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| **INDEPENDENT REGULATORY BOARD FOR AUDITORS** |

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| **Transparency Reports will strengthen confidence in audit firms**Johannesburg / 27 July 2018The IRBA today issues a call to audit firms to introduce the public reporting of relevant internal information in the form of a transparency report.A transparency report serves the purpose of providing insight into a firm's:* Structures and governance processes;
* System of quality control and its effectiveness;
* Risks and responses to those risks; and
* Other relevant information which will assist the IRBA to discharge its oversight responsibilities.

Transparency reporting (or similar reporting) is mandatory in some jurisdictions, usually for firms that audit public interest entities (PIEs). These jurisdictions include the European Union, the United Kingdom, Japan, Australia and New Zealand, among others. In South Africa, the first transparency reports have been published on a voluntary basis.In 2015 the International Auditing and Assurance Standards Board (the IAASB) issued the *Invitation to Comment: Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (the ITC), which introduced the topic of transparency reporting. According to the ITC: 'Firms are increasingly issuing publicly available reports that provide transparency regarding certain elements of the firm and its operations, also referred to as transparency reports.'Transparency reports are a reflection by the firm on its audit quality. Reports will provide users with the information that help them understand the firm's approach to:* Leadership, culture and ethics;
* The firm's risk management practices;
* Its relationship with staff and service providers;
* Independence; and
* Addressing its external and internal inspection and monitoring results.

There is an increased need for current and prospective clients to have access to firm and engagement level information, through a transparency report, to support long term planning of the audit service, and to support the tendering process for audits ahead of rotating their audit firm. With the current unprecedented level of scrutiny on audit firms, it is in a firm's best interest to be transparent, and for the audit industry to embrace the attitude of disclosure and transparency that is encouraged among their clients.The IAASB's International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, issued in 2009, which is applicable to all firms, is in the process of being revised. Current drafts of proposed ED ISQC 1 discussed by the IAASB recognise the role of external communication in a system of quality management and that a firm's external reporting obligations could be established in law, legislation or professional standards in different jurisdictions. The drafts further anticipate that the firm will communicate relevant information about its system of quality management to relevant external parties. While we await the development and finalisation of this standard, the IRBA through this announcement is encouraging the voluntary development of this reporting in the industry, and look forward to preparers sharing these reports with the IRBA and the community of users relevant to that firm.When this draft standard is finalised, the IRBA may use this standard as a basis to prescribe reporting, including the report scope, contents, recipients and responsibility.The IRBA has created a webpage that is a central source for all guidance or other information currently available in relation to transparency reporting. The webpage includes links to legislation mandating transparency reporting in other parts of the world, publications related to transparency reporting and links to examples of transparency reports that have been issued, both locally and internationally. These resources would be helpful to firms embarking on preparing a transparency report.Firms are encouraged to develop transparency reports for the South African market-place that include, for example, a relevant discussion and disclosures about the firm's:* Structure:
	+ Legal arrangements
	+ Governance structures and their authorities and relationships
	+ Firm shareholders
	+ Network and associations and similar structures, and how the firm ensures a consistent approach to audit quality from all members of the structure
	+ Process to appoint the firm’s leadership.
* Human Capital:
	+ Selection, recruitment and retention
	+ The approach and goals of continuing professional education
	+ Policy concerning the rotation of key audit partners and where relevant staff
	+ Independence practices
	+ Basis for remuneration of partners or directors
	+ Basis of incentives and remuneration in relation to KPIs
	+ Transformation policies and statistics
* Engagement related information:
	+ The firms approach to client acceptance and retention and how related risks are addressed
	+ Identification of PIEs for which the firm has carried out statutory audits
	+ Fees earned from PIE engagements versus non-PIE engagements and their relationship to fees earned from non-assurance services
	+ Information about the non-audit services provided as well as the controls in place to ensure the independence of the assurance functions
	+ Technology and its impact on audit
* Quality management:
	+ Measures to foster audit quality, and quality monitoring and remediation systems
	+ External inspection and monitoring results
	+ Internal monitoring results
	+ Information about the risk environment and the measures implemented to address these
	+ Results of root cause analysis on internal and external review findings
	+ Reporting on performance against key performance indicators for assessing the effectiveness of quality control processes
	+ The firm's audit quality indicators (AQIs)

The IRBA is undertaking a separate project on AQIs. AQIs are qualitative or quantitative measures of audit quality that allow stakeholders to assess these indicators year-on-year internally, across engagements and across firms. Six of the largest audit firms in the UK voluntarily disclose AQIs.Although still to be prescribed in South Africa, firms are encouraged to voluntarily issue transparency reports for their South African activities. This early practice will encourage the maturing of systems, and learning ahead of regulation.The IRBA has prepared a [central resource](https://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/transparency-reporting-and-audit-quality-indicators-aqis) of examples of transparency reports, guidance or other information currently available regarding transparency reports. Should you have any further queries, please do not hesitate to contact the Standards Department by email: standards@irba.co.za.**Imran Vanker****Director: Standards*****About the IRBA****The objective of the IRBA 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 audits conducted by registered auditors, in accordance with internationally recognised standards and processes* |