

The Role of Audit Regulation in Attracting Foreign Direct Investment

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Synopsis

- **The Basic Premise**
- **The IRBA Vision**
- **Key principles for effective regulation**
- **Key requirements for effective audits**
- **Challenges in regulation**
- **Overcoming the challenges**
- **Is it working for SA?**

The Basic Premise

- **Effective Regulation**
 - **Effective Audits**
 - **Reliance on Audit Opinions on Financial Statements**
 - **Credible Financial Markets**
 - **Investment**
 - **Employment Creation**

The IRBA Vision

***The IRBA is an embedded protector of confidence in
the sustainability of the system
While creating an enabling environment for auditors
Thus contributing to the protection of the
South African public***

Key principles for effective regulation

- Independence from profession (but remain the custodian of the profession)
 - Funding must be from outside of the profession
 - Composition of Committees must reflect bias towards non-auditors
- Government, profession and public must understand the difference between regulator and professional bodies
 - Protection of the public versus protection of the profession
 - Objectives of regulator the same as objectives of government
 - Public understands recourse available against auditors
- Enabling audit legislation
 - Clear mandate
 - Enforcement powers
 - Protection and indemnity for staff

Key principles for effective regulation

- Confirm regulatory philosophy
- Composition of governance structures must ensure independent and effective regulation
 - Call for nominations – transparent process
 - Appointment of members
 - Auditor versus non-auditor members
 - Appropriate skills and competencies
 - Independence paramount
 - Highly effective secretariat to support and advise governance structures on technical issues
 - Role of governance structures must be clearly understood
 - Regular Training of members / Induction courses

Key principles for effective regulation

- Governance and processes of regulator must be beyond reproach
 - Internal controls and financial management
 - Compliance with applicable laws and regulations
 - Financial statements and audit report
 - Corporate governance principles applied
 - Due process (registrations, standard setting, investigations, disciplinary procedures)
 - Delegations clear and formalised
 - Transparent in operations
 - Staff educated in terms of vision and mission of the regulator and its philosophy

Key principles for effective regulation

- Effective communication with profession and the public
 - Education
 - Clarification of misperceptions
 - Transparent
- Strong stakeholder relationships
 - Understanding the role of the regulator
 - Consultation with regulator at early stage
- High Quality Staff
 - Clarity on career opportunities
 - Effective remuneration policies
 - Independence
 - Code of Ethics for Staff

Key principles for effective regulation

- Enforcement powers
 - Fair and transparent processes
 - Serves as deterrent
 - Penalties must be sufficiently severe
 - Publication of outcomes of disciplinary hearings
 - Monitoring of remedial action

Key requirements for effective audits

- World Class Auditing Standards
- Appropriate Competency Framework
- Independence
- Competitive Audit Market
- Monitoring through Inspections / Peer Reviews / Sanctions
- Legislative Framework
- Financial Reporting Frameworks
- Audit Committees
- Combined Assurance
- National Environment

Challenges in regulation

- Propensity for change
 - Internal – Not willing to change ‘what works’
 - External – Reluctance to accept change
- Independent funding
 - Understanding reasons for independent funding
- Getting the balance right
 - Overregulation versus self regulation
- Misperceptions from the public and stakeholders
 - Protection of the public versus protection of the profession

Challenges in regulation

- Combined power of global networks
 - Caution not to underestimate
- Responding to global trends
 - While responding to local needs
- Monitoring other legislation
 - Direct or indirect impact on profession
- Responding to investor needs
 - Not always clear what investors want

Challenges in regulation

- Challenges to due process
 - Auditors will attack process if merits of case strong
 - Processes take longer and effectiveness questioned
- Responding to auditor needs
 - Lack of mechanisms to identify needs
 - Prioritising projects to respond to needs
 - Balancing the needs of other regulators
- Limiting legislation
 - Inhibits processes and effectiveness
- Misperceptions of role
 - Impacts on cooperation and trust

Overcoming the Challenges

- Propensity for change
 - Internal – CHANGE Management
 - Internal – Change MANAGEMENT
 - External – Depends on ‘State of the Nation’
 - External – Adjust Regulatory Philosophy
- Independent funding
 - Consider different models for funding
 - Engage with other regulators and government
- Getting the balance right
 - Depends on status of profession, confidence in profession etc.
- Misperceptions from the public and stakeholders
 - Education through media and stakeholder relationships

Overcoming the Challenges

- Combined power of global networks
 - Global Harmonisation of regulatory practices (IFIAR)
 - Sharing of best practice and challenges in regulation (IFIAR)
 - Speaking with 'One Voice'
 - Participation and influence on international structures
- Responding to global trends
 - Engage with local profession
 - Strengthen international relationships
- Monitoring other legislation
 - Strengthen relationships with stakeholders
 - Branding Strategies – stakeholders must know that they should engage with regulator

Overcoming the Challenges

- Responding to investor needs
 - Engage with relevant stakeholders
 - Participation in IFIAR Investor Working Group
- Challenges to due process
 - Communication of due process
- Responding to auditor needs
 - Establish a Steering Committee
- Limiting legislation
 - Continuous engagement with government and legislature
- Misperceptions of role
 - Strengthen stakeholder relationships
 - Deliver!

Key Messages

- Have a vision, mission, regulatory philosophy and branding strategy
- Ensure regulator independence
- Create sustainable funding model that will not compromise independence
- Engage with profession and stakeholders
- Create effective governance structures
- Promote effective communication and education of auditors, stakeholders and public about role of regulator
- Go Global

Is it working for SA?

- South Africa achieved number 1 position for its auditing standards in the World Economic Forum's Global competitiveness Survey for three years running (2010-2012).
- The IRBA is selected by the World Bank to roll out a pilot project to strengthen regulation in neighboring country.
- The IRBA is approved by the European Union as a regulator which is equivalent to the best in the world
- Participation in international structures and projects
 - IFAC IAASB: Audit Quality, ISA Implementation, Reporting Round Tables
 - IFAC IAESB: Board member and Task force member on IES 2 and 8
 - IFAC IAESB CAG
 - IFIAR: SCWG
- Regulation of other industries in SA

It can also work for you!

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