



2024

PUBLIC INSPECTIONS REPORT ON AUDIT QUALITY



ABOUT THIS REPORT

Regulatory Oversight

The Independent Regulatory Board for Auditors (IRBA) – established by the Auditing Profession Act 26 of 2005, as amended (APA) – is mandated to regulate all registered audit firms and individual registered auditors (registered auditors) in South Africa. The Act mandates the IRBA to perform inspections, meaning at any time it may inspect or review the practice of a registered auditor (RA). Furthermore, for these purposes, it may inspect and make copies of any information, including but not limited to any working papers, statements, correspondence, books or other documents in the RA's possession or under their control. In addition, the APA requires the IRBA to inspect/review the practice of a registered auditor that audits a public company, as defined in Section 1 of the Companies Act 71 of 2008, at least once every three years. Our regulatory oversight of RAs includes the inspection of completed audits of financial statements and quality management systems.

Inspections Scope

How Firms and Files are Selected for Inspection

The risk-based inspections approach is the cornerstone of the IRBA's inspections programme, in line with the International Forum of Independent Audit Regulators Core Principles. Accordingly, we continue to focus mostly on audits with a higher public interest exposure and the audit firms that audit public interest entities. That means, our inspections scope is not intended to select a representative sample of all firms, components of their systems of quality or all assurance work throughout the year. As such, the results cannot be extrapolated across the entire population.

Inspections Landscape

Our inspections landscape includes all registered audit firms and RAs that issue audit reports. As at end-March 2024, a total of 3 527 RAs were registered with the IRBA (2 703 assurance RAs and 824 non-assurance RAs).



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FOREWORD

I am honoured to present the Independent Regulatory Board for Auditors' (IRBA) 2024 Public Inspections Report on Audit Quality, which outlines our prominent inspections outcomes and themes for the year. It also reflects on the strides we have made in promoting audit quality across the South African auditing profession. This year marked a significant milestone, with the full implementation of the International Standards on Quality Management (ISQMs) – a critical step forward in reinforcing the robustness of firms' systems of quality.

The results of our inspections reflect a slight improvement in audit quality compared to previous years, indicating an increase in the number of files with positive outcomes. Furthermore, we have seen a reduction in the number of referrals to our Investigations Department at firm level. These positive trends are encouraging and highlight the audit firms' growing commitment to remediate deficiencies, strengthen their internal processes and proactively address risks. However, challenges remain and the continued focus on leadership's role in fostering a culture of quality is still vital.

The full adoption of the ISQMs has had a profound impact on the profession and raised the bar for quality management by putting an emphasis on the importance of leadership and culture in driving audit quality. In fact, to paraphrase paragraph 28(a) of ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, the firm's culture is expected to emphasise the importance of quality in the firm's system of quality management and recognise the importance of the public interest in the performance of engagements. This underscores the responsibility of leadership to set a tone at the top that prioritises ethics, professional scepticism and quality in every aspect of the firm's operations.

Throughout the year, we also continued with proactive initiatives to support audit firms in their remediation efforts. Our goal, which is to enhance the quality of audits, protect the public interest and contribute to a resilient economy that can support the people of South Africa, remains clear. Collaboration with key stakeholders, including audit committees, regulatory bodies and the firms themselves, has been critical to these efforts; and I encourage all stakeholders to remain actively engaged on this journey.

This report provides insights not only for auditors, but also for audit committees, investors and the broader financial community. I urge you to use it as a valuable resource to inform your decisions, strengthen audit processes and, for auditors, to learn from the observations and themes identified. Audit committees, in particular, should take the opportunity to ask pertinent questions and hold firms accountable for delivering high-quality audits that meet the expectations of the public and safeguard financial integrity.

As we look ahead, I remain confident that through continued collaboration and a shared commitment to quality, we can further strengthen the South African auditing profession and its role in supporting economic growth and public trust.

Ntlambi Gulwa
Director Inspections

1. OVERVIEW OF THE 2023/2024 INSPECTIONS

This 2024 Public Inspections Report presents the key deficiencies, themes and trends observed during this year's inspections cycle. Similar to previous years, the results indicate a continued focus on improving audit quality, with incremental improvements in several areas. While progress has been made, recurring and new deficiency themes on firm-wide and engagement levels highlight those areas where further improvements are needed.

The information presented in this report is based on the results and matters reported from the inspections performed during 2023/2024, as mandated by the Auditing Profession Act 26 of 2005, as amended (APA). Section 47 of the APA specifically requires the IRBA to inspect or review the practice of an RA that audits a public company at least once every three years. Also, our regulatory oversight of RAs includes the inspection of completed audits of financial statements and systems of quality.

For the purposes of this report, references to:

- "Firm-wide inspections" and "systems of quality" comprise the applicable quality standards and auditing standards that were effective on the date of the firm-wide and engagement inspections, including:
 - ISQM 1 (effective from 15 December 2022);
 - International Standard on Quality Control (ISQC 1) (prior to 15 December 2022); and
 - International Standards on Auditing (ISAs).
- "Audit files" and "file level" mean the inspection of all audit engagement documentation to support the audit opinion issued for a specific audit client.

In the 2024 inspections year, we continued to do our selection using a risk-based approach, in line with the International Forum of Independent Audit Regulators' (IFIAR) core principles. This approach influences how firms, engagement files and sections (at both the engagement file and firm levels) are selected for an inspection. Also, it is biased towards public interest entities, while ensuring that there is an efficient use of resources for the protection of public interest.

Our inspections are two-fold (engagement file level and firm level) and result in three types of inspections.

- Firm-wide Inspections:
 - In assessing the risk at each audit firm, considerations include the firm's size and the extent of public interest entities (PIEs) in its assurance portfolio.
 - An inspection of the firm's systems of quality at all firms visited during the year is conducted.
 - This year focused on the design and implementation of the system of quality, risk identification and assessment as well as responses, while entailing the implementation of the designed responses or firm controls thereof. The scope included a sample of quality objectives, risks and responses across various components of the firms' systems of quality.
 - The IRBA issues two types of firm reports:
 - Firm-wide inspections reports that involve comprehensive inspections of audit firms' systems of quality.
 - Engagement-focused firm inspections reports, which are issued when the inspections performed at the firm are limited to audit engagements. Deficiencies identified at the engagement level may be escalated to a firm-wide level, if they impact the systems of quality.
- Engagement File Inspections:
 - This entails a selection of audit engagement files, with a larger emphasis on PIEs.
 - The scope for the engagement file inspection includes a selection of sections, based on risk assessment, and does not necessarily mean all components of the file will be inspected. The selected components or sections are specified in the inspections report for each engagement file selected. A typical inspection over and above the selection of the riskier components of the financial statements would include a review of audit planning and completion; a financial statement review; other information and audit report reviews; meetings with the auditors; and/or a selection of other related

audit files and/or group audit engagements and consolidations.

- An individual engagement inspections report is issued after every file inspection to the engagement partner, who is an RA that has signed off the audit engagement selected for inspection. This engagement can be an individual entity audit or that of a group of entities.

■ Theme-based Inspections:

- This constitutes a selection of engagement files, and/or other areas of focus to inspect specific themes.
- Themes identified can be firm-specific and/or be focused on risks/deficiencies noted across audit firms.
- Deficiencies from these inspections are communicated to the audit firms, with the nature and extent thereof influencing the inspections outcomes at the firm level. These deficiencies are included in firm reports, and firms are responsible for addressing the deficiencies at both the engagement and firm levels. The IRBA monitors this remediation through its Remedial Action Process and follow-up inspections.
- Significant deficiencies identified during these inspections may also be reported on an individual RA's inspections report. Outcomes may even result in an auditor being referred for investigation, depending on the circumstances and nature of the deficiencies reported.

Notably, where the audits of listed entities are performed by South African audit firms, more than 90% are performed by the 10 largest audit firms or network firms, nine of which were scoped in for an inspection during the year. The inspections performed at these audit firms included firm-wide inspections of their systems of quality, engagement inspections and theme-based inspections.



2. KEY OBSERVATIONS FROM 2024

2.1 Our Approach to Audit Quality Management

The adoption of ISQMs 1 and 2 in South Africa, effective as of 15 December 2022, resulted in audit firms changing how they view their systems of quality management (SOQMs). This shifted from perceiving these as just a compliance measure to how to effectively manage audit quality to achieve quality objectives. In essence, the adoption of the suite of Quality Management standards in South Africa demanded a comprehensive approach to audit quality, requiring firms to demonstrate a strong commitment to quality management practices. This commitment entails a significant investment in both financial and other resources, to ensure the full and effective implementation of the standards.

Recognising that the intention of the ISQMs is not to develop a perfect system in the first year of implementation, our inspections followed a phased-in approach. This year, audit firms effected a full implementation of these standards, with their adoption leading to enhancements in firms' systems of quality management, particularly in areas such as risk management, engagement performance and leadership involvement. Consequently, the emphasis on leadership accountability and the tone at the top has started to shape the culture of quality within firms, aligning with international trends.

We continued with our approach for the inspection of the SOQMs, assessing the design and implementation of these systems at the firms. Also, we commenced with inspecting the operating effectiveness of the SOQMs in early 2024, including the firms' own monitoring of their systems. The results of these inspections have been tabled before the Inspections Committee (INSCOM) in the 2024/2025 financial year, and the outcomes will be reported in the 2025 Public Inspections Report.

2.2. Noted in the First Two Years of the ISQMs' Implementation

Below is a summary of some of our observations from the inspections of the design and implementation of the ISQMs (see paragraph 3.3 for further details).

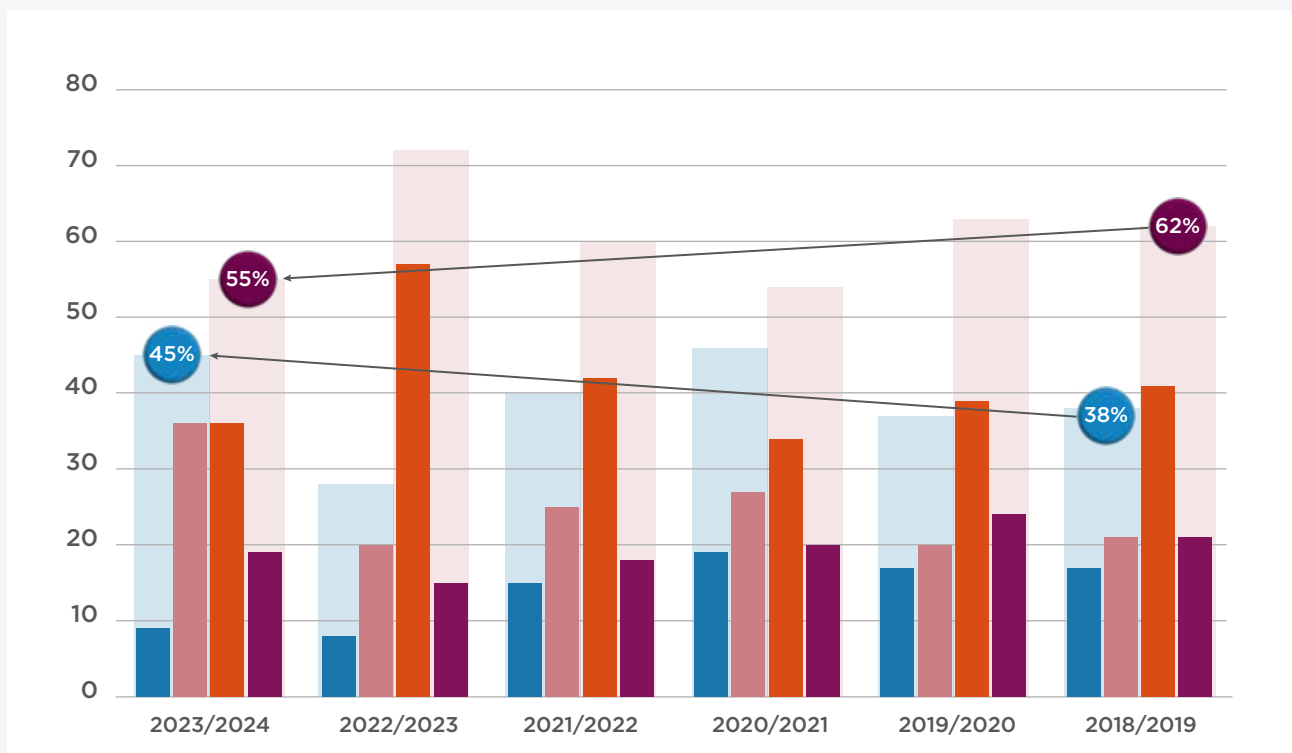
- We were pleased to see that most firms visited, specifically those involved in the audit of listed and other public interest entities, continued to review the design of their SOQMs and monitored the first year after the new ISQMs became effective. We noted the continued commitment of these firms and their leadership to improve quality management and perform quality audits.
- We identified matters across most of the components of the SOQMs, relating to both the design and implementation. This included the following:
 - Firms' monitoring of their SOQMs was not performed as required by ISQM 1.
 - Lack of documentation regarding the risk assessment process, monitoring results and/or evidence of implementation of the responses to quality risks.
- Responses to quality risks were not sufficient and/or appropriate to address these risks.

3. INSPECTIONS RESULTS

3.1. Reflection on Inspections Results at the Engagement Level Over Six Years

The overall quality of audit engagements inspected in 2024 continued to show steady improvement over the previous six years, promising a positive and consistent shift in the profession’s commitment to audit quality. This was evidenced by the reduction of files with outcomes that require *significant improvement* and/or a *referral* to the Investigations Department from 62% (2019) to 55% (2024). Similarly, as shown in Figure 1 below, we observed a steady increase in the number of engagement files with positive outcomes (*no action required* and *some improvement required*) from 38% (2019) to 45% (2024), signalling effective remediation and a more proactive approach by firms in addressing deficiencies.

This seems to indicate that over time there has been real improvement, though slower than expected, which is very positive.



Results of combined outcomes for:

- No further action required
- Some improvement required

Impact on audit quality - No concern to some concern / Acceptable quality

Results of combined outcomes for:

- Significant improvement required
- Referral for investigation

Impact on audit quality - Significant concern / Poor quality

Figure 1: Improvement in audit quality at the engagement level over the past six years.

3.2. Firm-level Outcomes

During the year under review, the IRBA visited 32² audit firms, issuing 27 firm-level reports. Full firm-level inspections were performed at all the firms visited. These firm-level inspections results are derived from the deficiencies identified from the inspection of the systems of quality, engagement files and theme-based inspections.

Furthermore, we continued to place emphasis on the importance of effective systems of quality, to encourage audit firms to address deficiencies comprehensively and foster a culture of accountability throughout the audit firm. The graphic below shows the outcomes of the 27³ firm-wide inspections reports⁴.

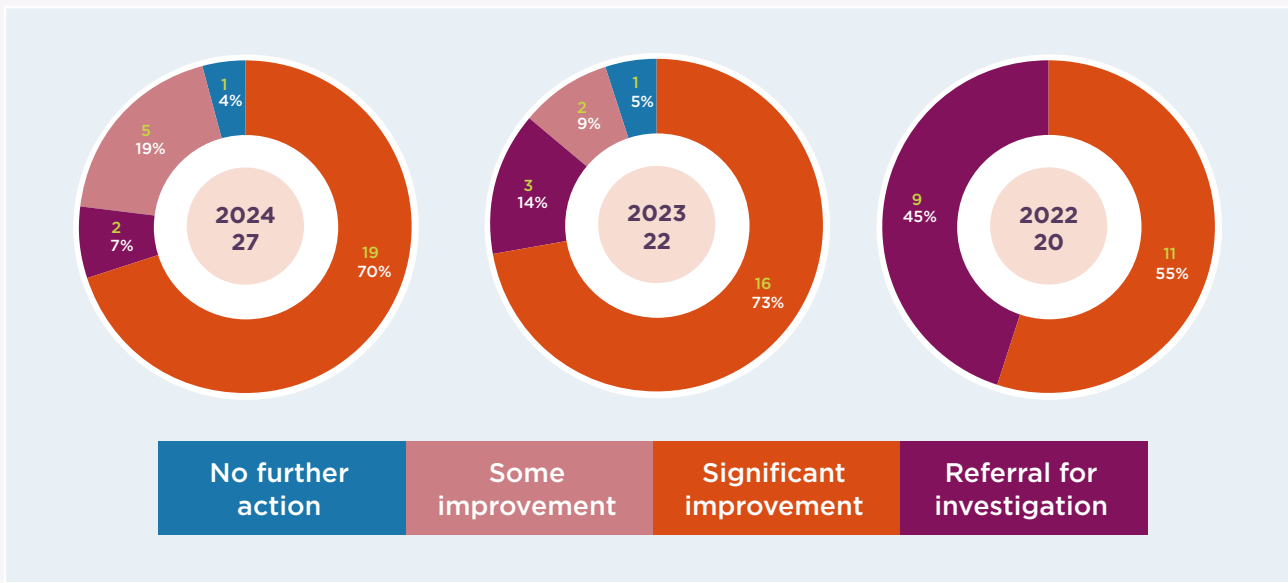


Figure 2: Firm-wide inspections results, including the engagement deficiencies escalated to the firm level.

The results of the 2023/2024 inspections reveal a positive trend in comparison to the previous years. Notably, there has been a decrease in the number of referrals for investigation at the firm level from 14% in 2023 to 7% in the current year (45% in 2022 to 7% in 2024). It is important to also note the increase in some improvement outcomes from 9% to 19% in the current year, which can be attributed to the remediation activities the firms implemented and the approach by the INSCOM which encourages firms to address specific issues within a designated timeframe. Consequently, the turnaround time for remediation activities has improved, leading to better and more positive inspections outcomes for several firms.

3.3. Firm-level Themes and Deficiencies

There have been deficiencies across all the components of the systems of quality (as described in ISQM 1 and, where relevant, the extant ISQC 1). The deficiencies identified were analysed in terms of the following categories:

- Systems of quality: Deficiencies affecting audit firms' systems of quality as a whole.
- Risk assessment process: Deficiencies relating to an audit firm's risk assessment process, which include:
 - The design and implementation of responses to quality risks.
 - The sufficiency and adequacy of the responses to address the quality risks.
- Components of the systems of quality: Deficiencies identified from the inspection of the components of the systems of quality.

² Includes individual firms within a network, where applicable.

³ The 27 firm-wide reports related to the 32 firms visited. For certain network firms, only one firm report was issued and that included the observations identified for all the individual firms within that network.

⁴ The 2022 and 2023 periods include engagement-focused firm inspections reports. None was issued for 2024.

Systems of Quality

The following deficiencies were noted as affecting the firms' systems of quality as a whole:

- The firm did not implement any system of quality.
- The deficiencies identified related mostly to the *engagement performance* component, creating significant doubt on the effectiveness of the firm's quality control practices and the ability of its leadership to obtain reasonable assurance that professional standards are complied with and audits performed are at a consistent high level of quality.
- Deficiencies were identified in relation to the engagement quality reviews of audit engagements, where required. For instance, there was no evidence of the considerations for the selection and appointment of quality reviewers; no quality reviewer was appointed, as required by the firms' policies; deficiencies in the effectiveness of the engagement quality reviews performed, i.e. these reviews were not performed appropriately and did not identify significant deficiencies in audit quality; and no identified significant and/or material non-compliance with the IRBA Code of Professional Conduct for Registered Auditors, ISAs and accounting standards in areas that we subsequently identified during inspections. These areas were in the scope of both the IRBA inspections and that of the engagement quality reviewers.
- In some cases, there were no policies and procedures established for the documentation of the engagement quality reviews, the results of the reviews and the resolving of matters of concern.

Risk Assessment Process

It is important to understand what a firm's risk assessment process should entail, as required in the audit quality standards. This is because these requirements and the process determine the overall basis for the firm's system of quality and can impact the effectiveness of all components within that system. Audit firms are required to:

- **Design and implement** a risk assessment process to establish:
 - **Quality objectives;**
 - Identify and assess **quality risks;** and
 - **Design and implement responses** to address the quality risks.

We identified a number of deficiencies directly attributed to an inadequate or insufficient risk assessment process. This indicates that certain firms are not prioritising the appropriate design of their risk assessment processes; not applying the scalability allowed by the quality standards; and not able to implement an effective risk assessment process. Additionally, the quality objectives, quality risks and the responses are not appropriate to the audit firm. The deficiencies identified as directly attributable to the firms' risk assessment processes included the following:

- The firm did not design and implement responses to address the quality risks it had identified already.
- The responses to the quality risks identified by the audit firm were insufficient and/or inappropriate to effectively respond to the risks identified.
- The firm did not establish policies and procedures in accordance with the requirements of the quality standards for each of the components and/or for all the required responses.

Components of the Systems of Quality

Figure 3 depicts the spread of the deficiencies identified within each of the components of the systems of quality. The ISQM 1 and ISQC 1 deficiencies were combined, in as far as they relate to the same component. Most of the deficiencies identified in the components related to the **design** of the responses to address the quality risks of the firm, with that being the sufficiency, relevance and appropriateness of the responses; and the **implementation** of such responses. Examples include deficiencies identified, where all the required responses in ISQM 1 were not addressed; and policies and procedures, as required, were not established and/or implemented as part of the risk assessment process.

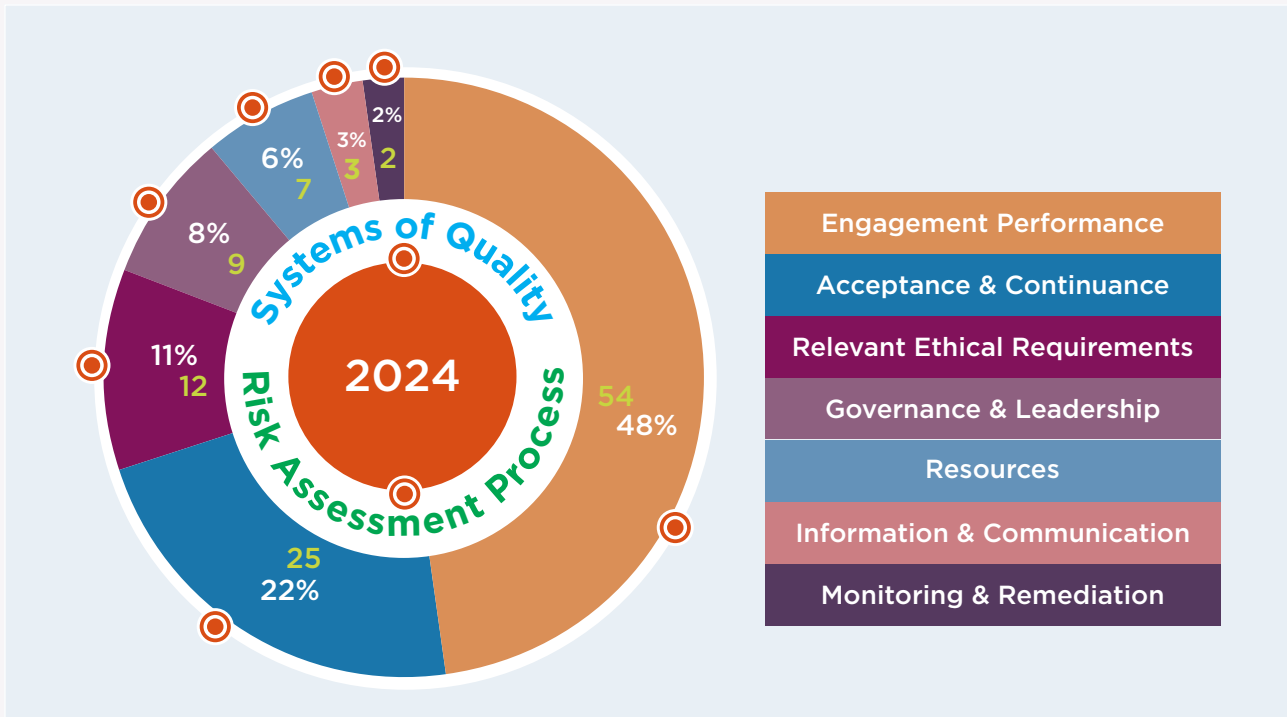


Figure 3: Deficiency spread of the components of systems of quality (frequency %). (Click on the buttons for more details.)

3.4. Theme-based Inspections Results

During the year, the IRBA conducted 18 theme-based inspections across nine audit firms, resulting in the review of 118 engagement files. Of the 18 theme-based inspections performed, 50% (nine inspections) revealed one or more deficiencies that were communicated to the respective firms and reflected in the firm-level themes and deficiencies, contributing to the overall outcomes illustrated in Figure 1 above. The details of these deficiencies are included in the discussions of the components of the systems of quality in Figure 3 above.

The accompanying table outlines the themes selected for inspection during the current year, along with the respective number of inspections that are depicted in a graphical format in Figure 4 on the next page.

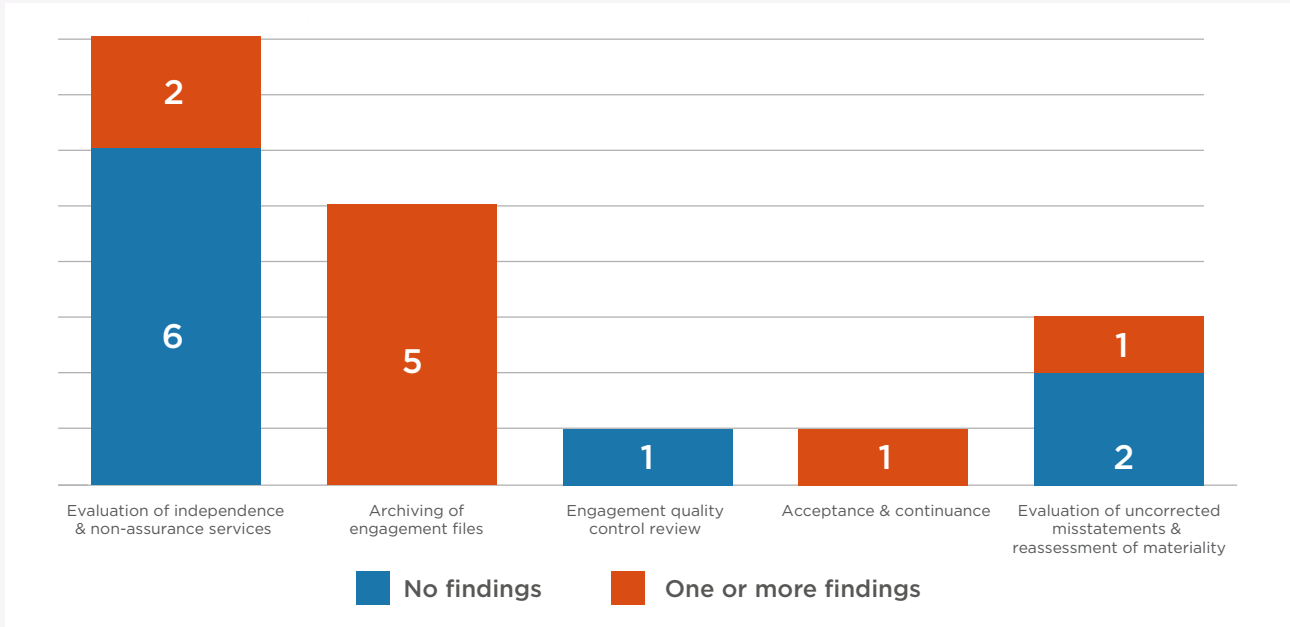
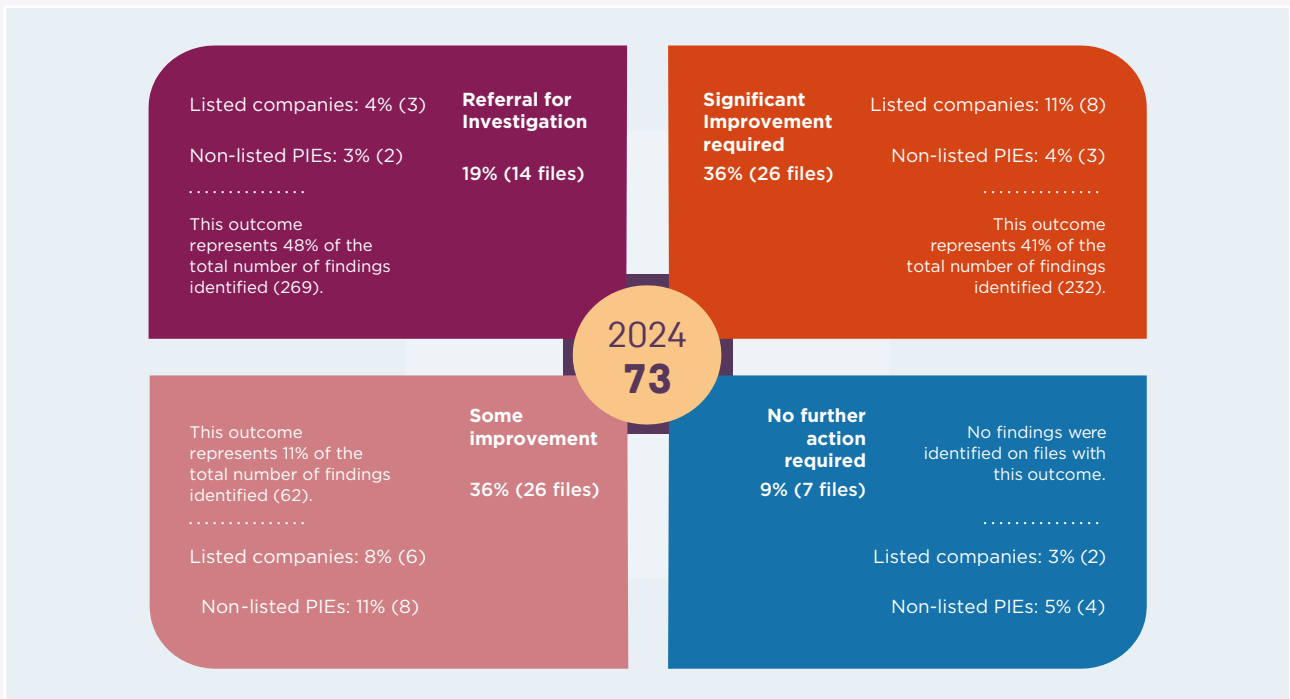


Figure 4: Outcomes and the distribution of the theme-based inspections.

3.5. Engagement Inspections Results

Positive outcomes, reflecting *some improvement required*, increased from 20% (18 files) in 2023 to 36% (26 files) in 2024. Meanwhile, engagements requiring *significant improvement* decreased from 57% (50 files) in 2023 to 36% (26 files) in 2024.

Although these results suggest an improvement in inspections outcomes for the current year, they should be interpreted with caution. Such outcomes depend on the risk profile of the selected engagements and the firms visited. Percentages are calculated relative to the number of engagements inspected annually.



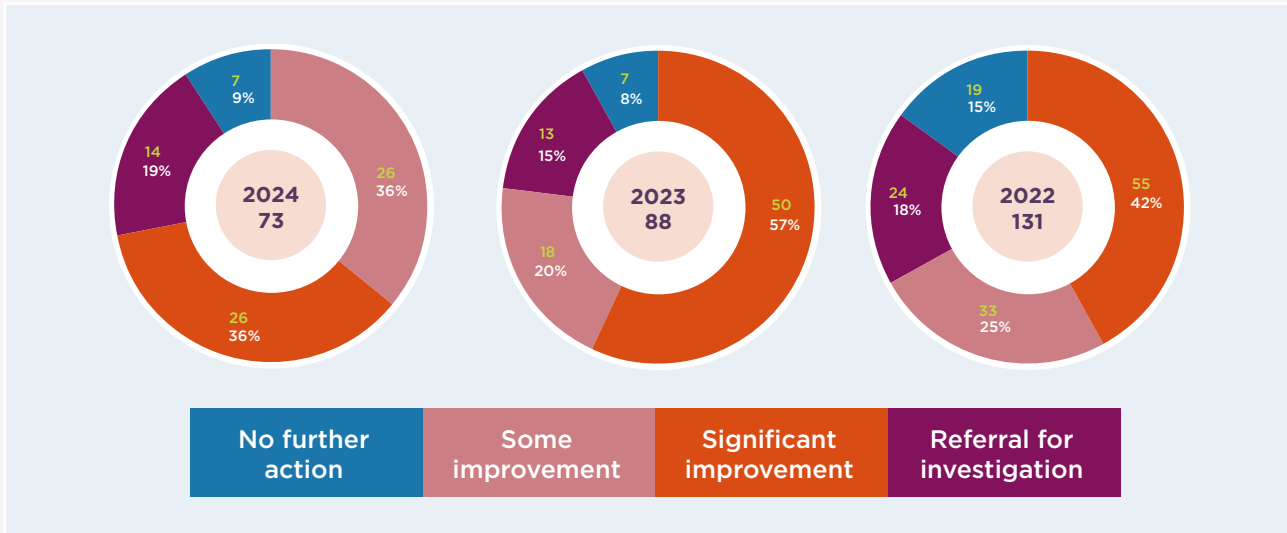


Figure 5: Engagement file inspections results over the past three years.

While it is important to note that the year-on-year movement in the outcomes of engagement files inspected does not necessarily translate directly into an overall real improvement or decline in audit quality, we acknowledge that these inspections results are key indicators of audit quality. Our risk-based approach to selecting audit engagements means that specific risks may have been identified prior to the inspection. Therefore, the results and outcomes reflect only those engagement files inspected during the year and thus cannot be extrapolated across all firm engagements.

However, some recurring themes and deficiencies reported in previous years have persisted. While there may be some improvement in audit quality, as evidenced by the reduced impact of these deficiencies on inspections outcomes, these areas still require further enhancement. The recurring deficiencies reported for 2023/2024 include, but are not limited to, revenue recognition; the audit of journal entries; audit work on the financial statement presentation and disclosures, specifically note disclosures where information is presented and/or representations made by management are not corroborated/audited; auditing areas of significant judgements and estimates (ISA 540); assessment of going concern; and the reliance on information technology (IT) and other controls to support a control-based audit approach.

Figure 6 provides a snapshot of the results of the engagement files inspected during the period under review and further details regarding the outcome of *referral for investigation*. These outcomes resulted in the engagement partner for a specific engagement being referred to the Investigations Department, following a recommendation by the INSCOM, on an *overall* basis or a *specific* matter.

INSPECTIONS OUTCOME: REFERRAL FOR INVESTIGATION	
<p>Referral for investigation on Certain Matters 11% (8)</p> <ul style="list-style-type: none"> Listed entities 3% (3) Non-listed PIEs 0% Other 6% (5) <p>Main reasons:</p> <ul style="list-style-type: none"> Independence Material misstatements Inappropriate audit opinion 	<p>Referral for investigation on an Overall Basis 8% (6)</p> <ul style="list-style-type: none"> Listed entities 0% Non-listed PIEs 1% (1) Other 7% (5) <p>Main reasons:</p> <ul style="list-style-type: none"> Overall poor quality of audit work and/or a fundamental lack of audit evidence.

Figure 6: An overview of the referral for investigation inspections outcomes.

The 73 engagement inspections performed included the inspection of more than one engagement file, specifically where group audit engagements were inspected. The inspection then entailed inspecting the audit documentation of the group audit, company and/or main trading entity; material divisions or components of the entity; and the review by engagement partners of audit work performed by component auditors. This increased our footprint on the extent of audit documentation accessed through the inspections process from 73 audit engagement inspections to 119 audit files accessed during the inspections.

Where the same auditor signs the group, company and subsidiary financial statements and no other auditor is involved in the audit, then all the inspection work performed was reported as one inspection with one outcome. Where another auditor was involved in the group audit, for example, the main trading entity was audited by a component auditor and the audit documentation of that entity was inspected as part of the group audit inspection, that would be a separate inspection with its own report and outcome.

3.6 Engagement Inspection Themes and Trends

Figure 7 provides a comparison of the deficiency themes summarised into six audit areas (for the purposes of this report), to indicate the trends of the deficiencies reported over the past four years. This is followed by Figure 8, where the detailed deficiencies are reported on each of these six audit areas presented.

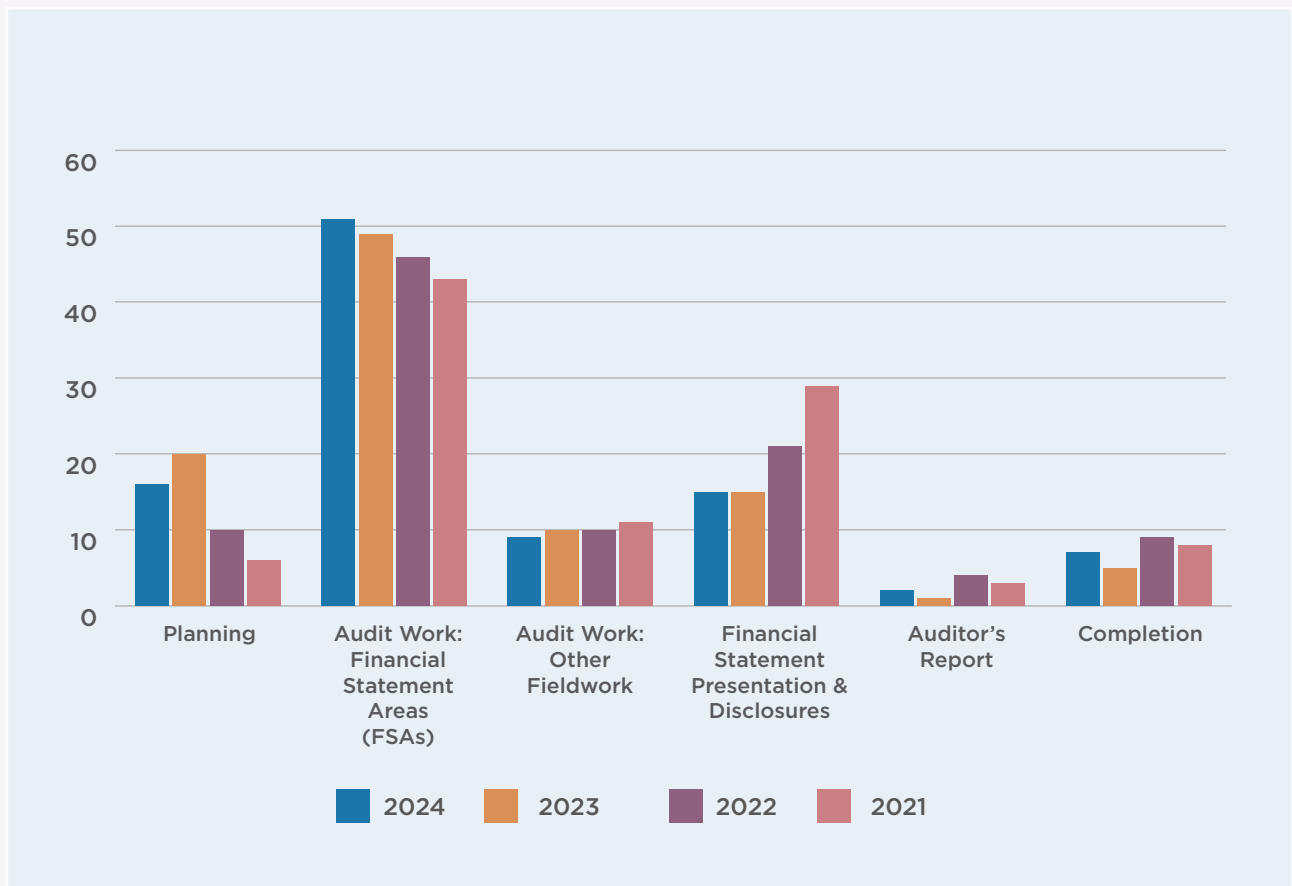


Figure 7: A four-year comparison of deficiencies summarised into six audit areas.

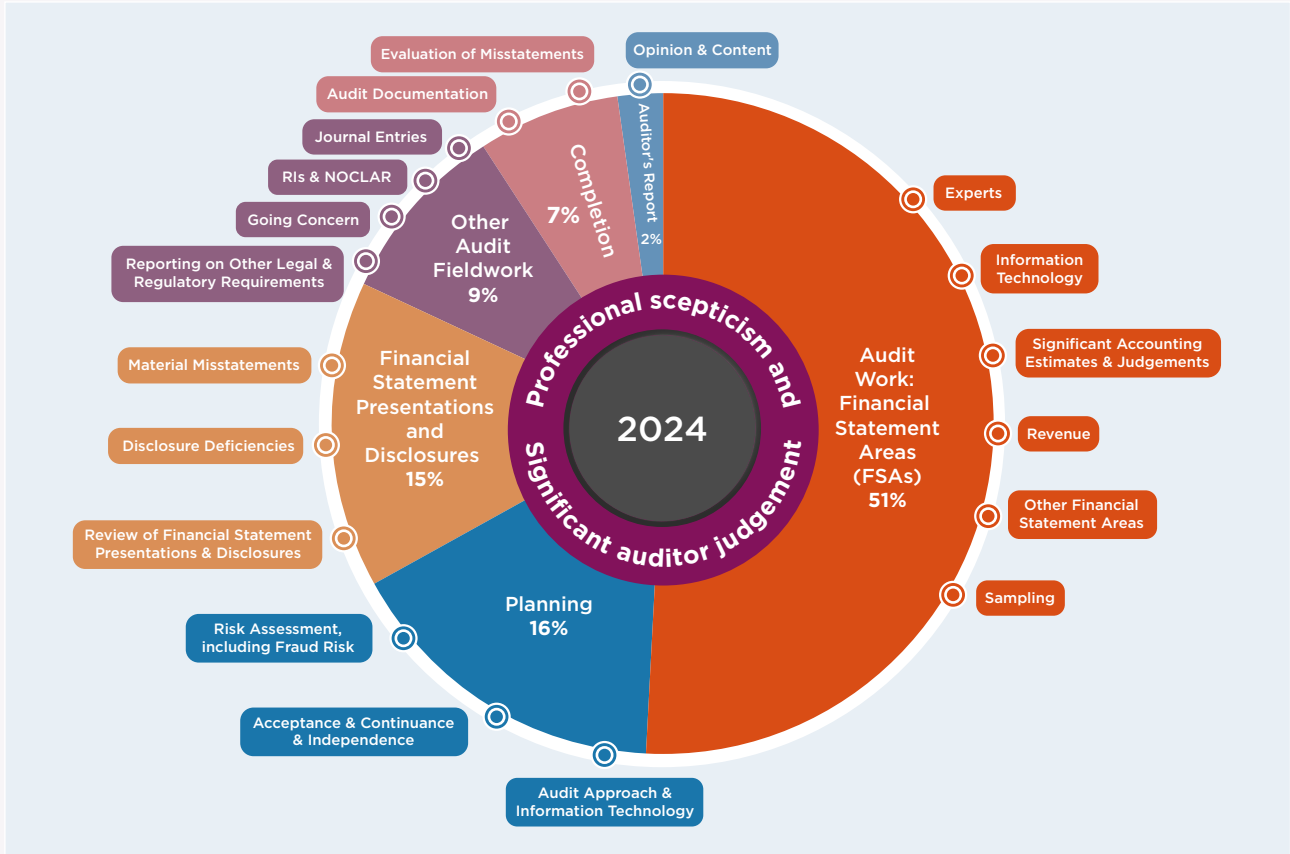


Figure 8: A summary of the audit quality deficiency themes identified from engagement inspections. (Click on the buttons for more details.)

Emphasis on Information Technology

In Figure 8 above, themes and deficiencies relating to IT in different areas are noted. These mostly relate to matters affecting the audit approach, such as reliance on controls that include information technology general controls (ITGC) and application controls. The use of entity-generated information, without testing the reliability of the system-generated reports or obtaining reliance on ITGCs for audit purposes, such as sampling selections, is also a key factor.

Technology Landscape

In our 2022 version of this report, we referred to the impact of s-curves, the resulting exponential growth and the adoption of technologies/innovation. The continuing advancements in the availability of computing power in the technology environment through the enhancements of hardware and software have resulted in these s-curves coming into full swing. Particularly, this can be seen from the significant investment in technological hardware in data centres and how the decreasing costs of development (Moore and Wrights' laws) will continue to influence investments in technological components. The current economic environment, possibly moving from inflationary to deflationary, will further support the growing investment in the adoption of technology, coupled with the impact of cost declines that will accelerate such growth in adoption. Therefore, we may see the impact of s-curves on s-curves (i.e. computational capacity s-curves, cost curves, etc.). These advancements in computer power and the availability of data means new technologies are being developed at a faster pace than we have been exposed to previously, including the iterations of upgraded versions of the software.

At the centre of these developments is an integration with statistical/computational decision-making that the current technologies are incorporating, especially statistical data-driven models. Further, on top of these statistical models is natural language processing that has resulted in the value of these models being increasingly relevant and accessible to a wide range of users.

The adoption of artificial intelligence (AI) agents is increasingly common and fast-moving, given their smaller scale value proposition, as well as the costs of implementation and maintenance. In their final version of development, these AI agents could replace the traditional business functions we know today. Their current implementation in the financial reporting ecosystem makes them serve as modules to manage either the main or sub-processes such as debtors/accounts receivables, suppliers/accounts payable and inventory/warehouse management, among others. However, with declining costs and increased computing power, the acceleration of deployments that address all business functions is imminent.

At the crux of such accelerated development is the question of security risks posed by new vulnerabilities, due to limited or non-existent testing in the development lifecycle, as well as new tools and techniques being available to exploit such vulnerabilities with their accelerated development and more automation than previously possible. Another critical risk is the lack of professional competence and the capabilities of entities or individuals that are adopting these technologies, which further elevates the security risk.

In our work with the IFIAR technology task force, we continue to observe the implementation of advanced tools and techniques – AI and robotic process automation (RPA) – though these are not a “continuous” audit approach yet and are being cautiously introduced.

Our analysis and research reflect that firms see the capacitation of technology and human resources as key competitive advantages in performing efficient and effective audits, which should improve audit quality. However, there are a number of issues that the firms that are introducing such technologies have to contend with, such as:

- Privacy and confidentiality of client data;
- Relevant legislative requirements;
- Reliability of the proprietary tools and techniques that they have developed;
- Explainability of the models they are developing; and
- Availability and the extent of skills, either internal or external to the firm.

These are equally relevant to standard setters, as evidenced in the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board’s research and discussions/white papers.

Ethics and Technology

The IESBA, through its [paper](#) published in 2022, also noted the following regarding risk and recommendations related to technologies and expectations from professional accountants (PAs):

- Threats of data misuse, as well as with regard to privacy and security;
- Risk of social harm;
- Bias in the outputs of technology, such as AI;
- Inadvertently spreading mis- or disinformation; and
- A lack of effective human oversight and acceptance of responsibility over unintended consequences arising from technology.

These have the potential to threaten a PA’s compliance with the fundamental principles, as highlighted in the paper.

- “A lack of transparency to clients or customers about the use of their data, even if anonymised, might be a breach of the IESBA Code, which requires the PA not to be associated with information that is misleading through omission or obscurity.
- “The higher the stakes, the more important it is that the AI be explainable in order for humans to have appropriate oversight of the decisions being made. Such oversight would not be possible without the system being adequately explainable.
- “Before relying on a machine learning tool, the PA would be expected to ensure that the tool is explainable (i.e. that they can reasonably understand the rationale for the decisions made by the technology).”

At the core of the paper is also a recognition that firms and PAs are faced with a challenge that requires upskilling, to develop the right competencies; an increasing demand for experts in the various areas of technology; and the need for guidance to be developed for professional accountants. To this end, the IESBA has further published [technology-related revisions](#) to its Code to address some of these concerns. These revisions became effective for periods beginning on or after 15 December 2024.

Cybersecurity and Technology

Cybersecurity is technology agnostic; therefore, it affects each of the considerations in the IESBA Code. Locally, the IRBA has published the [Revised Code](#) and continues to work with counterparts and relevant standard setters to make further revisions as the various markets and the profession continue to focus on technology and its impact.

The Financial Sector Conduct Authority and the South African Reserve Bank have issued their final joint standard on cybersecurity and cyber resilience requirements for specified financial institutions. It is specifically applicable to banks and insurers, and contains detailed requirements on vulnerability assessments, gathering threat intelligence and performing penetration testing (“white” and “grey” box testing).

Today’s systems (hardware and software) for the management of IT security risks in a network environment also rely on some level of RPA and AI implementation, particularly regarding threat intelligence and vulnerability assessment. However, what is concerning is that attack tools and techniques are also developed with similar, if not better, technologies. That means those intending to attack networks will also have superior tools at a cheaper cost, similar to the tech development s-curves noted earlier. This requires entities to similarly adapt to these higher levels of security assessment and management, which means that the competition for superior technologies will also create other s-curves as more research and development investments are made.

Regulatory Efforts

The IFIAR technology task force, of which the IRBA is a member, released a report on the [use of technology in audits](#) that details the results of its observations from engaging with the Global Public Policy Committee (GPPC) that comprises six global network firms. Accordingly, firms and RAs are encouraged to peruse this report, as it has valuable insights on:

- Technology adoption for the audit process and various implementation in execution;
- Processes of development and implementation of technology;
- Findings identified related to the use of automated tools and technologies;
- Monitoring of the deployment of automated tools and techniques, and the impact on audit quality; and
- Impact of technology evolution, opportunities and challenges.

This task force’s work is particularly critical, in as far as it is a collaborative effort between regulators and firms to help generate an understanding of the pace of development and provide insights to manage the various risks regulators face. To this end, the task force continues to engage with GPPC firms; and at the time of writing, it was in the process of finalising the 2025 report. Firms and RAs are encouraged to use these reports as part of their understanding of the environment.

In our observations of tools and techniques implemented by firms locally, we noted the following most occurring use cases:

- Journal entry testing;
- Financial statement reviews;
- Substantive testing; and
- Test of controls.

While some of these tools do, in varying degrees, implement some level of automation, their output is largely supervised by teams (including experts), to ensure that the output is appropriate for use as audit evidence.

Emphasis on Professional Scepticism and Professional Judgement

Despite some improvement, we observed the lack of professional scepticism and professional judgement persists as an underlying cause of deficiencies. This is not limited to, though it is more pervasive in, areas requiring significant accounting estimates and judgements, as well as when assessing the appropriateness of the assumptions used and the conclusions made by the management of an audit client.

We have been reporting over the years that one of the key underlying deficiency themes contributing to the occurrence and recurrence of deficiencies in audit quality at the engagement level is due to auditors not applying appropriate professional scepticism and professional judgement. Both of these are essential requirements in conducting a proper quality audit, to ensure that the financial statements are not materially misstated and users can rely on the information presented and disclosed in them. ISA 200, paragraphs 15 (Ref: Para. A21-A25) and 16 (Ref: Para. A26-A30), are very clear on the requirements on auditors in this regard.

Areas that require the application of professional scepticism and professional judgement are those where critical decisions for the audit are required and the financial statements include areas that need significant accounting estimates and judgement to comply with the relevant accounting standards. Basically, this means where an auditor makes an important decision that impacts the audit as a whole – such as the audit approach, materiality levels and the extent of audit work required, among others – the audit documentation needs to demonstrate that the appropriate levels of professional scepticism and professional judgement were applied.

Areas where there is a lack of professional scepticism and professional judgement, and the audit documentation does not support the conclusion reached include the following:

- Identifying and assessing risks of material misstatements;
- Responding to fraud risks;
- Determining materiality and the revision of materiality;
- Concluding on the audit approach and reliance on controls (including information system controls);
- Determining the extent of testing required for transactions and balances audited;
- Evaluating estimates and judgements made by management, including significant accounting estimates and judgements; and
- Evaluating the effect of unadjusted audit misstatements identified.

We commonly receive questions on what the “documentation” requirements are to demonstrate that the appropriate level of professional scepticism and professional judgement have been applied during the audit. In response, we emphasise that simply documenting the statement that “professional scepticism was applied” is not appropriate or sufficient to demonstrate that the requirements of the ISAs were complied with. The audit documentation should evidence that the requirements within each of the ISAs, applicable to the audit of transactions/balances that requires specific judgements to be applied, were met. The audit documentation should sufficiently detail what judgments were made, supported by how and why the auditor concluded on the matter, which would in turn demonstrate that the auditor applied appropriate professional scepticism.

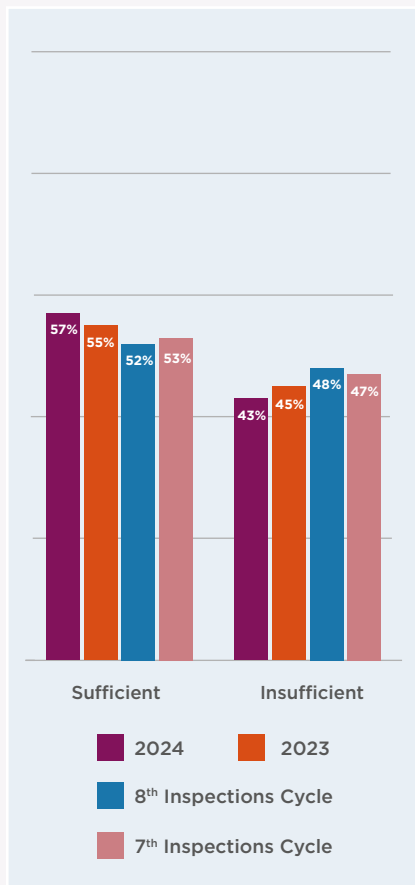
In conclusion, where professional scepticism and professional judgement are required, the documentation on the audit file should clearly demonstrate that the auditor applied these requirements. That way, the auditor will be able to conclude that sufficient and appropriate audit evidence has been obtained to address the audit risks identified and the financial statements are free of any material misstatements. When this is not evidenced on the audit file, it is difficult to reasonably conclude that a proper audit was performed and the financial statements are not materially misstated.

4. REMEDIAL ACTION PROCESS

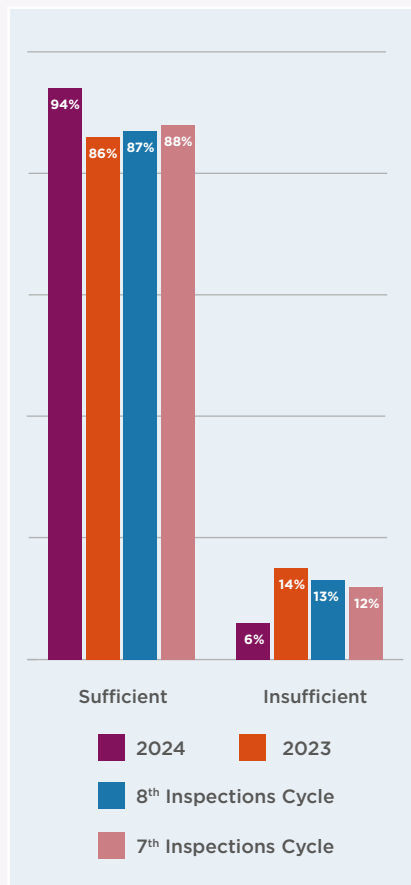
Most audit firms have responded positively to the Remedial Action Process, viewing it as critical to improving audit quality and serving the public interest. Despite this, though, challenges remain with regard to effectively addressing deficiencies and identifying true root causes. Observations include:

- **Root Cause Analysis (RCA):** A slight improvement has been noted, with **57%** of firms performing sufficient analyses compared to **55%** in 2023. Common challenges include inadequate brainstorming, lack of skilled resources and insufficient quality control processes.
- **Remedial Action Plans (RAPs):** At least **94%** of the firms designed measurable action plans, up from **86%** in 2023, which was consistent with what was noted for the some improvement required outcome, as depicted in Figure 10. Effective RAPs that are linked to true root causes help mitigate recurring deficiencies.

Root Cause Analyses



Remedial Action Plans



Remedial Action Plans

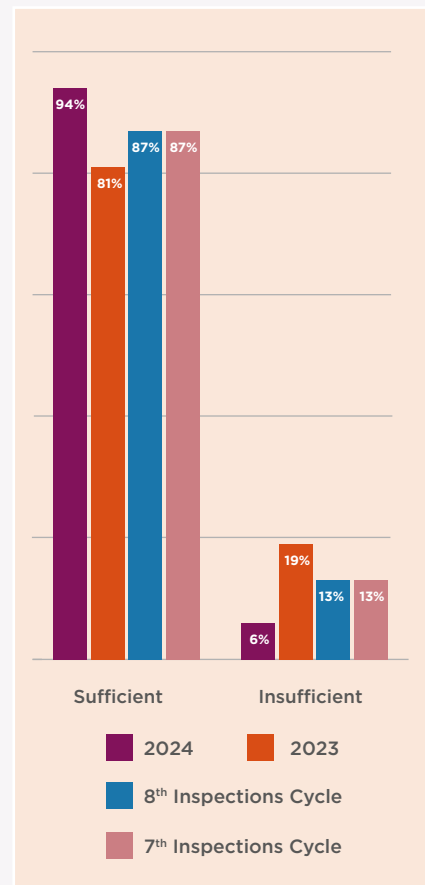


Figure 9: Remedial Action Process - Reviews performed (Inspections outcomes: Referral for investigation and Significant improvement).

Figure 10: Remedial Action Process - Verifications performed (Inspections outcome: Some improvement).

Proactive Monitoring and Continuous Improvement

Firms that participated in the Proactive Monitoring initiative showed an increased commitment to early remediation, as they linked their internal plans to inspection findings. The effective implementation of action plans is crucial for achieving consistent quality and mitigating the recurrence of deficiencies. Some of the key themes and root causes identified were:

- Reliance on Information Produced by the Entity: Insufficient training and professional scepticism.
- IT General and Application Controls: Lack of integration, training and effective communication.
- Financial Statement Disclosures: Technical review deficiencies and time pressure.
- Audit Planning and Completion: Inadequate senior involvement and review.

Most firms visited for inspections during the prior year have reacted positively towards the Remedial Action Process and continue to participate in the Proactive Monitoring process. As shown in Figure 1, there has been a steady improvement in the outcomes of engagement inspections, which can be partly attributed to the [Proactive Monitoring](#) process.

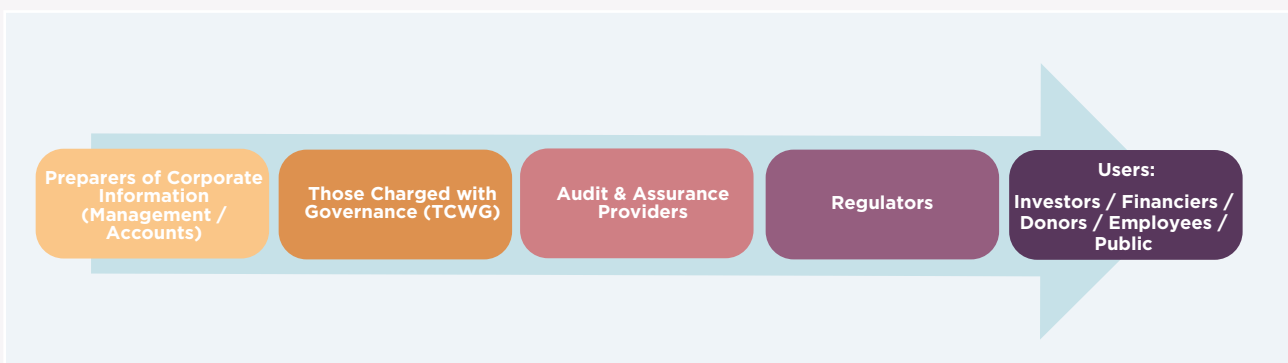
5. MOVING FORWARD

The 2024 inspections results reaffirm the need for a continued focus on key quality drivers, including leadership responsibility, risk management and professional scepticism. As we move into the next Inspections Cycle, our priorities will include increasing awareness about the implementation of the ISQMs, further promoting the role of audit committees and driving firms to embed a culture of continuous improvement in their systems of quality management.

The deficiencies highlighted in this report serve as a valuable resource for auditors, audit committees and all stakeholders that are involved in audit quality. Auditors are encouraged to take these observations as opportunities for learning and remediation, while audit committees should leverage these insights to ask probing questions and hold firms accountable for delivering high-quality audits that meet both regulatory expectations and public interest requirements.

6. AUDIT QUALITY – A COLLABORATIVE EFFORT

One of the IRBA's key initiatives is stakeholder outreach, which is a collaborative effort to improve audit quality through awareness programmes and guidance, among others. Our stakeholders, as shown in the accompanying graphic, are not limited to the auditing profession and environment, but include those who place significant reliance on the profession and the value that it adds to the reliability of financial reporting.



Audit committees, for instance, can make a significant contribution to the improvement of audit quality and the quality of the financial information being reported on.

Key to the collaborative effort is for stakeholders to understand the IRBA's roles and processes, as well as how to use and interpret the Inspections Department's outputs, specifically in the context of this report. These key processes and outputs include the following:

- [9th Inspections Cycle - Inspections Strategy and Process](#);
- Inspections process for firm-wide and engagement inspections;
- Information on the outcomes of inspections;
- Initiatives by the department to improve audit quality; and
- Outputs from the IRBA's inspections process, audit firms and international bodies.

Output from the IRBA Inspections

- Inspection results letters, indicating the outcome of an inspection.
- Inspections outcomes and use of the inspection reports (for firms and registered auditors). Of significant importance in understanding the result of an inspection is not to consider the outcome (as per the results letter) in isolation. It is critical to understand the context, basis and reasons for the outcome determined by the INSCOM. When the outcome reached was, for example, "*referral for investigation*" or "*significant improvement required*", that does not mean no reliance can be placed on the auditor and the audit work performed. The executive summary and detailed deficiencies reports must be read with the results letter to understand the context, basis and reasons for the inspections outcome. The information is also for users, such as audit committees, to be able to assess independently what the impact is for the entity; how to address the identified matters, where possible; and to evaluate the impact on future audit engagements.
- Inspection findings reports, detailing the audit quality and the extent thereof that was identified during inspections.
- Proactive monitoring supplementary results letters, to be read with the original results letter and formal report.
- Firm's remediation plan (as reviewed by the IRBA), detailing the steps the firm will take to address the deficiencies in audit quality that were reported by the IRBA.
- Annual publications that include insightful information on a number of topics relating to audit quality:
 - [Survey Reports: Audit Quality Indicators](#)
 - [Public Inspections Reports on Audit Quality](#)

Expected from Audit Firms

- Transparency reports, which some audit firms are issuing on a voluntary basis. However, effective for audits of financial statements for periods beginning on or after 15 December 2025, firms registered with the IRBA that audit the financial statements of publicly traded entities shall prepare and publish transparency reports on an annual basis. An early adoption of this is encouraged and permitted. (See [Board Notice 512 of 2023](#).)

International Forum of Independent Audit Regulators' Outputs

- [Annual Inspection Findings Survey](#).

7. IN SUPPORT OF CONTINUOUS IMPROVEMENT

Audit quality is a journey, not an event. Over and above the initiatives introduced in this Inspections Cycle, the IRBA supports the firms in their remediation efforts on the deficiencies identified. This support is provided irrespective of the outcome and continues through the subsequent post-inspection processes that are initiated. Through this process, the IRBA ensures that the firms not only address the deficiencies, but also implement measures that can prevent recurrences, thereby fostering a culture of continuous improvement and excellence in audit quality.

7.1. Remedial Action and Proactive Monitoring Processes

To address the deficiencies in audit quality that the IRBA identifies during its inspections, firms and registered auditors are required to compile Remedial Action Plans that are based on a Root Cause Analysis.

This year, we noted a positive trend from the review of the RAPs and RCAs, i.e. a steady and continuous improvement in the quality of the documents submitted by the firms and auditors. As part of the IRBA's Remedial Action Process, we assess the sufficiency of the RAPs and the measurability of RCAs, i.e. whether the RCA was performed to sufficiently identify the real root causes for the deficiencies; and if the RAP, based on the RCA, is sufficient to address these deficiencies. (Refer to Section 4, page 17 for a detailed analysis.)

The Proactive Monitoring process provides audit firms and auditors with an opportunity to commence with the remediation of the IRBA-identified deficiencies at an earlier stage in the inspections process. This was introduced to strengthen the Remedial Action Process, to encourage a prompt remediation and influence audit quality at a firm-wide level. The IRBA monitors the proactive remediation audit firms perform through their internal monitoring processes by reviewing the relevant evidence of RAPs and the actual remediation, as provided by the audit firms. Where appropriate remediation was demonstrated, the firms and/or auditors are provided with a supplementary letter relating to the inspection where the deficiencies were identified, to confirm that such remediation took place.

7.2. Initiatives to Improve Audit Quality

As noted in this report, the Inspections Department continued with the theme-based inspections and the Proactive Monitoring initiative. In addition, it focused on the information technology used in audit engagements, as introduced at the commencement of the 8th Inspections Cycle. These initiatives are aimed at assessing the extent to which audit firms/auditors take appropriate or effective remedial action to address deficiencies in audit quality.

During the 9th Inspections Cycle, which began on 1 April 2024, the IRBA will continue to evaluate whether the indicated remedial actions are appropriately addressing the audit quality deficiencies at a firm-wide basis and across engagements. The focus, however, will not be only on those assurance engagements where deficiencies were identified. Other new initiatives include:

- Roadshows on Inspections Results: Detailed presentations and discussions on the outcomes of inspections and reported themes.
- Establishment of a Monitoring Forum: This aims to bridge the gap between internal and external inspections results identified in the annual Survey Report on Audit Quality Indicators.
- Audit Committee Outreach: In collaboration with relevant audit firms, the department will engage directly with audit committees to discuss audit quality and other professional challenges.
- Revised Approach for Smaller Firm Inspections: A new strategy tailored to the inspection of smaller audit firms will be implemented. The audit firms that fall into the "smaller firm inspections" category are those that are not prioritised for an inspection through our continuous risk-based approach. Mostly, these firms perform audits that have lesser public interest (non-PIEs). However, it should be noted that some of the audits they perform are still classified as "high risk", based on the classification requirements in the annual assurance work declaration guidance issued.

- Focus on Fraud: Recognising the role of fraud in recent financial reporting failures and the resulting global crisis with regard to confidence, the IRBA will increase its scrutiny of the auditors' role in fraud detection.
- Stakeholder Reporting Pathways: An enhanced "tip-off" process for stakeholders to report issues that are impacting the profession, including non-ethical behaviour, will be introduced.

8. CONCLUSION

Upon reflecting on the progress made during the period under review, and as evidenced by the inspections outcomes, this year marked noteworthy strides in audit quality. In fact, improvements have demonstrated audit firms' commitment towards addressing past deficiencies, with initiatives including the following:

- Improved use of technology (audit software);
- Implementation of consequence management policies;
- Mandatory training;
- Key remediation activities to eliminate/prevent the recurrence of deficiencies;
- Improved tone at the top, with leadership displaying support and promoting firm culture that is conducive to good audit quality; and
- Substantial investments in ISQMs, for enhanced audit quality.

We should emphasise, once again, that leadership's proactive engagement has been crucial in fostering a culture of excellence, as the improved inspections results have demonstrated.

As the IRBA, we remain committed to maintaining audit quality and collaborating with stakeholders to tackle emerging challenges. We aim to build on this progress and work closely with all parties, as we continue on this journey towards achieving excellence when it comes to audit quality.

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