 583 | 512 | 630 | 338 | 459 |
| Second reports – not continuing | 285 | 378 | 482 | 261 | 247 |
| Second reports – did not exist | 11 | 7 | 11 | 12 | 3 |
| Second reports – overdue | 2 | 0 | 0 | 0 | 1 |
| Disciplinary Matters | | | | | |
| Investigations initiated | 165 | 192 | 100 | 68 | 85 |
| Investigations finalised | 180 | 161 | 67 | 68 | 65 |
| Disciplinary Committee hearings | 4 | 6 | 4 | 11 | 6 |
| Inspections Performed | | | | | |
| Firms | 23 | 20 | 37 | 34 | 22 |
| Engagements | 197 | 237 | 384 | 348 | 440 |
| Financial Indicators (R'000) | | | | | |
| Government Grant | 28 978 | 29 999 | 34 577 | 32 933 | 32 208 |
| Total income | 69 746 | 62 326 | 64 163 | 58 174 | 59 099 |
| Expenses | 103 135 | 95 494 | 91 258 | 85 288 | 81 775 |
| Surplus/(Deficit) | (4 411) | (3 169) | 7 482 | 5 818 | 9 532 |
| Transferred from/(to) reserves | (1 062) | 132 | 28 | 2 192 | (3 046) |
| Accumulated surplus surrendered to the National Revenue Fund | - | - | (2 745) | (2 621) | - |
| Accumulated surplus to be surrendered to the National Revenue Fund | - | - | - | (1 244) | - |
| Surplus/(Deficit) after movement in reserves | (5 473) | (3 037) | 4 765 | 4 145 | 6 486 |

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 IRBA.
- The Board is responsible for the preparation of the Annual Financial Statements and for the judgments 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.
- In our opinion, 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 2017.



Bernard Peter Agulhas

Chief Executive Officer

29 July 2017



Abel Dlamini

Chairman of the Board

29 July 2017

Strategic Overview

The IRBA Strategic Focus

The IRBA 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 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 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 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 Goal

The IRBA's 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.
- 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 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.

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.

Strategic Overview *(continued)*

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



In his January 8th statement, President Jacob Zuma said government must use the levers of state power to transform the economy and improve the lives of our people. Government has a duty to use incentives, procurement, infrastructure investment and other measures to create new industries and expand existing ones. Doing so will increase ownership of the economy by the black majority. Government must also use the measures available through initiatives like the black industrialists programme and transformation of oligopolistic sectors to develop the economy and create jobs for our people.

While the National Development Plan (NDP) is government's blueprint for economic development over the next two decades, we recognise that there is a lot to be done to create the kind of society that South Africa should be. That society should be one where poverty has been eradicated, employment opportunities abound and inequality is a thing of the past.

The role of the financial sector in facilitating economic development in a modern economy is critical, and government is demonstrating its commitment to economic stability through various initiatives, including legislative enhancements to financial institutions.

Our top priority as government and National Treasury is to achieve inclusive growth and economic transformation. This is at the core of the NDP, as our long-term vision for the country's development, and the Nine-Point Plan that outlines our immediate priorities to realise that vision. We need faster growth to address poverty, unemployment and inequality. We need to transform the South African economy such that it works for all South Africans, including those who have been and still continue to be marginalised – the working class, the poor, black people, women and the youth.

One of our key challenges is transformation in the various sectors, including the auditing profession. This remains a key priority as there is still a long way to go, despite the progress that has been made by the profession. I am confident and trust that the IRBA, in line with its mandate, will take the necessary steps to open the market to small and medium-sized firms and increase the broader participation of previously disadvantaged auditors.

The fight against corruption is an ongoing challenge for our country and we need to continue to strengthen governance and accountability by all to attract investors and boost confidence. The recent downgrades by the ratings agencies have also affected our country's prospects to attract more investors, but we continue to work hard to showcase what we can offer as a country and as a nation.

In the past two years one of the major projects the IRBA embarked on was auditor independence. This led to the Board taking a bold but necessary decision on Mandatory Audit Firm Rotation (MAFR) to safeguard the independence of our auditors and ensure that the financial interests of the public continue to be protected. We support the IRBA in its decision and we believe that this is only the beginning of a process that will bring about change and eventually help to transform the profession and open the market to other players.

Testament to its work as a global player, the IRBA has maintained its number one ranking in the World Economic Forum's Global Competitiveness Survey for the seventh

Message from the Minister of Finance *(continued)*

consecutive year. This means we can be proud of the IRBA's work and have confidence in the work of auditors and the auditing reports they produce, which will in turn attract more investments to South Africa and help grow the economy. Economic growth will mean more job creation for our people. This ranking also strengthens overall confidence in our financial markets and boosts our ailing economy.

I wish to thank the IRBA Board for guiding the organisation to another global accolade and for its contribution in implementing the IRBA's strategic objectives. The road ahead is long and filled with challenges, but working together we can overcome and improve the lives of our people while transforming the economy.



Malusi Gigaba

Minister of Finance

Foreword by the Chairman



Chairman from April 2015 to April 2017

I am pleased to present the Independent Regulatory Board for Auditors' (IRBA) 11th annual report.

The uncertain political and socio-economic environment precipitated in December 2015 and the challenges of low growth, rising unemployment and stagnant investment continued in the year under review. With recent economic downgrades to South Africa's sovereign credit ratings, this looks set to continue with the possibility of economic growth being dampened further by recent political developments. The government strategy of fiscal austerity does little to promote job and economic growth in an environment where much of the growth was previously driven by government infrastructure spend and is resulting in increasing dissatisfaction among the population.

The lead up to the change in political party leadership later this year may further impact the economy. While some developments may impact positively, it is clear that as a country we are trying to find our way through significant political uncertainty. What seems certain is that we may face increased interest rates, a persistently stagnant job market and tough economic times for the next few years.

The impact of the downgrades may also have a negative effect on our financial institutions, which have enjoyed tremendous respect over the years. Similarly, the audit profession may experience greater pressures and expectations when auditing in an environment that places greater demands on audited entities.

South Africa relies substantially on external capital and one of the important components of attracting foreign direct investments is a well-regulated and reliable capital market. This requires a reputable audit profession that can provide

potential investors with reliable and credible information on which investment decisions can be made – more so in an environment where a country's economy has been downgraded to a sub-investment grade.

In the past year, the Board focused its efforts on dealing with matters related to auditor independence as a critical component of audit quality. Without the required independence, investors cannot have the assurance that the opinion expressed by the auditor is appropriate in order for them to take economic decisions.

To this effect, we embarked on a comprehensive consultation process to introduce measures to strengthen auditor independence. The Board considered three options before resolving that the appropriate measure to be introduced would be Mandatory Audit Firm Rotation (MAFR). We consulted with auditors, investors, business and other regulators to obtain their views on how best to implement this measure. I am also appreciative of the opportunity afforded to us by Parliament, in the extension of the consultation process, through the hosting of two public hearing sessions.

The Board considered the impact of its decision on entities and the profession and was satisfied that it had taken the correct decision for the South African environment. The ultimate responsibility of the Board is to protect the investing public and to contribute towards ensuring a reliable financial market that will generate confidence and promote investment.

Transformation of the profession remains a major challenge. We believe that it is time for transformation to move beyond numbers and begin to truly empower black auditors and black-owned auditing firms, and this includes providing equal opportunities to access the audit market.

The harsh reality is that of the 4 259 registered auditors in South Africa, 75% are white and only 11% are black Africans. We acknowledge that some initiatives have been implemented, but believe that these are insufficient and that more innovative means have to be introduced and implemented for the profession to attract and retain auditors. In this regard, the IRBA, through its Education and Transformation Department, continues to engage with the relevant stakeholders – especially trainees, students and educators – to encourage more people to join and remain in the profession.

The IRBA continues to implement its Four Pillar Strategy and to pursue the recommendations of the World Bank Report on the Observance of Standards and Codes (ROSC). The recommendations were adopted by the Minister of Finance in 2014 and include establishing a structure that will incorporate the regulation of all accountants and not only auditors.

A tremendous amount of advocacy has been done in this regard and the IRBA is still committed to taking this initiative forward, pending the approval of the Minister of Finance. This

Foreword by the Chairman *(continued)*

approval will result in all Professional Accountancy Organisations being regulated by the IRBA or an organisation chosen by the Minister of Finance, with the main aim of protecting the financial interests of the public.

Despite a challenging environment, the IRBA managed to maintain its number one ranking by the World Economic Forum for the strength of auditing standards and reporting for the seventh year in a row. We are delighted to have maintained this position. The IRBA takes seriously its role in upholding the highest standards and persisting with our commitment to promote and maintain consistent and sustainable high levels of audit quality, which in turn builds confidence in our financial markets.

The IRBA is committed to delivering on its mandate to protect the financial interests of the public while recognising the need to be responsive to the needs of its stakeholders, especially the auditors. We value feedback and engagements on all the work that we do.

I wish to thank my fellow Board members, the Chief Executive Officer, the directors and staff of the IRBA for their valuable contribution and support during the year. May we continue to steer the IRBA in the right direction, as it has been entrusted to us by the Minister of Finance.

This has been the final year in my term as Board member and Chairman. It has been a pleasure serving in both capacities. I wish you all success in striving to maintain our international position for the strength of our standards while delivering on our mandate to serve and protect the public's financial interests and supporting the auditors.



Rene Kenosi

Chairman for the period under review

Chief Executive Officer's Overview



It is my pleasure to present the IRBA's 11th annual report.

In a slow growth economy and in line with government's fiscal austerity measures, the IRBA has, like other government institutions, further tightened its belt during the past year. We have tried to do so in a way that has not impacted negatively on the IRBA mandate to protect the credibility of our financial systems and the quality of our oversight. Though there have been significant political changes that have affected the currency and the economy, we have remained focused on supporting strategies that communicate the strength of our financial institutions and defend our credibility as a sound investment destination.

While much changed in the economic and political landscape of our country over the past year, and the economy struggled to generate positive growth, the IRBA continued to entrench its position as a respected regulator that the public, government and investors can rely on. We continued to deliver on our mandate and to implement our Four Pillar Strategy, while simultaneously responding to the needs of our stakeholders and supporting government in achieving its objectives.

The year under review presented the IRBA with an opportunity to reshape the future of the auditing profession in pursuing its mandate of strengthening auditor independence and transformation.

Four Pillar Strategy

We continued to implement our extended strategy, which comprises the following four pillars:

- Comprehensive regulation;
- Transformation;

- Independence; and
- Leadership in Africa.

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 (PAOs).

Through our participation in international forums and in our engagements with international independent audit regulators, we are seeing an increasing focus on the need for comprehensive oversight by means of regulation of the financial systems. Global business failures increasingly highlight the deficiency of regulating only financial reporting and securities exchanges, and oversight structures worldwide are consequently taking a stronger position in responding to accounting and auditing failures from a systemic point of view. We will continue to engage with National Treasury to advance similar measures here in order to remain at the forefront of financial discipline.

Transformation

Transformation of the profession remains one of our big challenges, despite the efforts and work done by the profession as a whole. For the regulator, as a statutory body and organ of state that is challenged like other state entities to advance government's transformation agenda, we need to increase diversity at the highest levels of the profession and achieve more representative participation.

The IRBA commissioned research among trainees and recently qualified CAs to attempt to quantify the factors driving and limiting professional advancement in auditing, which could inform the Board's strategic objective for addressing diversity in the field.

Largely, consistent experience and similar attitudes were reported by trainees and qualified professionals alike, across the diversity of the segment. So, no matter race, geography or size of the firm, the experiences of trainees and recently qualified CAs were consistent with the view that race and gender transformation has been underway but that it still has room for improvement.

The lack of progression of young black professionals to the highest levels at audit firms has been explained by the assumption that many young black accountants complete their traineeship and then leave auditing for more lucrative roles in government or the corporate sector, or they leave to explore entrepreneurial opportunities. As such, this is frequently cited as a challenge for the sector in its transformation initiatives.

Chief Executive Officer's Overview *(continued)*

However, to see real transformation we need initiatives that will eliminate any perceived negative experiences, while creating an environment in which all young professionals are provided with opportunities to promote their retention in the firms. Without implementing measures that will challenge and change the status quo, real empowerment will remain an elusive ideal.

Independence

The independence of auditors and regulators has increasingly become a focal point for oversight structures globally. Investors and the public are demanding more information and transparency, and have become aware of their rights, which need to be protected.

In response to this, the IRBA issued a new rule that makes it mandatory for all auditors' reports on Annual Financial Statements (AFS) to disclose the number of years that the audit firm/sole practitioner has been the auditor of the entity (audit tenure). The decision to require the mandatory disclosure of audit tenure was made in the context of strengthening auditor independence, which is consistent with measures implemented in other jurisdictions. The IRBA believes that the disclosure of audit tenure will lead to transparency of association between audit firms and audit clients.

Furthermore, the Board took a decision to look at other measures to strengthen auditor independence, and a research project was started in 2015. Initially, the IRBA conducted an exploratory study into Mandatory Audit Firm Rotation (MAFR), Mandatory Audit Tendering (MAT) and Joint Audits (JA), including the implementation of these worldwide.

Following a stakeholder engagement process, which included face-to-face meetings, roundtable discussions and questionnaires with various stakeholders, such as auditors, investors and other regulators, comment letters and inputs received were analysed and presented to the Board. The Board considered the three options before resolving that the appropriate measure for the South African environment would be MAFR. Further comment was requested from the market through a comment process opened to the public for a period of 90 days.

The Board took a decision to issue a rule on the most appropriate solution for the South African environment at its March 2017 special meeting.

Leadership in Africa

The IRBA strategy to engage on the continent is to help other countries to set up their own independent regulators and to promote the concept of independent regulation. During the year under review, we hosted members from Malawi, Botswana, Lesotho, Namibia and Zimbabwe as observers to our standards and disciplinary statutory committees.

We also hosted a three-day study tour by the Accountants and Auditors Board of Ethiopia to share knowledge on our processes. We visited the Public Accountants and Auditors Board of Namibia to share best practices on the Audit Development Programme and independent regulation. In addition, the Director Education and Transformation serves on the education committee of the Zimbabwe Public Accountants and Auditors Board.

International Participation

The IRBA continued to participate and influence standards on various international platforms. The CEO was appointed as a board member on the International Accounting Education Standards Board and the Director Education and Transformation continues to serve as his technical advisor. The Director Standards serves on the International Auditing and Assurance Standards Board as a board member and our Professional Manager Ethics was appointed as the technical advisor to the Sri Lankan member of the International Ethics Standards Board for Accountants.

The CEO continues to serve on the International Forum of Independent Audit Regulators (IFIAR) as a member and was also appointed as a member of the new IFIAR board. 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. Subsequent to the year-end, the CEO was appointed as chairman of the IFIAR Finance and Audit Committee.

Stakeholder Engagement

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 that we also need to build relationships with to raise awareness and educate the public on the role of the IRBA as an audit regulator and protector of the financial interests of the public.

Having achieved the number one position for the strength of auditing and reporting standards for the seventh year in a row, the IRBA will continue to serve on international structures and influence standards and regulation while responding to the needs of local stakeholders.

Audit Quality

Although audit quality remains the responsibility of auditors, other stakeholders such as audit committees and audit regulators have a significant role to play. The 2016 Public Inspections Report showed an overall regression in the inspections results compared to the previous year. Unsatisfactory results of audit firms increased by 27% and unsatisfactory engagement inspection results

increased by almost 50%, based on selected inspections performed.

Even though these findings are in line with the global inspections survey results issued by the IFIAR, we continue to be concerned as an audit regulator. These results showed a lack of consistency in the execution of high-quality audits and point to the continued need to address firm-wide systems of quality control, including in the critical area of auditor independence.

Human Resources, Financial Matters and Performance

Matters relating to human resources are set out in the section on Human Resource 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.

The number of registered auditors has declined slightly due to resignations; and the decrease in the number of new registrations for the period can be attributed to the implementation of the ADP.

We are pleased that the ADP is gaining traction and for the period under review 157 registered candidate auditors were registered on the programme.

The number of engagements inspections decreased during the period as a result of the focus on assurance engagements

with higher public interest exposure demanding more in-depth inspections that take longer to perform. Our focus continues to be more on quality than the quantity of inspections, and the number of inspections performed is in line with those of other reputable international audit regulators.

The deficit is mainly due to the reduction in the government grant and would have been more had we not continued to implement the cost-saving measures from National Treasury. As the reduction in the government grant will continue, the Board needs to consider alternative sources of finance to enable it to continue to deliver on its mandate.

Appreciation

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

Finally, I would like to extend my sincere gratitude to the outgoing Chairman and Board members for their unfailing commitment and dedication to support and promote the objectives of the IRBA, and welcome the new Board, which was appointed by the Minister of Finance in May 2017. I trust that they will continue to support and drive the strategy to further the goals of the IRBA.



Bernard Peter Agulhas
Chief Executive Officer

Organisational Structure

The organisation operates through an Executive and a total staff complement of 82 employees. The Executive reports to the Board, the members of which are appointed by the Minister of Finance.

Members of the Board

Term ended



Rene Kenosi CA (SA)
Chairman
Appointed April 2013
Term ended April 2017



Lise Keech
Advocate
Appointed April 2015
Term ended April 2017



Amanda Mazibuko CIA (SA)
Appointed April 2015
Term ended April 2017



Phumzo Noxaka CA (SA)
OPSCOM Chairman
Appointed April 2015
Resigned October 2016



Prof Alex van der Watt CA (SA)
DAC Chairman
Appointed April 2013
Resigned August 2016



Absent: **Zola Fihlani** CA (SA)
Appointed April 2015
Resigned August 2016

Term extended



Abel Dlamini CA (SA)
Deputy Chairman for the year under review and Chairman from May 2017
Appointed April 2015



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

New members



Joe Lesejane CA (SA)
OPSCOM Chairman
Appointed December 2016



Matshepo More CA (SA)
Appointed December 2016



Nkabaneng Mashile
Appointed May 2017



Iqbal Motala
Appointed May 2017



Madoda Petros
Appointed May 2017



Martie Janse van Rensburg
DAC Chairman
Appointed May 2017



Zuziwe Ntsalaze
Appointed May 2017

Organisational Structure *(continued)*

Executive



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



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



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



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



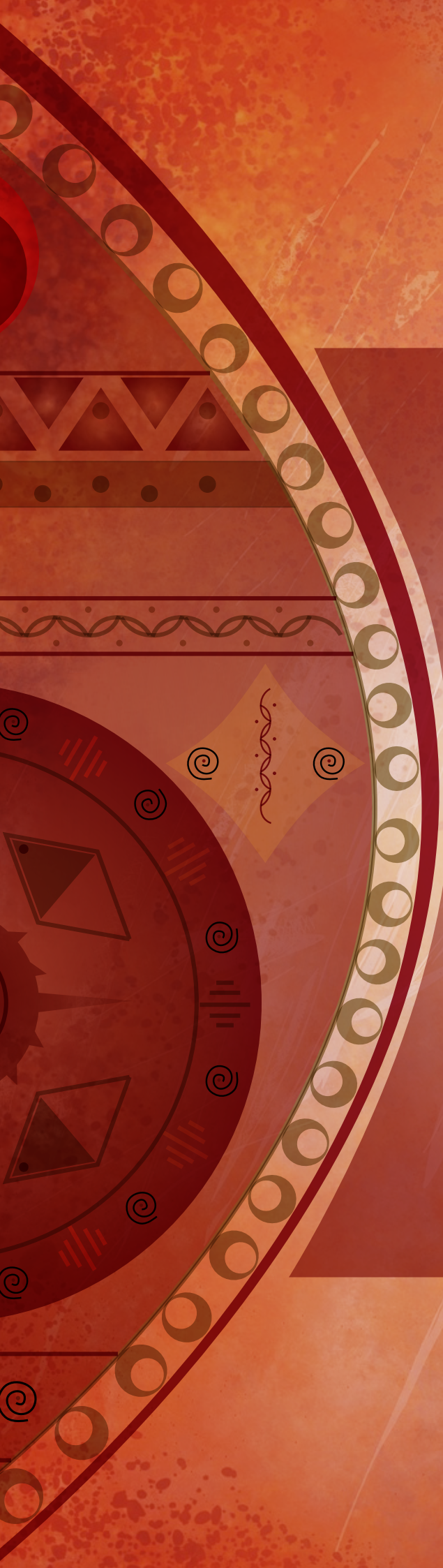
Willemina de Jager
CA (SA), FCMA
Director: Operations
Appointed May 2009



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



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



Part B
Performance Against
Measurable Objectives
For the year ended 31 March 2017

Performance Against Measurable Objectives

Strategic Focus Area 1: Auditing and Ethics Standards

| STRATEGIC OBJECTIVE | Developing and maintaining auditing and ethics standards which are internationally comparable | | | | |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------------------------------------------------------------------|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2016/2017 | Status for the 12 months ended 31 March 2017 |
| 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% 18 out of 18 projects planned for the year were completed. |
| 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 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% 7 out of 7 projects planned for the year were completed. |

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.

Strategic Focus Area 2: Education and Transformation

| STRATEGIC OBJECTIVE | Providing an appropriate framework for the education and training of properly qualified auditors | | | | |
|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------------------------------------|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2016/2017 | Status for the 12 months ended 31 March 2017 |
| 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. | 90% | Achieved: 94% 29 out of 31 firms monitored. |
| To monitor the programmes and institutional requirements of accredited professional bodies. | Monitoring reports. | To ensure compliance with the Accreditation Model. | Date of approval of final monitoring reports by MCOM – 60 days after the accredited entity has submitted responses to the draft monitoring reports sent by the IRBA. | 100% | Achieved: 100% |

Strategic Focus Area 3: Inspections

| STRATEGIC OBJECTIVE | Monitor registered auditors' compliance with professional standards | | | | |
|----------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Measurable Objective | Output | Outcomes | Measurable Indicator | Performance Targets | |
| | | | | 2016/2017 | Status for the 12 months ended 31 March 2017 |
| Inspections performed in accordance with the Inspections Plan. | Inspection reports. | Compliance of firms (including their individually registered auditors) with the auditing and ethics standards. | Number of inspections completed in accordance with the Inspections Plan. | 90% adherence to the Inspections Plan. | Not Achieved: 80% of target met ¹ . Target: 285 inspections. Actual: 227 inspections performed. |

¹The fixed annual target for the year has not been met due to a number of factors beyond the IRBA's control. These factors include: unexpected vacancies that occurred during the year; more complex audits selected on a risk basis, which demanded more time; and due to the IRBA no longer being an "Approved Regulatory Body" as per the Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice, inspections of B-BBEE assurance engagements were discontinued, resulting in 33 planned inspections not taking place.

Performance Against Measurable Objectives *(continued)*

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 | |
| | | | | 2016/2017 | Status for the 12 months ended 31 March 2017 |
| Completed investigations. | Closed case files. | Public trust in the profession. | % of complaints closed within 18 months of receipt of complaint. | 80% | Achieved: 87% 163 of 187 files closed in 18 months. |

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 | |
| | | | | 2016/2017 | Status for the 12 months ended 31 March 2017 |
| 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. | Clean audit report regarding financials, compliance and performance information. | 100% | Achieved: 100% Clean audit report was received for the financial year ending 31 March 2016. |



Part C
Governance

Governance

The Board

The Board is the designated accounting authority that 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.

The IRBA continues to assess the extent to which it applies the recommendations of the King III Report on Corporate Governance. No material issues were identified to suggest shortcomings in governance. The IRBA will continue to monitor and enhance current practices.

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. The Board was appointed with effect from 15 April 2015 and consisted of eight members. Two members resigned in August 2016 while one resigned in October 2016. Two new members were appointed with effect from 1 December 2016.

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 nine times during the year under review. Attendance at the Board (inclusive of Special Board Meetings and Board workshops) and subcommittee meetings for 2016/2017 is set out below.

| Board Member | Board | Operations Committee (OPSCOM) | Audit and Risk Management Committee (ARMCO) | Disciplinary Advisory Committee (DAC) |
|---------------------------------------------|-------|-------------------------------|---------------------------------------------|---------------------------------------|
| Total Number of Meetings | 9 | 2 | 5 | 6 |
| R Kenosi (Chairman) | 9 | n/a | n/a | n/a |
| A Dlamini (Vice-Chairman, The DAC Chairman) | 8 | n/a | n/a | 6 |
| Z Fihlani** | 0 | 1 | n/a | n/a |
| L Keech | 3 | n/a | n/a | n/a |
| A Mazibuko* | 7 | n/a | 5 | 5 |
| P Noxaka*** (OPSCOM Chairman) | 4 | 2 | 3 | n/a |
| T Pillay (ARMCO Chairman) | 9 | n/a | 5 | n/a |
| Prof A van der Watt** | 3 | 2 | n/a | 2 |
| J Lesejane**** | 4 | n/a | n/a | n/a |
| M More**** | 3 | n/a | n/a | n/a |

*Appointed to DAC with effect from May 2016.

**Resigned from the Board in August 2016.

***Resigned from the Board in October 2016.

****Appointed to the Board with effect from December 2016.

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

| Title | Initial | Name | Surname | Qualifications | Designation | Date appointed to the Board | Age | Directorships |
|-------|---------|-----------------------------------------------------------------------|---------|--------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------------------|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ms | RA | Rene Aloise (Chairman) | Kenosi | B Compt B Compt (Hons) | CA (SA) | 01 April 2013 | 46 | Fraudsmiths (Pty) Ltd Per Procura (Pty) Ltd Bridging Concepts (Pty) Ltd Dikago Development CC Rand Water Board CIPC National Consumer Commission Advisory Council – GPW |
| Mr | A | Abel (Vice-Chairman and Chairman of DAC from August 2016) | Dlamini | B Com (Acc) B Compt (Hons) | CA (SA) | 15 April 2015 | 51 | SekelaXabiso Muggeridge Investments No 55 Cross Border Life Cover SekelaXabiso Financial Services Alpha Conference Centre St Mary's School Waverley Foundation First Republic Technologies Mentor Trading and Investment 123 Vengatrim |
| Mr | Z | Zola Luxolo (Resigned from the Board in August 2016) | Fihlani | B Com B Com Hons Masters in Commerce Higher Diploma in Tax Law Higher Diploma in International Tax Law | CA (SA) | 15 April 2015 | 45 | EVI Capital Partners |
| Adv | L | Lise | Keech | B Iuris LLB | Advocate | 15 April 2015 | 50 | None |

Governance *(continued)*

| Title | Initial | Name | Surname | Qualifications | Designation | Date appointed to the Board | Age | Directorships |
|-------|---------|----------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|-----|------------------------------------------------------------------------------------------------------------------------------|
| Ms | AL | Amanda Lethukuthula | Mazibuko | B Compt B Compt (Hons) MBA | CIA (SA) | 15 April 2015 | 45 | None |
| Ms | P | Phumzo (Chairman of OPSCOM until she resigned from the Board in October 2016) | Noxaka | B Admin B Compt B Com Acc (Hons) MBA HDip Computer Auditing NDip Financial Markets & Instruments | CA (SA) | 15 April 2015 | 44 | Alatha Consulting 8.8 Concepts City of Tshwane Metro Municipality |
| Mr | T | Thiru (Chairman of ARMCO) | Pillay | B Compt B Compt (Hons) | CA (SA) CIA (SA) RA | 15 April 2015 | 47 | None |
| Prof | A | Alex (Chairman of DAC until he resigned from the Board in August 2016) | van der Watt | B Com B Com (Hons) M Com | CA (SA) | 01 April 2013 | 48 | Accounting Professional Training (Pty) Ltd Accounting Education (Pty) Ltd Thuthuka Education Upliftment Fund (Pty) Ltd |
| Mr | J | Joe | Lesejane | B Com B Com (Hons) B Compt | CA (SA) FCMA | 01 December 2016 | 61 | Small Enterprise Development Agency (Seda) Government Pensions Administration Agency (GPAA) Advisory Board |
| Ms | MF | Matshepo Saith | More | B Bus. Sc B Bus. Sc (Hons) B Com (Hons) | CA (SA) | 01 December 2016 | 35 | Pareto (Pty) Ltd CBS (Pty) Ltd Public Investment Corporation |

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

Responsibility

The Board is responsible for overseeing the preparation, integrity and fair presentation of the financial statements and related information that is included in the 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 adequately 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, and overseeing the preparation of the annual financial statements and IT 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 five 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 (No. 26 of 2005), 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 five 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 (2016: 6) and finalised 96 (2016: 91) matters.

Decisions not to charge

- 16 matters in terms of Disciplinary Rule 3.5.1.1 – the respondents were not guilty of improper conduct.
- Five matters in terms of Disciplinary Rule 3.5.1.2 – there were reasonable explanations for the respondent's conduct.
- Two matters in terms of Disciplinary Rule 3.5.1.3 – the conduct of which respondents may be guilty were of negligible nature or consequence.
- Five 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.
- Two matters in terms of Disciplinary Rule 3.5.1.5 – in all the circumstances it was not appropriate to charge the respondents with improper conduct.

Decisions to charge and matters finalised by consent order

- 64 matters were finalised by consent orders, and the respondents were fined.

Decisions to charge and matters referred for a disciplinary hearing

- Two 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 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 twice 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.

Due to the resignation of committee members post the July meeting, all matters of the operations committee were dealt with directly by the Board.

Governance *(continued)*

Internal Auditors

The IRBA appointed Ubuntu Business Advisory and Consulting as a service provider for internal audit 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 2016/2017 plan and tabled progress reports at ARMCO meetings. Significant risks identified by the internal auditors are monitored on a continuous basis.

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 Comfort Pack Project

The Comfort Pack Project is aimed at survivors of rape and abuse, who include women, men and children. The objective of this project is to provide a rape survivor with essential items to assist them during the initial reporting phases either at hospitals, crisis centres or police stations. The packs, which contain essential toiletry items that become extremely helpful once a statement has been taken and the medical examination has been completed, are given to the hospitals and crisis centres that deal with police stations. For example, clean underwear is an essential item in the packs as any clothing article containing DNA is usually kept by the police. Where possible, an additional clothing item or a blanket is also provided in the packs.

The IRBA staff donated comfort packs and cash to the project.

McBain Charles Primary School – Eldorado Park

The IRBA and its staff successfully hosted the Mandela Day Project at Charles McBain Primary School, one of the oldest schools in Eldorado. The project, which coincided with the National Reading Day organised by the Department of Education, entailed coordinating the participation of IRBA staff members to paint and refurbish the school's tuckshop and kitchen and spend time reading to the learners. Donations made by the IRBA included snacks for the learners, paint, a stove, a sink and procuring the services of a builder to rebuild the kitchen. The cash donation was used to facilitate the development of a website.

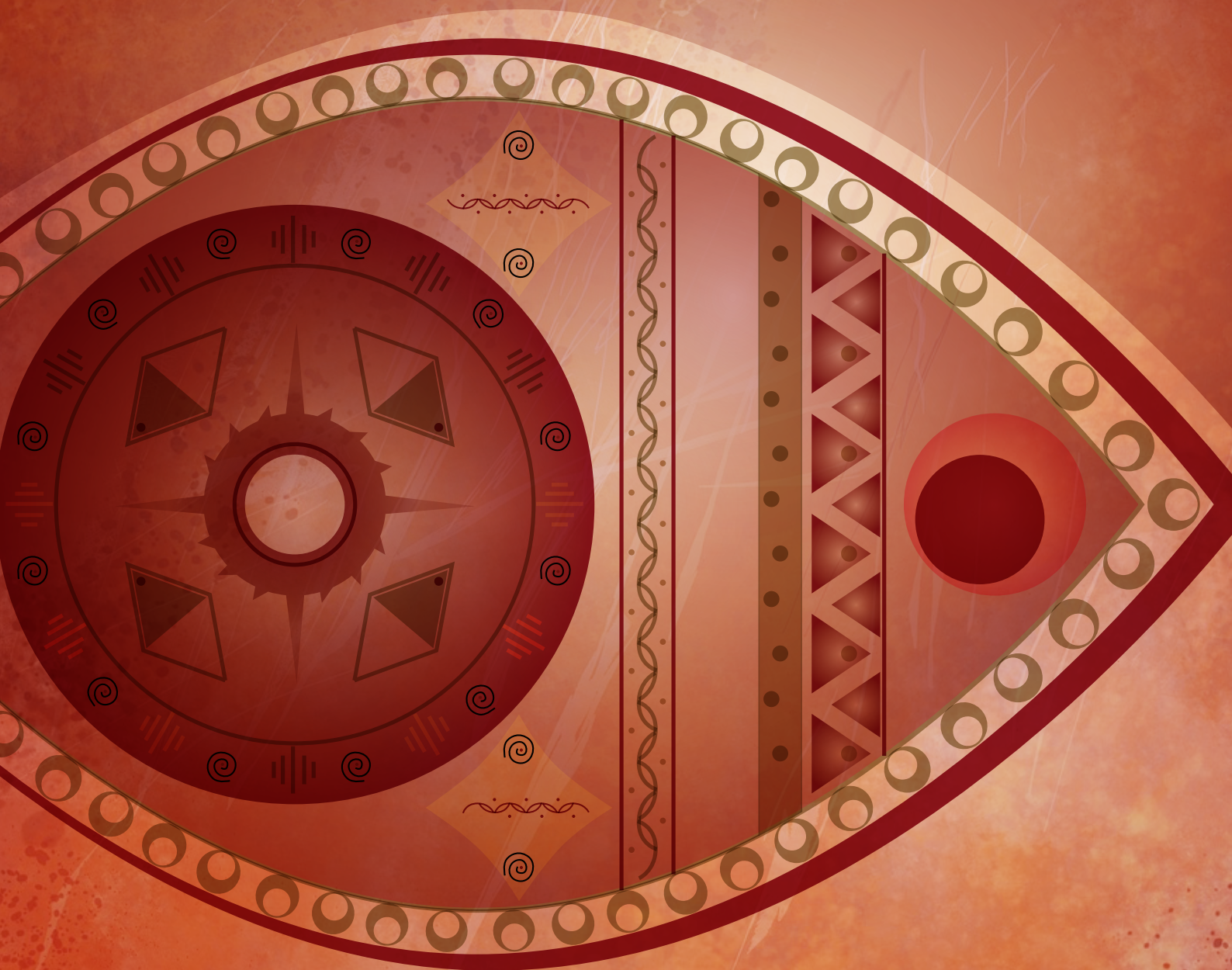
Corporate Governance Environment in Relation to the King III¹ Report on Corporate Governance

| Governance Area | Current Status |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accounting authority and directors | The Board is the accounting authority and is appointed by the Minister of Finance. The Board Charter was reviewed and approved in 2015. The Code of Conduct was approved by the Board in 2013. Both are reviewed annually. |
| Performance assessment | Performance evaluation of the Board and its subcommittees, for the first two-year term appointment, was completed in May 2016. |
| Board Secretary | A Board Secretary was appointed in November 2014 and is fully operational in handling the governance and compliance of the IRBA. |
| Board committees | Full compliance for the reporting period. |
| Remuneration of Board members and senior executives | Full compliance for the reporting period. |
| Audit committee | The Audit and Risk Management Committee's Terms of Reference were reviewed and approved by the Board in February 2016. |
| Risk | The risk evaluation and monitoring are done by management and reviewed by the Board. The revised Risk Management Policy Framework was approved by the Board in November 2016. |
| IT governance | The Information and Communication Technology (ICT) strategy was approved by the Board in February 2016. |
| Compliance with laws, rules, codes and standards | The principal laws to comply with are the Auditing Profession Act and the PFMA. There was full compliance during the reporting period. Compliance monitoring is handled by the Board Secretary, who also acts as the Compliance Officer. Reports on compliance with the PFMA are issued quarterly to National Treasury, following approval by the Board. |
| Internal audit | The internal audit function is outsourced. Internal audit follows a risk-based approach and reports back to the Audit and Risk Management Committee on a quarterly basis. |
| Governing stakeholder relationships | A Stakeholder Management Plan was approved by the Board in July 2016 and the IRBA is satisfied that important milestones were reached during the year under review. |
| Integrated reporting and disclosure | The 2015 Integrated Report was prepared in accordance with the International Integrated Reporting Council's International <IR> Framework. This was the IRBA's third Integrated Report. The drafting process for the 2017 Integrated Report commenced in 2016 and the report will be published in 2017. |

¹The IRBA is in the process of considering the recommendations on King IV.

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 82 as at 31 March 2017. At year-end, nine positions were vacant due to staff turnover and scarcity of skills. The total staff expenditure was R73 million (2016: R60 million), representing 71% (2016: 63%) 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 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:

- Children at Work;
- Employment Equity;
- Engaging in Private Work;
- Long Service Award;
- Medical Aid;
- Overtime;
- Recruitment & Selection;
- Resignations;
- Retirement Age; and
- Safety, Health & Environment.

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 cost.
- 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 Management *(continued)*

Human Resource Oversight Statistics

Staff Complement

The workforce (excluding contract staff) over the past five years as at 31 March 2017 was as follows:

| | 2017 | % | 2016 | % | 2015 | % | 2014 | % | 2013 | % |
|--------------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| Black Female | 33 | 41 | 24 | 33 | 25 | 36 | 26 | 37 | 27 | 42 |
| White Female | 16 | 20 | 20 | 27 | 18 | 26 | 19 | 27 | 19 | 29 |
| Black Male | 23 | 27 | 18 | 24 | 15 | 21 | 15 | 21 | 12 | 18 |
| White Male | 10 | 12 | 12 | 16 | 11 | 17 | 11 | 15 | 7 | 11 |
| TOTAL STAFF | 82 | 100 | 74 | 100 | 69 | 100 | 71 | 100 | 65 | 100 |

Personnel Cost of Permanent Staff by Salary Band

| Level | Personnel Expenditure | % of Personnel Expenditure to Total Expenditure | Number of Employees | Average Personnel Cost per Employee |
|--------------------------|-----------------------|-------------------------------------------------|---------------------|-------------------------------------|
| Top management | 3 409 836 | 5% | 1 | 3 409 836 |
| Senior management | 11 484 310 | 18% | 6 | 1 914 052 |
| Professionally qualified | 37 862 049 | 60% | 38 | 996 370 |
| Skilled | 4 745 261 | 8% | 11 | 431 387 |
| Semi-skilled | 5 144 938 | 8% | 21 | 244 997 |
| Unskilled | 683 770 | 1% | 5 | 136 754 |
| TOTAL | 63 330 165 | 100% | 82 | 772 319 |

Training Costs

R'000

| Level | Personnel Expenditure | Training Expenditure | Training Costs as % of Personnel Costs | Number of Employees Trained | Average Training Cost per Employee |
|--------------------------|-----------------------|----------------------|----------------------------------------|-----------------------------|------------------------------------|
| Top management | 3 409 836 | | | | |
| Senior management | 11 484 310 | 49 934 | 0.4% | 6 | 8 322 |
| Professionally qualified | 37 862 049 | 331 364 | 0.9% | 39 | 8 497 |
| Skilled | 4 745 261 | 45 862 | 1.0% | 11 | 4 169 |
| Semi-skilled | 5 144 938 | 89 930 | 1.8% | 22 | 4 088 |
| Unskilled | 683 770 | - | - | - | - |
| TOTAL | 63 330 165 | 517 092 | 0.82% | 78 | 25 076 |

Performance Rewards

| Level | Performance Rewards | Personnel Expenditure | % of Performance Rewards to Total Personnel Cost |
|--------------------------|---------------------|-----------------------|--------------------------------------------------|
| Top management | 920 000 | 3 409 836 | 27% |
| Senior management | 1 219 198 | 11 484 310 | 11% |
| Professionally qualified | 2 620 960 | 37 862 049 | 7% |
| Skilled | 312 135 | 4 745 261 | 7% |
| Semi-skilled | 238 370 | 5 144 938 | 5% |
| Unskilled | 46 138 | 683 770 | 7% |
| TOTAL | 5 356 802 | 63 330 165 | 8% |

Employment and Vacancies

| | 2015/2016 No. of Employees | 2016/2017 Approved Posts | 2016/2017 No. of Employees | 2016/2017 Vacancies | % of Vacancies |
|--------------------------|----------------------------------|--------------------------------|----------------------------------|------------------------|-------------------|
| Top management | 1 | 1 | 1 | - | - |
| Senior management | 6 | 6 | 6 | - | - |
| Professionally qualified | 33 | 45 | 38 | 7 | 15% |
| Skilled | 11 | 11 | 11 | - | - |
| Semi-skilled | 18 | 23 | 21 | 2 | 9% |
| Unskilled | 5 | 5 | 5 | - | - |
| TOTAL | 74 | 91 | 82 | 9 | 10% |

Due to scarce skills in the market for senior management positions and professionally qualified individuals, the recruitment process for each of these positions usually takes some time. Every effort is made to advertise and conduct interviews for these positions, as soon as a vacancy is identified. Due to more competitive salaries being offered by other employers, it is difficult to find suitable employment equity candidates for these positions.

In addition, three positions were kept on hold and not filled to achieve savings. The need for these positions will be re-evaluated before recruitment starts.

As all vacant positions were filled after year-end, the vacancies indicated only relate to resignations that were in the process of being refilled at year-end, except for the three positions that are on hold.

Human Resources Management *(continued)*

Employment Changes

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

| Salary Band | Employment at Beginning of Period | Appointments | Promotions | Terminations | Employment at End of Period |
|--------------------------|-----------------------------------|--------------|------------|--------------|-----------------------------|
| Top management | 1 | - | - | - | 1 |
| Senior management | 6 | - | 1 | (1) | 6 |
| Professionally qualified | 33 | 11 | (1) | (5) | 38 |
| Skilled | 11 | 1 | - | (1) | 11 |
| Semi-skilled | 18 | 7 | - | (4) | 21 |
| Unskilled | 5 | - | - | - | 5 |
| TOTAL | 74 | 19 | - | (11) | 82 |

The majority of changes in recruitment occurred at the professionally qualified level. Most of the candidates that resigned at this level were CAs (SA) and employment equity candidates. These employees represent scarce skills within the financial field and are paid higher salaries and premiums by other employers. The IRBA is not able to compete with these salary expectations or the benefits paid to these candidates by other employers.

Reasons for Staff Leaving

| Reason | Number | % Of Total No. of Staff Leaving |
|--------------|-----------|---------------------------------|
| Resignation | 8 | 70% |
| Retirement | 2 | 20% |
| Death | 1 | 10% |
| TOTAL | 11 | 100% |

One employee (receptionist) retired early during the period and left the IRBA in May 2016. Another employee (assistant administrator) turned 65 years old and retired in October 2016. An administrator in the Registry Department was killed in a car accident in February 2017.

Labour Relations: Misconduct and Disciplinary Action

| Nature of Disciplinary Action | Number |
|-------------------------------|--------|
| Written warning | 2 |
| Final written warning | - |
| Dismissal | - |

Target 2017: Equity Target and Employment Equity Status

| TOTAL | Male | Female | African | Coloured | Indian | White | Non-SA | Disabled |
|--------------|-------------|---------------|----------------|-----------------|---------------|--------------|---------------|-----------------|
| 90 | 37 | 53 | 41 | 7 | 9 | 32 | 1 | 2 |
| 100% | 41% | 59% | 46% | 8% | 10% | 35% | 1% | 2% |

Actual 2017

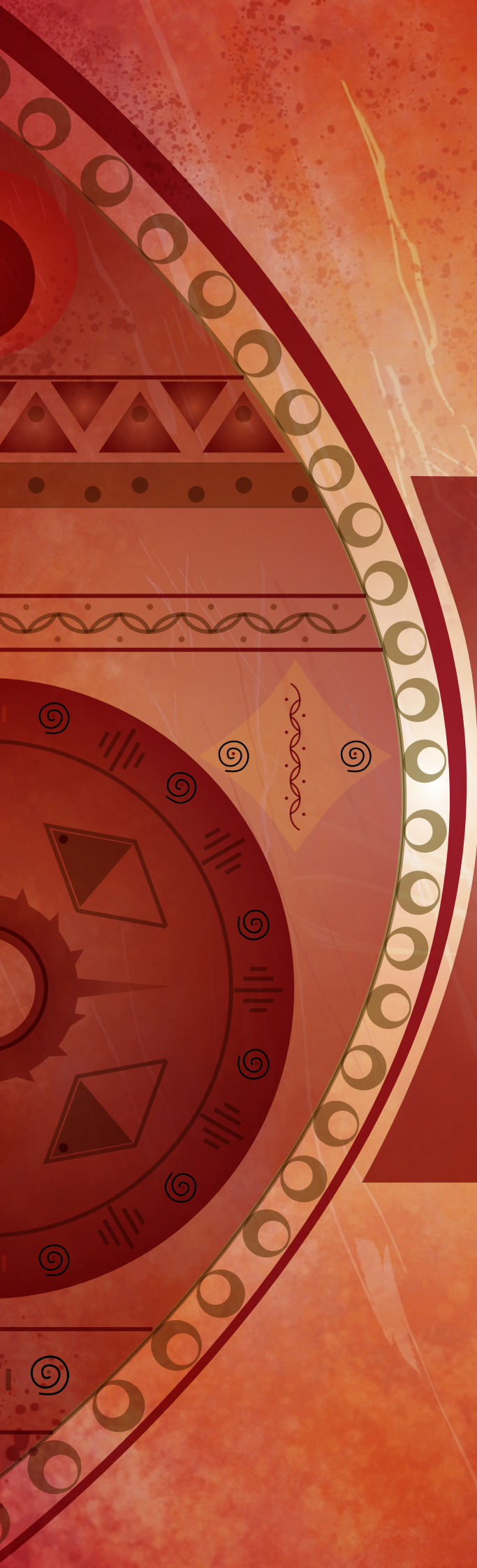
| TOTAL | Male | Female | African | Coloured | Indian | White | Non-SA | Disabled |
|--------------|-------------|---------------|----------------|-----------------|---------------|--------------|---------------|-----------------|
| 82 | 33 | 49 | 36 | 6 | 13 | 26 | 1 | 2 |
| 100% | 40% | 60% | 44% | 7% | 16% | 32% | 1% | 2% |

The total target for black employees is 63% against the actual of 66%. The IRBA therefore achieved its target overall.

The IRBA made every effort to achieve its employment equity targets for the period. This was 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 and fairness and transparency throughout all recruitment drives within the IRBA.

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



Part E
Feedback from
Statutory Committees

Education and Transformation Committee



Ms R Malahleha

| Members | Number of Meetings Attended | Membership Status |
|----------------|-----------------------------|-----------------------------|
| Ms R Malahleha | 4 of 4 | Chairman |
| Ms T Naidoo | 3 of 4 | Deputy Chairman |
| Ms S Mokoena | 4 of 4 | Member |
| Ms B Jackson | 0 of 4* | Member |
| Mr B Hlongwe | 0 of 3 | Resigned – 22 February 2017 |
| Mr B Nyembe | 3 of 4 | Member |
| Mr V Pangwa | 4 of 4 | Member |
| Prof K Barac | 3 of 4 | Member |
| Ms P Mvulane | 3 of 4 | Member |
| Mr S Marota | 4 of 4 | Member |
| Ms M Olivier | 3 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 2016/2017 financial year.

Transformation of the Profession

Government recently urged the profession to drive transformation from an economic perspective and not simply from a "numbers game" view. This implied that the focus should be on true economic transformation rather than just the de-racialisation of the different sectors of the economy. The call for the accountancy and auditing profession to do more on transformation was also raised during the Mandatory Audit Firm Rotation (MAFR) hearing held in Parliament in March 2017.

While progress has been made in the profession regarding transformation, the IRBA acknowledges that a lot still needs to be done. As such, during the year the IRBA continued its transformation efforts as per its Board approved project plan, which entails the following three-pronged approach:

- Trainee level: Projects at this level are aimed at raising awareness of the Audit Development Programme (ADP) and thereafter retaining the trainees in the auditing profession.
- Student level: These projects are aimed at recruiting students into the auditing profession.
- Learner level: At this level projects are aimed at raising awareness of the auditing profession. The IRBA sees the promotion of pure mathematics as an important aspect of this level.

I am also pleased to report that the Alexandra Mathematics and Science Academy, a collaborative project between the IRBA and the South African Institute of Chartered Accountants (SAICA), is running well. Launched early in 2016 with 100 learners from five high schools in Alexandra, at the beginning of 2017 more learners had joined the programme.

The Audit Development Programme

The ADP, which became effective in 2015, is a specialisation programme undertaken by professional accountants who want to become registered auditors (RAs). It provides a context wherein the consolidated capabilities developed in the training programme can be refined in a more complex learning environment.

While during the financial year ended 31 March 2017 a total of 157 candidates had registered for the ADP, there is still a challenge with the low number of registered transformation candidates. As such, the IRBA is engaging with various key stakeholders instrumental in growing the number of transformation candidates.

I would like to congratulate the first registered candidate auditor (RCA), Jason Bruhin, who successfully completed the ADP. He has shown such commitment to the profession and this is commendable. I also extend our thanks to his firm and his Oversight RA for their commitment to the development of RAs.

About 50 training offices, the majority of which are small firms, have registered ADP candidates. These registrations are providing the IRBA with an opportunity to work with these small firms in the development of their quality structures for the ADP. This is done through the IRBA's ADP monitoring process. During the financial year, 29 training offices were monitored. Some of these training offices have already developed action plans based on the IRBA's monitoring reports. The action plans include firms developing their quality manuals.

Education and Transformation Committee *(continued)*

The ADP has also provided an opportunity for South Africa to develop stronger working relations with neighbouring countries. A number of these countries have shown an interest in the implementation of the ADP, while others have already implemented the programme.

I would like to wish all RCAs the best in their development within the profession. I trust that they know that the ADP is not just about being an RA, but also about their holistic development within the profession. I therefore plead with them to continue to strive to better themselves.

Competency Framework

During the year under review the IRBA, in collaboration with SAICA, commissioned an academic research study to be conducted by the Department of Auditing at the University of Pretoria. The purpose of the study is to:

- Propose a competency framework that will ensure chartered accountants (CAs) of the future can continue to demonstrate competence in serving the public's interests; and
- Propose a competency framework that will ensure RAs of the future continue to have the skills and competencies necessary to perform high-quality audits, while also serving the public's interests and the needs of the economy.

As a result, the IRBA will review and update its Accreditation model which is used to accredit professional bodies.

Monitoring of Recognised Programmes

Central to achieving the objectives of the IRBA is the annual monitoring of the institutional and programme requirements to be complied with by accredited professional bodies. During the period under review the Institutional Requirements and the following recognised programmes were monitored:

- The Academic Programme;
- The Core Assessment Programme; and
- The Professional Development Programme.

SAICA, currently the only accredited professional body, submitted its self-evaluation and regular formal reports for the three programmes listed above 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.

Continuing Professional Development (CPD)

In terms of the CPD policy, RAs are required to undertake a minimum of 90 verifiable hours of CPD, including nine hours of compulsory ethics in a three-year rolling period. RAs are also required to sign a declaration with their annual renewal documentation indicating that they have complied with the

minimum requirements of the CPD policy, and that they will retain the relevant supporting documentation for five years. In the period under review, the IRBA chose a random sample of RAs to evaluate their CPD records. I am pleased to report that the majority of RAs had completed their CPD.

Proficiency Interviews

One of the IRBA's responsibilities is to ensure that all RAs are competent at entry to the profession and remain so throughout their professional lives. It also has to ensure that all applicants who wish to enter the profession after an "extended absence" from the audit and assurance environment are competent. An "extended absence" from audit and assurance is defined as more than three years since an applicant (whichever is the latter):

- Was registered with the IRBA (assurance1);
- Successfully completed the ADP;
- Completed a training contract in public practice; or
- Worked in an audit and assurance environment.

Applicants who fall outside the "extended absence" period would normally be registered without the need for a proficiency assessment interview. These would be applicants who are still within three years from the date they were either registered as assurance RAs; successfully completed the ADP; completed their training; or worked in an audit and assurance environment.

During the period under review the IRBA conducted 29 proficiency interviews. The results were as follows:

- The panel recommended the registration of one candidate.
- Six candidates were required to draft a Practice Plan and a Quality Manual (indicating how they would comply with ISQC 1), and appoint a quality reviewer. Some of these applicants have already submitted the required documentation and have been registered.
- Twelve candidates were required to draft a Practice Plan and a Quality Manual; appoint a quality reviewer; and update their CPD.
- Ten candidates were required to draft a Practice Plan and a Quality Manual; appoint a quality reviewer; update their CPD; and schedule another interview.

In its endeavour to protect the public's financial interests, EDCOM made changes to the Proficiency Assessment Policy. The changes were approved by the Board on 18 July 2016. Consequently, the IRBA now requires that some applicants submit a practice plan, including a Quality Manual, before their registration as RAs can be processed. This is a developmental process that ensures that all practices started are compliant with ISQC 1. The IRBA believes that this improves audit quality.

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. The CAG is an IAESB oversight body and it offers direction and advice for the IAESB's consideration.

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 attended three board meetings. The following projects, among others, are on the board's agenda and were discussed during these meetings:

- Professional Skepticism; and
- IES 7: Continuing Professional Development.

Appreciation

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

Delivery on EDCOM's mandate would be difficult without its two subcommittees, the ADP Committee (ADCOM) and the Monitoring Committee (MCOM). I therefore extend EDCOM's gratitude to both subcommittees for their continued commitment in delivering on EDCOM's mandate.

I also take the opportunity to congratulate Mr Robert Zwane who was promoted to Director Education and Transformation with effect from 1 October 2016. I wish him all the best in his new role and in his contribution to the IRBA'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.

Ms R Malahleha

Chairman

Committee for Auditing Standards



R Fourie

| Members | Number of Meetings Attended | Membership Status |
|----------------------------|-----------------------------|--------------------------------|
| Ms R Fourie ¹ | 4 of 4 | Chairman |
| Mr S Badat ² | 0 of 3 | Resigned – 28 February 2017 |
| Ms J Christian | 3 of 4 | Appointed – 1 April 2016 |
| Ms L du Plessis | 4 of 4 | Reappointed – 1 April 2016 |
| Mr M du Toit | 3 of 4 | Member |
| Mr W Kinnear | 3 of 4 | Appointed – 1 April 2016 |
| Ms Y Lange ³ | 1 of 4 | Member |
| Ms D Lawrence ⁴ | 1 of 4 | Member |
| Mr N Maree ⁵ | 3 of 4 | Member |
| Ms C Mbili | 3 of 4 | Reappointed – 1 April 2016 |
| Mr Z Rashid | 3 of 4 | Member |
| Mr J van Schalkwyk | 1 of 1 | Appointed – 1 March 2017 |
| Ms S West ⁶ | 1 of 4 | Appointed – 1 April 2016 |

Four CFAS meetings were held during the year under review in June, August, November 2016 and March 2017.

¹Ms R Fourie served as acting chairman for three meetings, June-November 2016, and was appointed as chairman at the March 2017 CFAS meeting.

²Ms S Petzer attended two meetings on behalf of Mr S Badat, as his alternate.

³Ms Y Lange was on maternity leave at the time of the June 2016-August 2016 meetings.

⁴Mr J Limalia attended three meetings on behalf of Ms D Lawrence, as her alternate.

⁵Ms Z Mshengu attended one meeting on behalf of Mr N Maree, as his alternate.

⁶Ms S West was on maternity leave at the time of the August 2016-March 2017 meetings.

It gives me pleasure to present this report on the strategic activities of the Committee for Auditing Standards (CFAS) for the 2016/2017 financial year.

CFAS Due Process

The CFAS continued to be guided in its work by the Auditing Profession Act; the CFAS Strategy for 2015-2019 (the CFAS Strategy), issued in December 2015; and the Status and Authority of Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements (Status and Authority) issued in November 2013.

The CFAS Due Process Policy for the Development, Adoption and Implementation of Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, issued in November 2013, sets out the due processes followed by the CFAS in its standard-setting activities during the year.

The CFAS also continues to apply its prioritisation process, using a scoring model to identify the high priority projects that arise from a range of stakeholder requests. This has allowed both the CFAS and the secretariat to get closer to a one-year activity plan, with a balance between international standard-setting initiatives and local priorities, as well as attempts to match these projects to the available time among CFAS members and the secretariat.

CFAS Standing Committees

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

CFAS Steering Committee

The CFAS Steering Committee guides the CFAS agenda and priorities, and approves proposals for new projects following the prioritisation process.

Regulated Industries and Reports Standing Committee (RIRSC)

The RIRSC maintains liaison with industry regulators and government departments to provide guidance for auditors in implementing international standards on auditing, review, other assurance and related services engagements by developing illustrative auditors' reports that meet South African jurisdictional requirements while ensuring the consistency of auditors' reports with relevant international reporting standards. Auditors' reports included in other auditing pronouncements developed by the CFAS are also

subject to review by the RIRSC prior to approval by the CFAS and issue by the IRBA.

Public Sector Standing Committee (PSSC)

The PSSC develops guidance jointly with the Auditor-General South Africa (AGSA) to assist registered auditors with understanding and meeting the additional requirements when performing audits in the public sector. During the year under review, the PSSC was less active in its project activities in order to provide a platform for the AGSA to implement its revised AGSA audit methodology and obtain feedback from the PSSC thereon. This decision was taken to accommodate the significant changes in audit methodology for public sector audits planned by the AGSA.

Sustainability Standing Committee (SSC)

The SSC develops illustrative reports and guidance for auditors performing sustainability assurance engagements to enhance the quality of assurance reporting.

Integrated Reporting Standing Committee (<IR>SC)

The <IR>SC is tasked with assisting the CFAS in leading and participating in both local and international initiatives in the evolving field of assurance on integrated reports. The IRBA is in the process of establishing a suitable local work programme, while supporting the activities of the IAASB in this area.

B-BBEE Advisory Committee (BAC)

The BAC developed standards and guidance for Broad-Based Black Economic Empowerment (B-BBEE) approved registered auditors when providing assurance services and issuing B-BBEE verification certificates. The BAC did not meet during the 2016/2017 financial year due to significant developments in the regulation of the verification industry. As of 30 September 2016, the IRBA withdrew from the regulation of the B-BBEE verification industry and it also withdrew SASAE 3502 on 31 December 2016.

CFAS Strategy

In November 2015 the CFAS approved its strategy for 2015-2019 to guide its work programme for the 2016/2017 financial year. 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 new IRBA strategy (the Four Pillar Strategy) and the IAASB's Strategy for 2015-2019.

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

- (a) Develop and maintain high-quality local auditing and assurance pronouncements, including the development of local implementation guidance.

- (b) Consider and respond to developments in the IAASB international standards, and consider the adoption of new and revised international standards.

- (i) Comment on international consultation papers and exposure drafts.

- (ii) Consider and adopt new and revised IAASB standards issued.

- (iii) Engage with international stakeholders, for example, the IAASB's NSS as well as the IFIAR and their respective working groups.

- (c) Monitor jurisdictional legislative and regulatory requirements and work with stakeholders and regulators to develop auditing pronouncements that are relevant to jurisdictional needs.

- (i) Continued engagement with local stakeholders, such as the South African government departments, regulators, audit firms and academics, regarding legislative and regulatory requirements affecting auditors, particularly in respect of audit and assurance reporting needs, as well as influencing legislation and regulation affecting the auditing profession.

International and Regional Liaison

The secretariat is engaged in a programme of liaising with relevant African and international bodies. The Director Standards is an IAASB board member and South Africa is therefore better positioned to provide direct input and direction into the international standard-setting process.

The IRBA is also a member of the International Forum of Independent Audit Regulators' (IFIAR) Standards Co-ordination Working Group (SCWG). The SCWG is responsible for establishing a forum for IFIAR members to share views about pronouncements from the IAASB and the International Ethics Standards Board for Accountants (IESBA).

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. This provides a useful link to various institutions from countries in the rest of Africa, assisting with fulfilling the IRBA's "Leadership in Africa" strategic pillar.

Auditor regulators and standard-setters from other African countries were invited to attend the CFAS meetings. This initiative has been well received, with an increase in attendance by observers.

Committee for Auditing Standards *(continued)*

CFAS Projects Identified and Outputs Achieved to Fulfil the Strategy

| Project Outputs | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Local Auditing and Assurance Pronouncements and Guidance | |
| Revision to the South African Standard on Assurance Engagements (SASAE) 3502, Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification Certificates | Issued in June 2016 and withdrawn on 31 December 2016. |
| IRBA Staff Audit Practice Alert: The Audit Implications of the Expected Credit Loss Model for the Auditors of Banks | Issued in September 2016. |
| IRBA Staff Audit Practice Alert: Determining Other Information as Defined in ISA 720 (Revised) in the South African Context | Issued in April 2017. |
| International Standards | |
| Comment on International Consultation Papers and Exposure Drafts and Engagement with International Stakeholders | |
| IAASB Invitation to Comment, Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits | Comment letter submitted to the IAASB in May 2016. |
| IAASB Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting | Comment letter submitted to the IAASB in March 2017. |
| IAASB Consultation, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics | Comment letter submitted to the IAASB in March 2017. |
| IAASB Discussion Paper, Exploring the Demand for Agreed-Upon Procedure Engagements and Other Services, and the Implications for the IAASB's International Standards | Comment letter submitted to the IAASB in March 2017. |
| Consider and Adopt New and Revised IAASB Standards Issued | |
| Adoption and prescribing of the IAASB 2016-2017 | Board Notice 17 of 2017 included in Government Gazette 40660 of 3 March 2017, titled "The Adoption of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements in terms of the Auditing Profession Act, 26 of 2005 (the Act)". |
| Handbooks Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2016-2017 Edition Volume II. Supplements to the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2016-2017 Edition Volume III. | Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2016-2017 Edition Volume I. |

| Jurisdictional, Legislative and Regulatory Requirements | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| Illustrative South African Reserve (SARB) Bank Banks Act regulatory auditor's reports on the Banks Act Returns: <ul style="list-style-type: none"> ● Illustrative regulatory reports A-H ● Illustrative regulatory reports I-J | Reports issued in July 2016. |
| Revised illustrative Council for Medical Schemes reports: <ul style="list-style-type: none"> ● ISA 700 (Revised) auditor report template: Report on the Financial Statements ● ISA 800 (Revised) and ISRE 2410 auditor report template: Report on Parts 4 to 10 of the Annual Statutory Return ● ISAE 3000 (Revised) auditor report template: Assurance Report on Compliance with Sections 36(5) and 36(8) of the Act ● ISA 810 (Revised) auditor report template: Report on the Summary Financial Statements | Reports issued in August 2016. |
| Section B.2(l)(xiii) of the Currency and Exchanges Manual for Authorised Dealers: Illustrative auditor's limited assurance report on the Macro-Prudential Foreign Exposure Limit Return | Reports issued in September 2016. |
| Illustrative Annual Stockbroker's Audit Reports Submitted to the JSE Limited in terms of the Financial Markets Act and JSE Directive DG 1.7: <ul style="list-style-type: none"> ● Illustrative regulatory reports 2A, 2B and 3 ● Illustrative regulatory reports 4 and 5 | Reports issued in September 2016. |
| Revised illustrative South African Reserve (SARB) Bank Banks Act regulatory auditor's reports on the Banks Act Returns: <ul style="list-style-type: none"> ● Illustrative regulatory reports A-H | Reports issued in November 2016. |
| Revised Guide for Registered Auditors: Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports Required by the JSE Listings Requirements | Revised guide issued in March 2017. |
| Revised Guide for Registered Auditors: Engagements on Attorneys Trust Accounts | Revised guide issued in March 2017. |

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 Services Board, 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



V Naicker

| Members | Number of Meetings Attended | Membership Status |
|-------------------|-----------------------------|-------------------------------|
| Mr V Naicker | 4 of 4 | Chairman |
| Mr S Davies | 3 of 4 | Deputy Chairman |
| Mr S Ball | 4 of 4 | Retired – 31 March 2017 |
| Mr J Beaumont | 1 of 2 | Resigned – 31 October 2016 |
| Ms L Ratsoma | 3 of 4 | Member |
| Mr J Schoeman | 4 of 4 | Retired – 31 March 2017 |
| Ms E Hamman | 2 of 4 | Member |
| Mr R Mahabeer | 1 of 4 | Member |
| Ms M Bezuidenhout | 1 of 4 | Member |
| Mr B Mbele | 2 of 3 | Resigned – 30 August 2016 |

It gives me pleasure to present this report on the strategic activities of the Committee for Auditor Ethics (CFAE) for the 2016/2017 financial year.

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

The CFAE focused its activities during the year on the implementation of the Code, and on ongoing updates to address emerging needs aligned with maintaining auditor independence.

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 four-pillar strategy encompasses:

- Advocating for the implementation of the 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 ethical issues and developing guidance for auditors.

Public Interest Entities Task Group

The Public Interest Entities (PIE) Task Group considered queries received on the South African definition of PIE in the IRBA Code of Professional Conduct. It also released frequently asked questions relating to the PIE definition and clarification between PIE and the Public Interest Score calculation in the South African Companies Act 2008, (Act 71 of 2008).

Non-compliance with Laws and Regulations (NOCLAR)

The Non-compliance with Laws and Regulation Task Group considered the final amendment made to the IESBA Code and recommended these amendments to the IRBA Board for adoption. The changes in the pronouncement enhance the independence provisions in the IRBA Code.

Custody of Client Assets

The Custody of Client Assets Task Group is considering 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. It also meets annually with other national standard-setters, under the auspices of the IESBA.

Comment Letters Provided on International Pronouncements

Comment letters were submitted during the year on the following:

- The IESBA exposure draft on Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1; and
- The IESBA limited re-exposure draft on proposed changes to certain provisions of the Code Addressing Long Association of a Personnel with Audit and Assurance Clients.

Advocacy

The CFAE has also made progress in implementing its personal engagement, via the leadership team of the IRBA, with auditors and practitioners as part of its advocacy work. These sessions have been invaluable in that they have allowed auditors and practitioners to engage directly with the regulator and provide insights into issues currently being considered by the CFAE.

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 especially thank the retiring members, Steve Ball and Jacob Schoeman, who have been with the CFAE for the past six years, for their invaluable support and commitment to the work of the committee.

V Naicker

Chairman

Inspections Committee



G Joubert

| Members | Number of Meetings Attended | Membership Status |
|-------------------|-----------------------------|-----------------------------|
| Mr G Joubert | 4 of 4 | Chairman |
| Prof M van Staden | 4 of 4 | Resigned – 31 March 2017 |
| Ms L du Plessis | 4 of 4 | Member |
| Ms E Nyandoro | 4 of 4 | Member |
| Ms A Baijnath | 0 of 4 | Resigned – 31 March 2017 |
| Mr Z Rashid | 4 of 4 | Appointed – 1 April 2016 |

It gives me great pleasure to report on the Inspections Committee's current and strategic activities for the 2016/2017 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 the Inspections Committee, which is responsible for determining the final outcome of an inspection.

All members of the Inspections 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 Inspections 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 investigations process.

The Inspections Committee may also grant a conditional result, at its members' discretion. Attached to the conditional result are requirements that the firm and/or the engagement partner is required to implement. These are followed up on and may result in the Inspections Committee converting its decision to a satisfactory or an unsatisfactory outcome, depending on evidence presented on actions taken.

Focus During the 2016/2017 Financial Year

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

Following the risk-based approach, inspections during the period focused on assurance engagements with higher public interest exposure, such as assurance work performed for listed entities, entities deemed to be Public Interest Entities (PIE) and state-owned companies (SOC). This resulted in fewer inspections during the period, but with a broader scope to address potential risks.

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, 23 (2016: 20) firm inspections were reported to the Inspections Committee, and out of those, 17 (74%) were satisfactory and six (26%) received an unsatisfactory outcome. Eighteen of these inspections were re-inspections, following the Remedial Action Process, and 15 of them received a satisfactory outcome.

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, 197 (2016: 237) engagement inspections were reported to the Inspections Committee. Of these, 96 (49%) received a satisfactory outcome and 89 (45%) were unsatisfactory. Twelve (6%) inspections reported to the Inspections Committee were referred to the IRBA's Investigating Committee for further investigation. Fifty-eight of these inspections were re-inspections, following the Remedial Action Process, and 40 of them received a satisfactory outcome.

The decreased number of inspections during the period is a result of the Inspections teams' 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 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 the auditors. We encourage auditors to fully engage in the remediation process to not only improve their outcome during a re-inspection but to achieve the common goal of better audit quality across all engagements.

Looking Forward to 2017/2018

Upcoming inspections for the next financial year will be during the implementation phase of the revised auditor reporting standards by auditors. We expect these revisions to significantly enhance the value of the auditor's report for investors and users. Significant accounting developments, such as International Financial Reporting Standard (IFRS) 15,

Revenue from contracts with customers, and IFRS 9, Financial Instruments, are effective for years beginning on or after 1 January 2018.

Communicating Findings

The IRBA published its second Public Inspections Report during March 2017. The report highlights common firm and engagement file inspection findings and themes reported to the Inspections Committee during the 2015/2016 financial year. Feedback on the remediation process is also included in the report, which is available on the IRBA website. I encourage auditors to study the report and use it as a tool 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 findings and outcomes. I also request audit firms and engagement partners to share these results with audit committee members.

Appreciation

I wish to extend my sincere appreciation to the Inspections Department staff for their commitment to the monitoring of auditors in serving the financial interest of the public. I am grateful to the Inspections 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.

My term as chairman of the Inspections Committee will come to an end during the next financial year. I wish the committee members all the best in delivering on the mandate of the Inspections Committee in future. I encourage RAs to continuously make sustainable high audit quality a priority and to support the IRBA's drive to continue to deliver on its mandate to the best of its ability, not only in pursuit of protecting the public's financial interests, but also in protecting the integrity and reputation of our profession.

G Joubert
Chairman

Investigating Committee



S Masuku

| 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 |
| Mr D Mostert | 2 of 4 | Resigned – 13 December 2016 |
| Mr U Shäckermann | 1 of 1 | Resigned – 12 May 2016 |
| Ms K Govender | 4 of 5 | Member* |
| Ms B Ligault-Böhm | 3 of 3 | Resigned – 14 October 2016 |
| Mr A Ndurunduru | 5 of 5 | Member* |
| Mr B Maasdorp | 5 of 5 | Member* |
| Ms C Schoeman | 2 of 3 | Member** |
| Mr R McKaiser | 2 of 3 | Member** |

*Appointed 29 February 2016

**Appointed 23 August 2016

It gives me pleasure to report on the Investigating Committee's (INVESCO) activities for the 2016/2017 financial year. The committee comprises chartered accountants, attorneys and members with MBA 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 a member of the public or are matters referred by a court or other regulator. Internally originated complaints are raised by the IRBA itself, 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.

Year Under Review

During the year under review, 165 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.

Eighty-four (84) matters were finalised after case files had been opened but before the matters were tabled before INVESCO, usually after a resolution with the assistance of the Directorate. The majority of these matters related to registered auditors failing to submit to the IRBA their assurance work declarations despite reminders having been sent to them.

Investigations Concluded

The committee met five times during the year under review and 92 matters were referred to the Disciplinary Advisory Committee (DAC) with recommendations.

Appreciation

I would like to express my appreciation and also commend my fellow committee members for their dedication and professional input, and thank them for their support over the past year.

My sincere gratitude goes to the Director Investigations and the staff in the department. 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



AC Dodson

| Members | Number of Sessions Attended |
|------------------------------|-----------------------------|
| AC Dodson SC (Chairman) | 0* |
| IV Maleka SC (Vice-Chairman) | 2 (as chairman) |
| JMA Cane SC (Vice-Chairman) | 4 (2 as chairman) |
| A Moosa | 4 |
| H Griffiths | 4 |
| LX Pierce | 0 |
| CR Qually | 0 |
| N Russouw | 2 |
| R van Wyk | 4 |
| N Muvangua | 2 |
| S Sooklal | 2 |

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 were Messrs H Griffiths, S Sooklal and N Russouw. The non-auditor members were two lawyers, Adv GN Muvangua and Mr LX Pierce, and three chartered accountants, Ms R van Wyk, Mr A Moosa and Mr C Qually.

The committee dealt with four matters during the period under review, and all of them were finalised within the year. These cases appear below.

**A disciplinary hearing must be chaired by a senior counsel. This could be the chairman or either of the vice chairmen who rotate (as do the members of the tribunal), according to availability and, possibly, conflict. A hearing can also extend over more than one session.*

First Matter

On 7 June 2016, the committee postponed the matter of Mr BN. A month prior to the hearing, the practitioner resigned from the IRBA. Although the IRBA is not precluded from continuing with a disciplinary hearing, albeit the practitioner having resigned, the committee decided not to proceed on the merits but rather to postpone the hearing sine die. However, the committee ordered that should the practitioner re-apply for re-registration with the IRBA at any stage, the case will be re-enrolled for a hearing.

Second Matter – On 7 and 8 June 2016 the committee finalised the matter of Mr TM.

| Charges | Plea | Outcome |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------|
| Charge One Failure to comply with the Code; failure to comply with an order of the IRBA; failure to pay monies due to the IRBA; and bringing the profession into disrepute (rules 2.6; 2.13; 2.15 and 2.17 of the Rules Regarding Improper Conduct). | Pleaded not guilty | Guilty |
| Charge Two Failure to comply with the Code; failure to respond to correspondence from the IRBA; and bringing the profession into disrepute (rules 2.6; 2.12 and 2.17 of the Rules Regarding Improper Conduct). | Pleaded not guilty | Guilty |
| Charge Three Failure to comply with the Code; failure to respond, within a reasonable timeframe, to correspondence from the IRBA; failure to comply with a requirement of the IRBA; and bringing the profession into disrepute (rules 2.6; 2.12; 2.13 and 2.17 of the Rules Regarding Improper Conduct). | Pleaded not guilty | Guilty |

Disciplinary Committee *(continued)*

Second Matter – On 7 and 8 June 2016 the committee finalised the matter of Mr TM.

| Charges | Plea | Outcome |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------|
| <p>Charge Four</p> <p>Failure to comply with the Code; failure to respond, within a reasonable timeframe, to correspondence from the IRBA; failure to comply with a requirement of the IRBA; and bringing the profession into disrepute (rules 2.6; 2.12; 2.13 and 2.17 of the Rules regarding Improper Conduct).</p> | Pleaded not guilty | Guilty |
| <p>Sanction</p> <p>In respect of the sanction, the committee ordered the immediate cancellation of the practitioner's registration and removal of his name from the register.</p> <p>In addition, the committee directed that a fair summary of the charges, the findings and sentence imposed, without the name of the practitioner or the name of his firm, be published in <i>IRBA News</i>.</p> | | |

Third Matter – On 9 March 2017 the committee heard the matter of Mr GS.

| Charges | Plea | Outcome |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------|
| <p>Charge One</p> <p>Negligence and bringing the profession into disrepute (rules 2.5; 2.6; 2.7 and 2.17 of the Rules Regarding Improper Conduct).</p> | Pleaded guilty | Guilty |
| <p>Charge Two</p> <p>Negligence and bringing the profession into disrepute (rules 2.5; 2.6; 2.7 and 2.17 of the Rules Regarding Improper Conduct).</p> | Pleaded guilty | Guilty |
| <p>Charge Three</p> <p>Negligence and bringing the profession into disrepute (rules 2.5; 2.6; 2.7 and 2.17 of the Rules Regarding Improper Conduct).</p> | Pleaded guilty | Guilty |

Third Matter – On 9 March 2017 the committee heard the matter of Mr GS.

| Charges | Plea | Outcome |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------|
| <p>Charge Four</p> <p>Negligence and bringing the profession into disrepute (rules 2.5; 2.6; 2.7 and 2.17 of the Rules Regarding Improper Conduct).</p> | Pleaded guilty | Guilty |
| <p>Charge Five</p> <p>Negligence and bringing the profession into disrepute (rules 2.5; 2.6; 2.7 and 2.17 of the Rules Regarding Improper Conduct).</p> | Pleaded guilty | Guilty |
| <p>Charge Six</p> <p>Negligence and bringing the profession into disrepute (rules 2.5; 2.6; 2.7 and 2.17 of the Rules Regarding Improper Conduct).</p> | Pleaded guilty | Guilty |
| <p>Charge Seven</p> <p>Failure to comply with S45 of the Auditing Profession Act; failure to comply with the Code; and bringing the profession into disrepute (rules 2.1; 2.6 and 2.17 of the Rules Regarding Improper Conduct).</p> | Pleaded guilty | Guilty |
| <p>Sanction</p> <p>The practitioner was fined a total of R300 000 in respect of all seven charges, R150 000 thereof was suspended for five years on condition that the practitioner is not found guilty of any offence relating to work done, pertaining to professional services, during the period of suspension.</p> <p>The committee ordered the practitioner to contribute a sum of R150 000 towards the IRBA's costs.</p> <p>In respect of publication, the committee ordered the IRBA to publish, in <i>IRBA News</i>, a summary of the facts of the case, the plea and sanction, excluding the practitioner's name and that of his firm.</p> | | |

| Fourth Matter – On 9 March 2017 the committee heard and finalised the matter of Mr JV. | | |
|---------------------------------------------------------------------------------------------------|----------------|----------------|
| Charges | Plea | Outcome |
| Charge One Failure to comply with the Code (Rule 2.1.20 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Two Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Three Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Four Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Five Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Six Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Seven Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Eight Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Nine Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |
| Charge Ten Negligence (Rule 2.1.5 of the old Disciplinary Rules). | Pleaded guilty | Guilty |

Sanction

The practitioner was fined a total of R500 000 in respect of all 10 charges.

The committee ordered that the imposition of the fines be postponed until such time as the practitioner is re-registered with the IRBA and the payment of the fines shall be a condition for such re-registration, if and to the extent that re-registration is sought and permitted.

In respect of costs, the practitioner was ordered to contribute R50 000 towards the IRBA's costs.

The respondent's dire financial state of affairs, and that he was no longer practising as a registered auditor, were some of the factors taken into account during sentencing.

The committee ordered the IRBA to publish, in *IRBA News*, a summary of the facts of the case, the plea and sanction, excluding the name of the practitioner and that of his erstwhile firm.

Indaba

On 27 January 2017, the Legal Department hosted an indaba with the committee and the IRBA's legal advisors to examine the IRBA's disciplinary processes and address certain challenges experienced in the execution of its statutory duties. At the meeting there was robust discussion on the various issues addressed, and some of the issues that had previously vexed the secretariat have now been clarified. We thank all attendees for actively participating and for their valuable contribution at the indaba.

Appreciation

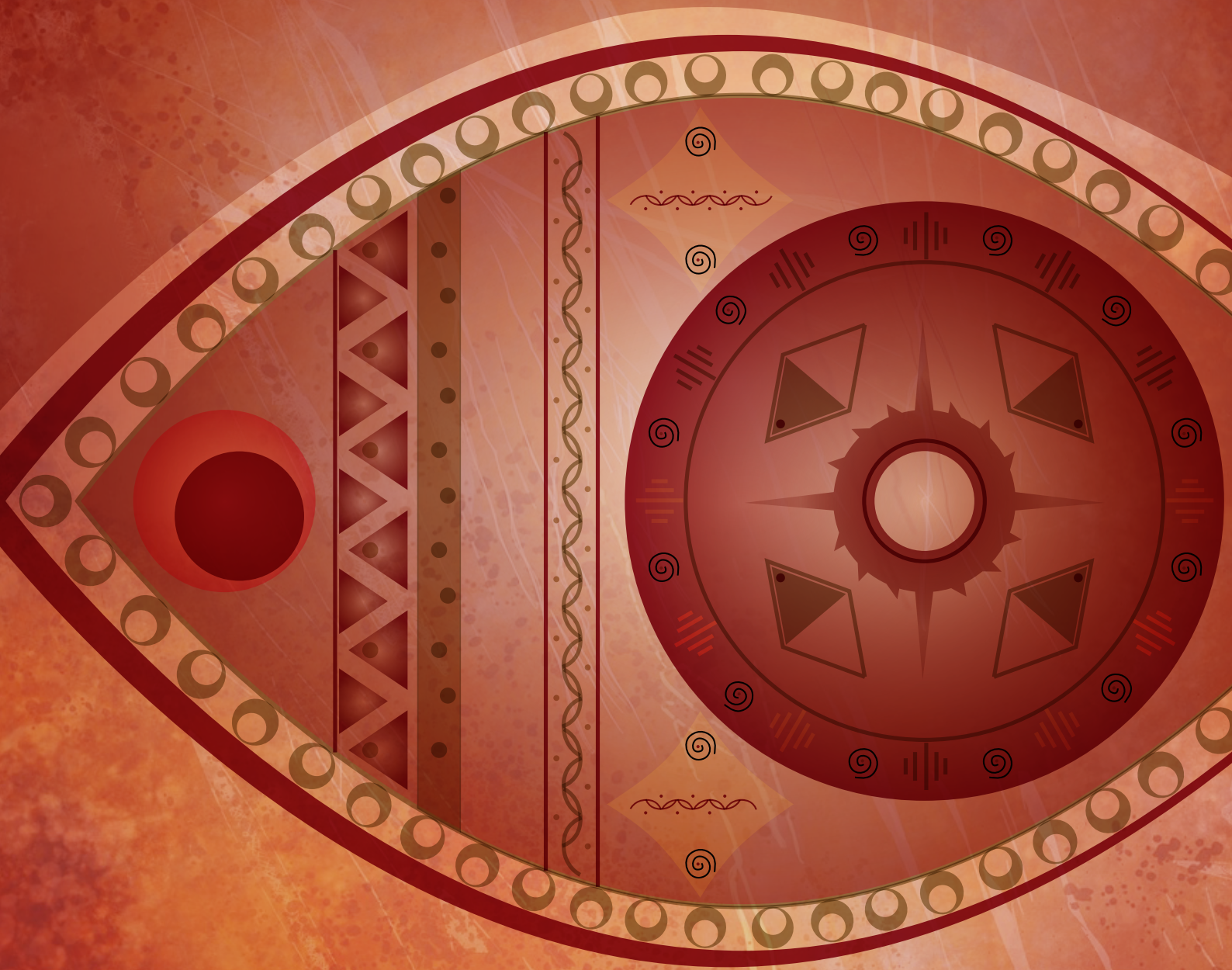
On behalf of the committee, I express my gratitude to the Director and her department for the efficient and effective manner in which the proceedings of the committee are administered and supported.

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, 2005.

Audit and Risk Management Committee Report

We are pleased to present the report for the financial year ended 31 March 2017.

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 advisory 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 five 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 III 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 III 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.

Report of the Audit and Risk Management Committee (ARMCO) *(continued)*

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 III Report on Corporate Governance.

Quarterly Report

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 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.
- Concurred and accepted the Auditor-General's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be made transparent to relevant stakeholders regarding ICT performance and plans.
- Ensured that its procedures and processes are compliant with the recommendations in the King III Report on Corporate Governance.

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

The committee is satisfied that the internal audit function is operating effectively and that its internal audit procedures have addressed the risks pertinent to the IRBA.

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

- Supply Chain Management;
- Performance objectives review;
- Internal financial controls;
- 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 Board 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 on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Independent Regulatory Board for Auditors (IRBA) set out on pages 58-81, which comprise the statement of financial position as at 31 March 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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 2017 and its financial performance and cash flows for the year then ended in accordance with South Africa 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 my 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 82 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 thereon.

Responsibilities of the accounting authority for the financial statements

8. 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 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 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 the 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 IRBA's approved performance planning documents. 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 2017.

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

| Strategic focus areas | Pages in the annual performance report |
|-------------------------------------------------------|----------------------------------------|
| Strategic focus area 1: Auditing and Ethics standards | 20 |
| Strategic focus area 2: Education and Transformation | 21 |
| Strategic focus area 3: Inspections | 21 |
| Strategic focus area 4: Investigations | 22 |

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 selected strategic focus areas.

Other matters

17. I draw attention to the matters below.

Achievement of planned targets

18. Refer to the annual performance report on pages 20-22 for information on the achievement of planned targets for the year and explanations provided for the overachievement of a number of targets.

Adjustment of an understatement

19. I identified an understatement in the annual performance report submitted for auditing. This understatement was on the reported performance information of strategic focus area 2: Education and Transformation. Management had inadvertently reported that it had partially achieved the performance target, but the performance target was actually achieved 100% as per the measurable objective. As management subsequently corrected the understatement, which was not as a result of a breakdown in controls, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

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

identify findings but not to gather evidence to express assurance.

21. I did not identify any instances of material non-compliance with selected specific matters in key legislation, as set out in the general notice in terms of the PAA.

Other information

22. 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 chairman's foreword and the chief executive officer's overview. The other information does not include the financial statements, the auditor's report thereon and those selected strategic focus areas presented in the annual performance report that have been specifically reported on in the auditor's report.
23. 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.
24. 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 strategic focus areas 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

25. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. I did not identify any significant deficiencies in internal control.

Auditor General

Pretoria

31 July 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 the 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 IRBA’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
 - conclude on the appropriateness of the board of directors, 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 relating to events or conditions that may cast significant doubt on 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 the auditor’s report. However, future events or conditions may cause IRBA to cease operating 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 | PAGE |
|-----------------------------------------------------------------------------------------------------------------|-------------|
| Accounting Authority's Responsibilities and Approval | 59 |
| Report of the Accounting Authority | 60 |
| Statement of Financial Position | 63 |
| Statement of Financial Performance | 64 |
| Statement of Changes in Net Assets | 65 |
| Cash Flow Statement | 66 |
| Statement of Comparison of Budget and Actual Amounts | 67 |
| Accounting Policies | 68 |
| Notes to the Annual Financial Statements | 74 |
| The following supplementary information does not form part of the annual financial statements and is unaudited: | |
| Detailed Income Statement | 82 |

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 judgments 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 2018 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 55-57.

The annual financial statements set out on pages 58-82, which have been prepared on the going concern basis, were approved by the accounting authority on 27 July 2017 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 2017.

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 2017, 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, examination and training contract fees. This revenue increased to R31.8 million from R27.3 million. Income from training contracts increased to R8.1 million from R6.6 million as 398 more training contracts were registered. The annual license fees payable by Registered Auditors increased to R20.5 million from R17.8 million due to a 22% increase that became necessary in order to budget for a breakeven after funding from National Treasury was reduced.

Revenue from non-exchange transactions

During the year under review, the IRBA received government grants amounting to R29.0 million (2016: R30.0 million). 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 R31.0 million from R25.7 million primarily due to the increase in high-risk assurance work fees declared by audit firms.

3.2 Expenses

Operating expenses increased to R103.1 million from R95.5 million, representing an increase of 8%. The main reason was 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 21.43% due to most vacant positions being filled. Salaries increased by an average of 7.14%; including a structural adjustment of 0.13% required to offer more market-related salaries to employees.

Other movements are:

- Disciplinary and investigation expenses were reduced by R1.7 million as more internal resources were used to investigate complaints.
- Committee expenses were reduced by R1.1 million as less disciplinary hearings took place.

3.3 Assets

The procurement of assets was limited to the replacement of computers and a vehicle. 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 year-end.

The cash balance decreased to R30.4 million from R33.2 million; and R18.5 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 R2.3 million, accruals of R2.3 million and an accrual for leave pay of R1.6 million.

3.5 Deficit

The IRBA had a budgeted deficit of R13.2 million, with an actual deficit of R4.4 million (2016: Deficit R3.2 million). The deficit reduction arose mainly from the saving of costs and additional income. Due to the scarcity of suitable candidates, vacancies could not be filled in time, resulting in a saving of R0.6 million against the budget. The registration of more training contracts than budgeted for also contributed to the lower deficit for the year. After transfers to the reserves, the accumulated surplus decreased by R5.5 million to R16.7 million.

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.

An Education Fund was established to fund educational and training activities in support of previously disadvantaged persons who want to become Registered Auditors. The Education Fund was depleted by 2015/2016 and further related activities are accounted for in the normal operating activities of the IRBA.

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 R13.2 million. National Treasury approved that the IRBA can retain its accumulated surplus of R22.1 million as at 31 March 2016 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 Comparisons of Budget and Actual Amounts.

Report of the Accounting Authority *(continued)*

4. Accounting Authority

| | Term ended | Term extended | New Board Members' term |
|-----------------------------|--------------------------------|----------------------|--------------------------------|
| R Kenosi (Chairman) | April 13 – April 17 | | |
| ZL Fihlani | April 15 – Resigned August 16 | | |
| L Keech | April 15 – April 17 | | |
| AL Mazibuko | April 15 – April 17 | | |
| NL Noxaka | April 15 – Resigned October 16 | | |
| Prof A van der Watt | April 13 – Resigned August 16 | | |
| A Dlamini (Deputy Chairman) | | April 15 – April 19 | |
| T Pillay | | April 15 – April 19 | |
| J Lesejane | | | December 16 – November 18 |
| M More | | | December 16 – November 18 |
| NT Mashile | | | May 17 – April 19 |
| MI Motala | | | May 17 – April 19 |
| MA Petros | | | May 17 – April 19 |
| MJ Janse van Rensburg | | | May 17 – April 19 |
| Z Ntsalaze | | | May 17 – April 19 |

5. Ministerial Representative

M Sass resigned from National Treasury in September 2015 and the person in the position of the Accountant General position 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 2017

| Figures in Rand | Notes | 2017 | 2016 |
|-----------------------------------------------------|-------|-------------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | | 156 850 | 192 483 |
| Loans receivable | 6 | 371 134 | 258 090 |
| Receivables from exchange transactions | 7 | 1 343 671 | 1 650 118 |
| Receivables from non-exchange transactions | 8 | 3 606 580 | 2 246 627 |
| Cash and cash equivalents | 9 | 30 416 846 | 33 236 369 |
| | | 35 895 081 | 37 583 687 |
| Non-Current Assets | | | |
| Plant and equipment | 3 | 3 282 099 | 3 749 447 |
| Intangible assets | 4 | 2 099 427 | 2 328 994 |
| | | 5 381 526 | 6 078 441 |
| Operating lease asset | | 71 627 | 70 368 |
| Restricted cash | 5 | 10 000 000 | 10 000 000 |
| | | 15 453 153 | 16 148 809 |
| Total Assets | | 51 348 234 | 53 732 496 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and other payables from exchange transactions | 10 | 6 172 879 | 4 146 202 |
| Total Liabilities | | 6 172 879 | 4 146 202 |
| Reserves | | 28 505 319 | 27 443 029 |
| Accumulated surplus | | 16 670 036 | 22 143 265 |
| Total Net Assets | | 45 175 355 | 49 586 294 |
| Total Net Assets and Liabilities | | 51 348 234 | 53 732 496 |

Statement of Financial Performance

for the year ended 31 March 2017

| Figures in Rand | Notes | 2017 | 2016 |
|-----------------------------|-------|--------------------|--------------------|
| Revenue | 12 | 94 808 751 | 88 861 442 |
| Operating expenses | | (103 138 646) | (95 494 271) |
| Operating deficit | 13 | (8 329 895) | (6 632 829) |
| Investment revenue | | 3 918 956 | 3 464 319 |
| Deficit for the year | | (4 410 939) | (3 168 510) |

Statement of Changes in Net Assets

for the year ended 31 March 2017

| Figures in Rand | Trust Fund | Education Fund | Contingency Fund – Disciplinary Cases | Contingency Fund – Operations | Total Reserves | Accumulated Surplus | Total Net Assets |
|--------------------------------------------------|-------------------|------------------|---------------------------------------|-------------------------------|-------------------|---------------------|--------------------|
| Balance at 01 April 2015 | 10 000 000 | 915 632 | 10 923 699 | 5 735 932 | 27 575 263 | 25 179 541 | 52 754 804 |
| Changes in net assets | | | | | | | |
| Deficit for the year | - | - | - | - | - | (3 168 510) | (3 168 510) |
| Transfer to contingency fund: Disciplinary cases | - | - | 132 507 | - | 132 507 | (132 507) | - |
| Transfer to contingency fund: Operational | - | - | - | 650 891 | 650 891 | (650 891) | - |
| Transfer from education fund | - | (915 632) | - | - | (915 632) | 915 632 | - |
| Total changes | - | (915 632) | 132 507 | 650 891 | (132 234) | (3 036 276) | (3 168 510) |
| 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 31 March 2017 | 10 000 000 | - | 12 610 598 | 5 894 721 | 28 505 319 | 16 670 036 | 45 175 355 |

Cash Flow Statement

for the year ended 31 March 2017

| Figures in Rand | Notes | 2017 | 2016 |
|----------------------------------------------------------|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Cash receipts from registered auditors and other sources | | 93 911 166 | 89 429 954 |
| Interest income | | 3 918 956 | 3 464 319 |
| | | 97 830 122 | 92 894 273 |
| Payments | | | |
| Cash paid to suppliers and employees | | (99 478 836) | (96 152 596) |
| Net cash flows utilised by operating activities | 16 | (1 648 714) | (3 258 323) |
| Cash flows from investing activities | | | |
| Purchase of plant and equipment | 3 | (973 335) | (1 181 763) |
| Proceeds from sale of plant and equipment | 3 | 74 169 | - |
| Purchase of other intangible assets | 4 | (158 599) | (351 256) |
| Net cash flows utilised by investing activities | | (1 057 765) | (1 533 019) |
| Cash flows from financing activities | | | |
| Movement in loans receivable | | (113 044) | (64 360) |
| Net decrease in cash and cash equivalents | | (2 819 523) | (4 855 702) |
| Cash and cash equivalents at the beginning of the year | | 33 236 369 | 38 092 071 |
| Cash and cash equivalents at the end of the year | 9 | 30 416 846 | 33 236 369 |

Statement of Comparison of Budget and Actual Amounts

for the year ended 31 March 2017

| 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 | 31 729 905 | 31 819 722 | 89 817 |
| Other income | 69 504 | 207 758 | 138 254 |
| Interest received | 1 956 250 | 3 918 956 | 1 962 706 |
| Total revenue from exchange transactions | 33 755 659 | 35 946 436 | 2 190 777 |
| Revenue from non-exchange transactions | | | |
| Government grant | 28 978 000 | 28 978 000 | - |
| Revenue from regulatory functions | 34 860 998 | 33 803 271 | (1 057 727) |
| Total revenue from non-exchange transactions | 63 838 998 | 62 781 271 | (1 057 727) |
| Total revenue | 97 594 657 | 98 727 707 | 1 133 050 |
| Expenditure | | | |
| Personnel | (73 733 574) | (73 107 338) | 626 236 |
| Depreciation and amortisation | (2 165 812) | (1 750 961) | 414 851 |
| Lease of building | (5 348 064) | (5 348 066) | (2) |
| Debt impairment | - | 66 116 | 66 116 |
| Committee expenses | (2 404 301) | (1 515 933) | 888 368 |
| General expenses | (10 084 835) | (7 859 277) | 2 225 558 |
| Direct expenses | (8 789 670) | (6 526 244) | 2 263 426 |
| Departmental expenses | (8 273 001) | (7 096 943) | 1 176 058 |
| Total expenditure | (110 799 257) | (103 138 646) | 7 660 611 |
| Actual Deficit on Comparable Basis as Presented in the Budget and Actual Comparative Statement | (13 204 600) | (4 410 939) | 8 793 661 |
| Approved accumulated reserves to be retained | 13 204 600 | 4 410 939 | (8 793 661) |
| | - | - | - |

Accounting Policies

for the year ended 31 March 2017

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 judgments 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 judgment 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 judgments 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 judgments 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 judgment 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.

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 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 as 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 assets is included in surplus or deficit when the asset is derecognised.

Accounting Policies *(continued)*

for the year ended 31 March 2017

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 entity.

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 entity.

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 an entity 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 entity 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. |

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- The contractual rights to the cash flows from the financial asset expire, are settled or waived;
- The entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- The entity, 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 entity:
 - Derecognises the asset; and
 - Recognises separately any rights and obligations created or retained in the transfer.

Financial liabilities

The entity 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 entity in exchange for services rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- An entity'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.

Accounting Policies *(continued)*

for the year ended 31 March 2017

1.8 Revenue from exchange transactions

An exchange transaction is one in which the entity 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 entity 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.”

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 for the education expenses 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.

Education Fund

This fund was established to fund educational and training activities in support of previously disadvantaged persons who want to become Registered Auditors. Any surplus or deficit arising out of these activities is transferred to or out of this fund at the end of each reporting period. This fund has been depleted as at the end of March 2016 and future related activities are included in operating costs.

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 2017

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 its accounting periods beginning on or after 01 April 2017:

| 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 of the amendment is not material. |
| • GRAP 108: Statutory Receivables | No effective date has been determined by the Minister of Finance. | The impact of the amendment is not material. |

3. Plant and equipment

| | 2017 | | | 2016 | | |
|------------------------|-------------------|--------------------------|------------------|-------------------|--------------------------|------------------|
| | Cost | Accumulated depreciation | Carrying value | Cost | Accumulated depreciation | Carrying value |
| Furniture and fixtures | 2 909 803 | (2 336 283) | 573 520 | 2 896 858 | (2 210 129) | 686 730 |
| Motor vehicles | 511 129 | (169 326) | 341 803 | 195 345 | (143 307) | 52 037 |
| Computer equipment | 5 305 619 | (3 567 687) | 1 737 932 | 5 311 460 | (3 401 258) | 1 910 202 |
| Leasehold improvements | 5 348 639 | (4 719 795) | 628 844 | 5 348 639 | (4 248 161) | 1 100 478 |
| Total | 14 075 190 | (10 793 091) | 3 282 099 | 13 752 302 | (10 002 855) | 3 749 447 |

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 |

Reconciliation of plant and equipment – 2016

| | Opening balance | Additions | Disposals | Depreciation/ changes in accounting estimate | Total |
|------------------------|------------------|------------------|-----------------|-------------------------------------------------------|------------------|
| Furniture and fixtures | 814 727 | 73 048 | (17 934) | (183 111) | 686 730 |
| Motor vehicles | 78 056 | - | - | (26 019) | 52 037 |
| Computer equipment | 2 100 133 | 661 902 | (12 296) | (839 537) | 1 910 202 |
| Leasehold improvements | 965 489 | 446 813 | - | (311 824) | 1 100 478 |
| | 3 958 405 | 1 181 763 | (30 230) | (1 360 491) | 3 749 447 |

Figures in Rand

4. Intangible assets

| Figures in Rand | 2017 | | | 2016 | | |
|----------------------------------------|-----------|--------------------------|----------------|-----------|--------------------------|----------------|
| | Cost | Accumulated amortisation | Carrying value | Cost | Accumulated amortisation | Carrying value |
| Computer software and development cost | 5 678 145 | (3 578 718) | 2 099 427 | 5 519 546 | (3 190 552) | 2 328 994 |

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 |

Reconciliation of intangible assets – 2016

| | Opening balance | Additions | Amortisation/ changes in accounting estimate | Total |
|----------------------------------------|-----------------|-----------|----------------------------------------------|-----------|
| Computer software and development cost | 2 348 180 | 351 256 | (370 442) | 2 328 994 |

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

| | 2017 | 2016 |
|--------------------------|----------------|----------------|
| At beginning of the year | 258 090 | 193 730 |
| Advances | 113 044 | 64 360 |
| | 371 134 | 258 090 |

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.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2017

| Figures in Rand | 2017 | 2016 |
|--------------------------------------------------|------------------|------------------|
| 7. Receivables from exchange transactions | | |
| Trade debtors | 959 810 | 1 475 380 |
| Prepaid expenses | 385 184 | 174 662 |
| Sundry – other | 11 772 | 13 663 |
| Less: Impairment provision | (13 095) | (13 587) |
| | 1 343 671 | 1 650 118 |

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 | 843 150 | 1 172 221 |
|------------------|---------|-----------|

Reconciliation of provision for impairment of trade and other receivables

| | | |
|--------------------------|-----------------|-----------------|
| Opening balance | (13 587) | (45 122) |
| Provision for impairment | 492 | 31 535 |
| | (13 095) | (13 587) |

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 | 4 812 680 | 4 715 816 |
| Firm fees debtors | 2 075 070 | 1 098 100 |
| Less: Impairment provision | (3 281 170) | (3 567 289) |
| | 3 606 580 | 2 246 627 |

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 | 1 843 648 | 1 075 920 |
|------------------|-----------|-----------|

Reconciliation of provision for impairment of receivables from non-exchange transactions

| | | |
|--------------------------|--------------------|--------------------|
| Opening balance | (3 567 289) | (1 221 186) |
| Provision for impairment | 286 119 | (2 346 103) |
| | (3 281 170) | (3 567 289) |

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.

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|-----------------------|-------------------|-------------------|
| Cash on hand | 1 637 | 2 361 |
| Bank balances | 29 530 433 | 32 349 232 |
| 12-Month Term Deposit | 884 776 | 884 776 |
| | 30 416 846 | 33 236 369 |

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, R12 610 598 (2016: R11 056 206); and Contingency Fund – Operational, R5 894 721 (2016: R6 386 823).

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 (2016: 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 | 2 286 235 | 1 628 525 |
| Accrued leave pay | 1 634 142 | 1 063 191 |
| Operating lease payables | 137 034 | 137 034 |
| Other accruals | 1 551 088 | 804 972 |
| Registration application fees | 564 380 | 512 480 |
| | 6 172 879 | 4 146 202 |

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 | 371 134 | 258 090 |
| Trade and other receivables from exchange transactions | 958 487 | 1 475 457 |
| Trade and other receivables from non-exchange transactions | 3 606 580 | 2 246 627 |
| Cash and cash equivalents | 30 416 846 | 33 236 368 |
| | 35 353 047 | 37 216 542 |

Financial liabilities at amortised cost

| | | |
|-----------------------------------------------------|------------------|------------------|
| Trade and other payables from exchange transactions | 6 172 879 | 4 146 202 |
|-----------------------------------------------------|------------------|------------------|

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2017

| Figures in Rand | 2017 | 2016 |
|----------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 12. Revenue | | |
| Government grants | 28 978 000 | 29 999 000 |
| Revenue from regulatory functions – exchange | 31 819 722 | 27 267 960 |
| Revenue from regulatory functions – non-exchange | 33 803 271 | 31 365 458 |
| Other income | 207 758 | 229 024 |
| | 94 808 751 | 88 861 442 |
| The amounts included in revenue from regulatory functions (exchange transactions) are as follows: | | |
| License fees | 20 557 040 | 17 831 261 |
| Monitoring fees | 507 780 | 461 620 |
| Proficiency test fees | 37 130 | 27 845 |
| Registration fees | 2 597 891 | 2 251 387 |
| Training programmes for registered auditors | - | 72 068 |
| Training contracts and levies | 8 119 881 | 6 623 779 |
| | 31 819 722 | 27 267 960 |
| The amounts included in revenue arising from regulatory functions (non-exchange transactions) are as follows: | | |
| Contributions to disciplinary and investigation expenses | 250 000 | 2 265 000 |
| Sanctions for improper conduct | 2 570 000 | 2 852 500 |
| Firm fees | 30 983 271 | 25 747 958 |
| DTI transfer | - | 500 000 |
| | 33 803 271 | 31 365 458 |
| 13. Operating deficit | | |
| Operating deficit for the year is stated after accounting for the following: | | |
| Operating lease charges | | |
| Building | | |
| • Lease rentals on operating lease | 5 348 066 | 4 997 340 |
| Net/(loss) gain on sale of plant and equipment | (3 718) | (30 230) |
| Amortisation of intangible assets | 388 166 | 370 442 |
| Depreciation on plant and equipment | 1 362 795 | 1 360 491 |
| Employee costs | 73 107 338 | 60 204 768 |
| 14. Bad debts | | |
| Bad debts | 220 494 | 55 295 |
| Contributions/(Reduction) to debt impairment provision | (286 610) | 2 314 568 |
| | (66 116) | 2 369 863 |

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

15. Auditors' remuneration

| | | |
|-----------------------------------|------------------|------------------|
| Auditors' remuneration – internal | 475 900 | 357 340 |
| Auditors' remuneration – external | 1 120 340 | 839 051 |
| | 1 596 240 | 1 196 391 |

The current year's external auditors' remuneration includes fees for the audit of the March 2017 year-end as the audit was started in March 2017 and not in May, as per previous years.

16. Cash used in operations

| | | |
|-----------------------------------------------------|--------------------|--------------------|
| Deficit | (4 410 939) | (3 168 510) |
| Adjustments for: | | |
| Depreciation and amortisation | 1 750 961 | 1 730 933 |
| Net loss on sale of assets | 3 718 | 30 230 |
| Debt impairment | (66 116) | 2 369 863 |
| Movements in operating lease | (1 259) | (70 368) |
| Changes in working capital: | | |
| Inventories | 35 633 | (33 510) |
| Receivables from exchange transactions | 306 447 | (14 012) |
| Impairment provision | 66 116 | (2 369 863) |
| Other receivables from non-exchange transactions | (1 359 953) | 497 877 |
| Trade and other payables from exchange transactions | 2 026 678 | (2 230 963) |
| | (1 648 714) | (3 258 323) |

17. Commitments

Authorised capital expenditure

Already contracted for but not provided for

- Intangible assets

Operating leases – as lessee (expense)

Minimum lease payments due

| | | |
|-------------------------------------|------------------|-------------------|
| – within one year | 5 363 177 | 5 349 324 |
| – in second to third year inclusive | 1 832 984 | 7 196 160 |
| | 7 196 161 | 12 545 484 |

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 R16 670 036, as disclosed in the financial statements for the year ended 31 March 2017.

19. Related parties

Relationships

Members of key management Refer to note 20 for the disclosure of Key Management's and Board Members' remuneration.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2017

Figures in Rand

20. Key Management's and Board Members' Remuneration

Key management 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 | 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 |

2016

| | Annual remuneration | Performance bonuses | Contributions to retirement fund | Telephone allowance | Total |
|------------------------------------------------------------------------|---------------------|---------------------|----------------------------------|---------------------|-------------------|
| BP Agulhas, CEO | 2 800 000 | 500 000 | 427 229 | 14 340 | 3 741 569 |
| L Katzin, Director: Education and Transformation (Resigned March 2016) | 1 600 519 | 49 030 | 233 288 | 10 860 | 1 893 697 |
| PJ O'Connor, Director: Legal | 1 455 002 | 66 030 | 293 728 | 10 860 | 1 825 620 |
| I Vanker, Director: Standards | 1 903 510 | 164 110 | 217 351 | 10 860 | 2 295 831 |
| WH de Jager, Director: Operations | 1 641 245 | 141 030 | 250 424 | 10 860 | 2 043 559 |
| I Nagy, Director: Inspections | 1 903 510 | 164 110 | 217 351 | 10 860 | 2 295 831 |
| J Bailey, Director: Investigations (Started November 2015) | 642 079 | - | 98 824 | 4 525 | 745 428 |
| | 11 945 865 | 1 084 310 | 1 738 195 | 73 165 | 14 841 535 |

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

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

20. Key Management's and Board Members' Remuneration *(continued)*

Board members' fees

| | | |
|---------------------|----------------|----------------|
| R Kenosi | 51 030 | 63 975 |
| A Dlamini | 64 900 | 45 555 |
| Prof A van der Watt | 30 560 | 78 719 |
| L Keech | - | 33 788 |
| T Pillay | 57 968 | 38 172 |
| NL Noxaka | 34 656 | 89 968 |
| AL Mazibuko | 69 632 | 29 007 |
| J Lesejane | 16 384 | - |
| | 325 130 | 379 184 |

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.

24. Irregular expenditure

| | | |
|-------------------------------------------|---|-----------|
| Add: Irregular Expenditure – current year | - | 443 346 |
| Less: Amounts condoned | - | (443 346) |
| | - | - |

Details of irregular expenditure – current year and condoned

| | | |
|---------------------------------------------|---|----------------|
| Non-compliance with the Supply Chain Policy | - | 443 346 |
|---------------------------------------------|---|----------------|

Disciplinary steps taken

A final written warning was issued, effective for 12 months.

Detailed Income statement

| Figures in Rand | Notes | 2017 | 2016 |
|--------------------------------------------------|-------|----------------------|---------------------|
| Revenue | | | |
| Government grants | | 28 978 000 | 29 999 000 |
| Interest received | | 3 918 956 | 3 464 319 |
| Other income | | 207 758 | 229 024 |
| Revenue from regulatory functions – exchange | | 31 819 722 | 27 267 960 |
| Revenue from regulatory functions – non-exchange | | 33 803 271 | 31 365 458 |
| | | 98 727 707 | 92 325 761 |
| Operating expenses | | | |
| Audit Development Programme assessments | | (13 744) | - |
| Auditors' remuneration | 15 | (1 596 240) | (1 196 391) |
| Bad debts | 14 | 66 116 | (2 369 863) |
| Building operating expenses | | (1 389 297) | (1 402 489) |
| Committee expenses | | (1 515 933) | (2 671 948) |
| Computer expenses | | (2 680 408) | (3 159 738) |
| Consulting and professional fees | | (167 912) | (771 907) |
| Depreciation, amortisation and impairments | | (1 750 961) | (1 730 933) |
| Disciplinary and investigation expenses | | (6 143 087) | (7 911 806) |
| Employee costs | | (73 107 338) | (60 204 768) |
| Insurance | | (240 994) | (237 707) |
| Lease of building | | (5 348 066) | (4 997 340) |
| Loss on disposal of assets | | (3 718) | (30 231) |
| Other expenses | | (1 480 645) | (1 810 784) |
| Placement fees | | (1 841 706) | (1 179 375) |
| Printing and stationery | | (403 154) | (424 019) |
| Proficiency tests | | (34 995) | (490 054) |
| Public relations | | (658 695) | (175 070) |
| Publications | | (134 413) | (263 377) |
| Raising Awareness and Branding | | (978 572) | (1 246 254) |
| Staff welfare | | (1 045 542) | (800 822) |
| Travel – local | | (1 189 004) | (1 364 730) |
| Travel – overseas | | (1 451 019) | (1 022 209) |
| Workman's compensation | | (29 319) | (32 456) |
| | | (103 138 646) | (95 494 271) |
| Deficit for the year | | (4 410 939) | (3 168 510) |

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



Physical address: Building 2, Greenstone Hill Office Park
Emerald Boulevard, Modderfontein, 1609

Postal address: PO Box 8237 Greenstone 1616

Internet: www.irba.co.za

Telephone: 087 940 8800

Fax: 087 940 8873/4/5/6/7/8

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