

# Proposed IRBA Rules

June 2022

*Comments requested by 19 August 2022*



## Proposed IRBA Rules Arising from the International Standards on Quality Management

### **WARNING TO READERS**

*The content of these proposed IRBA Rules should under no circumstances be used or relied upon,  
until the IRBA issues these proposals as Rules.*

## REQUEST FOR COMMENTS

The Independent Regulatory Board for Auditors (IRBA) has approved these proposed IRBA Rules arising from the International Standards on Quality Management (QM)<sup>1</sup> by the International Auditing and Assurance Standards Board (IAASB) (the proposed IRBA Rules). The IRBA Board approved these proposed IRBA Rules in January 2022 for exposure for a period of not less than 30 days, for public comment. The proposed IRBA Rules may, however, be modified in light of the comments received, before being issued in their final form.

The proposed IRBA Rules arose from the consultation and recommendations to the IRBA Board from the IRBA's Committee for Auditing Standards (CFAS).

### The IRBA's Legislative Mandate

The objects of the Auditing Profession Act No. 26 of 2005, as amended (the Act), are set out in Section 2 and include, inter alia:

- (c) *“to improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*
- (d) *to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession”.*

To give effect to the objects of the Act, Section 4(1) sets out the IRBA's general functions, which include that *“the Regulatory Board must, in addition to its other functions provided for in this Act -*

- (a) *“take steps to promote the integrity of the auditing profession;”* and
- (c) *“prescribe standards of professional competence, ethics and conduct of registered auditors”.*

To enable the IRBA to meet these requirements, Section 4(2)(a) states that *“the IRBA may participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession”.*

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<sup>1</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

### The IRBA's Powers to Make Rules

Section 10 of the Act empowers the IRBA Board to, by notice in the Government Gazette, prescribe rules. This means the IRBA Board is required to publish a draft of the proposed rule(s) in the Gazette, together with a notice calling on the public to comment in writing within a period stated in the notice, which period may not be less than 30 days from the date of publication of the notice.

The proposed IRBA Rules may be downloaded free-of-charge from the IRBA website at: [www.irba.co.za](http://www.irba.co.za).

Comments should be submitted by **19 August 2022**.

Respondents are requested to submit their comments electronically in Word and PDF formats to Imran Vanker, the Director Standards, by emailing [standards@irba.co.za](mailto:standards@irba.co.za). All comments will be considered a matter of public record and will be posted on the IRBA website ([www.irba.co.za](http://www.irba.co.za)). Responses received will assist the Board to identify any further necessary changes to the amendments.

Comments may also be mailed to:

The Director Standards  
Independent Regulatory Board for Auditors  
PO Box 8237  
Greenstone, 1616  
South Africa

Should you have any queries, or experience any technical difficulties in downloading the documents, please email the Standards Department at [standards@irba.co.za](mailto:standards@irba.co.za) or contact:

Imran Vanker Tel: +27 (0)87 940 8838 Fax: +27 (0)86 575 6535 Email: <a href="mailto:IVanker@irba.co.za">IVanker@irba.co.za</a>	Ian Mtegha Tel: +27 (0)87 940 8860 Fax: +27 (0)86 575 6535 Email: <a href="mailto:IMtegha@irba.co.za">IMtegha@irba.co.za</a>
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EXPLANATORY MEMORANDUM

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## EXPLANATORY MEMORANDUM

### Introduction

This memorandum provides background to and an explanation of the *proposed IRBA Rules Arising from the International Standards on Quality Management (QM)*<sup>2</sup> by the International Auditing and Assurance Standards Board (IAASB) (the proposed IRBA Rules). In January 2022, the IRBA Board approved these rules for issue on exposure for public comment, for a period of not less than 30 days from the date of publication of the notice in the Government Gazette.

The IRBA welcomes all comments on the proposed IRBA Rules. In addition to general comments, it welcomes responses to the specific questions posed in this memorandum.

### Background

The IRBA's objective is "to endeavour to protect the financial interests of South Africa through the effective and appropriate regulation of assurance conducted by registered assurance providers in accordance with internationally recognised standards and processes". Therefore, having taken its objective into consideration, the IRBA puts forward these proposed IRBA Rules.

### Rationale for the Proposed IRBA Rules

In March 2021, the IRBA Board approved the adoption and issue of the [QM standards](#). As with all standards issued by the IAASB (unless indicated otherwise), the early adoption of the QM standards is permitted by the IRBA. The effective date also provides for a wide-scale transition of systems; the development of policies and procedures; an assessment of service providers; an establishment of network level controls and responses; and the preparation of resources to support the system of quality.

International Standard on Quality Management (ISQM) 1 is effective as indicated below:

- Systems of quality management in compliance with this ISQM are required to be designed and implemented by 15 December 2022; and
- The evaluation of the system of quality management required by paragraphs 53-54 of this ISQM is required to be performed within one year following 15 December 2022.

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<sup>2</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

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In terms of its focus, ISQM 1 deals with the firm's responsibilities:

- To design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements; and
- To establish policies or procedures that address engagements that are required to be subject to engagement quality reviews.

ISQM 2 is effective as follows:

- Audits and reviews of financial statements for periods beginning on or after 15 December 2022; and
- Other assurance and related services engagements beginning on or after 15 December 2022.

In terms of its focus, ISQM 2 deals with the firm's responsibilities in relation to:

- The appointment and eligibility of the engagement quality reviewer (EQR); and
- The EQR's responsibilities relating to the performance and documentation of an engagement quality review.

The QM standards contain multiple paragraphs (mostly, application paragraphs) that indicate that local jurisdictions may have in place (or may issue) local laws, regulations or relevant ethical requirements to supplement/strengthen/tailor the standards; or these may be related to the requirements contained in ISQM 1 and ISQM 2, without overriding any of the requirements of the QM standards. In some cases, South Africa may already have such laws, regulations or relevant ethical requirements (for example, the Auditing Profession Act or the Companies Act), but the QM standards envisage a number of other areas that local regulators may decide to regulate.

The IRBA, the Committee for Auditor Ethics (CFAE) and the CFAS considered each of the relevant paragraphs contained in ISQM 1 and ISQM 2, as well as whether South Africa has already issued, or should issue, local laws, regulations or relevant ethical requirements to supplement/strengthen/tailor the requirements contained in the QM standards that are applicable to audit firms and registered auditors (RAs) locally. Consequently, the local laws, regulations or relevant ethical requirements that the IRBA, the CFAE and the CFAS considered developing were as follows:

- An authoritative IRBA pronouncement (contained in a South African Practice Statement or Guide, or other relevant pronouncement);
- Include a new section in the [IRBA Code of Professional Conduct for Registered Auditors](#) (IRBA Code);
- Issue an IRBA Rule in terms of Section 10(1) of the Auditing Profession Act 26 of 2005, as amended (APA), or any other relevant legislation; and/or
- Amend the APA.

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The CFAS then established a consultative working group (CWG) to advise on the QM Standards – Local Laws and Regulations Project and inform it on issues relating to the QM Standards.

The CWG's objective was to perform a gap analysis of South African laws and regulations, for the IRBA and the CFAS to consider whether the country already has, or the possibility exists for, local laws, regulations or relevant ethical requirements to supplement/strengthen/tailor these, in line with the requirements contained in ISQM 1 and ISQM 2 that are applicable to audit firms and RAs in the country.

This was the first known time that the CFAS had formed a CWG. This approach, though, is consistent with the nature of this project and the CFAS approved strategy, which emphasises research and consultation. In addition, this preliminary step is pre-public exposure that allows for a future project to be appropriately directed; and it also suggests whether there are any matters that need a standard-setting initiative and, therefore, a public consultation process. While the CWG process involved IRBA staff as well as CFAS members and their technical advisors, other representatives from the profession also participated, making it diverse and beneficial for multiple stakeholders.

Following the CWG process, the CFAS approved a project proposal on *Quality Management Standards – Local laws and regulations*.

A CFAS Task Group was then formed to consider possible recommendations that the CFAS could table for the IRBA Board's consideration as one of its sub-projects. After the conclusion of the task group process, the CFAS, at its meeting in August 2021, considered the following five recommendations to be made to the IRBA Board, and these prescribe, through an IRBA Rule or other relevant enabling provision:

1. A prohibition of non-RAs from holding the position of CEO (or equivalent) in a firm, as defined in the APA.
2. The mandatory preparation of transparency reports for firms, as defined in the APA, that audit financial statements of listed entities.
3. The specific further entities and/or engagements when an engagement quality review should be performed, in addition to those engagements scoped in by ISQM 1.
4. Further minimum requirements to be eligible as an EQR and an assistant to an EQR. This is in addition to the requirements in ISQM 2 and related firm policies or procedures.
5. The assembly of audit documentation within 60 days and a retention period of a minimum of five years, or such longer period as determined by other laws and regulations or firm policies/procedures.

Regarding the abovementioned IRBA Board proposals, the CFAS (at its August 2021 meeting) voted as follows:

1. The prohibition of non-RAs from holding the position of CEO (or equivalent) in a firm, as defined in the APA - The CFAS voted against this recommendation with the following reasons being noted:

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- It will exclude valuable expertise if we limit the role of a firm's CEO to an RA;
  - This is not in line with international practices where for example some European countries have lawyers as CEOs of audit firms;
  - Most firms are multi-disciplinary (i.e., provide advisory and audit services). As a result, such a rule would lead to a loss of other revenue streams and may result in a higher proportion of audit fees as well as reduction in audit independence due to the firms' dependency on the audit fees; and
  - As an alternative, IRBA could consider a separate CEO for the portion of the firm that provides audit services.
2. To prescribe, through an IRBA rule, or other relevant enabling provision, the mandatory annual preparation of transparency reports for firms that audit listed entities - Unanimous approval by the CFAS.
  3. To prescribe, through an IRBA rule, or other relevant enabling provision, that an engagement quality review be performed on the engagements of audits of financial statements of public interest entities, as defined in the IRBA Code, in addition to those engagements scoped in by ISQM 1 - Unanimous approval by the CFAS.
  4. The prescription of further minimum requirements to be eligible as EQR and an assistant to an EQR – the CFAS approved this recommendation subject to amending this proposal to link this only to the audit of a public interest entity (PIE) as defined in the IRBA Code. The vote was not unanimous.
  5. To prescribe, through an IRBA rule, or other relevant enabling provision, that the assembly of audit documentation should not exceed 60 days and a retention period be a minimum of five years, or such longer period as determined by other laws and regulations or firm policies or procedures. Further, that the retention of documentation for the system of quality management be for a period of a minimum of five years, or such longer period as determined by other laws and regulations or firm policies or procedures - Unanimous approval by the CFAS.

The IRBA's Management Committee (IRBA's MANCO), at its meeting on 16 November 2021, agreed with CFAS' recommendation to the IRBA Board on proposals 2,3 and 5 above.

The IRBA's MANCO disagreed with CFAS on proposal 1 above, with the following reasons being noted:

- The CEO is a director in terms of the Companies Act and as such cannot be a non-RA in relation to a firm as defined in the APA. This is because the APA requires all directors of a firm to be RAs;
- An RA CEO is considered to have the right skills and expertise required to discharge the responsibilities that arise out of ISQM;
- The CEO will only fall under the IRBA's regulatory reach/ umbrella if the CEO is required to be an RA as per the APA;



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- The current mixed views in the marketplace regarding whether a non-RA can be a CEO of a firm as defined in the APA necessitate an IRBA rule for clarification purposes;
- ISQM 1 allocates responsibility to the CEO, as such there is no other way to appropriately discharge these responsibilities unless one is an RA; and
- The CEO is the correct level of authority to set the tone in an organisation and takes ultimate responsibility, and is required to sign a confirmation over the entire firm's quality management.

Further, IRBA MANCO disagreed with limiting proposal 4 to audits of PIEs as defined in the IRBA Code as it preferred a standardised approach across the audit industry to enhance audit quality.

Subsequent to this, the abovementioned proposals were tabled at the January 2022 IRBA Board meeting for its consideration. The approved IRBA Board proposals, after duly considering CFAS and IRBA MANCO's conclusions, are set out below.

### Proposed Rule 1: Firm CEO

This proposed Rule is informed by the considerations in paragraphs 20(a), 20(b), 21, A35 and A37 of ISQM 1. Of these, paragraphs 20(a), 20(b) and A35 state the following: "The firm shall assign: (Ref: Para. A32-A35)

- (a) Ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent).
- (b) Operational responsibility for the system of quality management.

Responsibilities (Ref: Para. 20-21, 28(d))

A35. *How the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities.*" (Emphasis added.)

In addition, paragraphs 21 and A37 of ISQM 1 state the following: "In assigning the roles in paragraph 20, the firm shall determine that the individual(s): (Ref: Para. A37)

- (a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfil their assigned responsibility; and (Ref: Para. A38)

Responsibilities (Ref: Para. 20-21, 28(d))

A37. *Law, regulation or professional standards may establish additional requirements for an individual assigned responsibility for a matter(s) in paragraph 20, such as requirements for professional licensing, professional education or continuing professional development.*" (Emphasis added.)

As a result, the IRBA Board is of the opinion that the ultimate responsibility to fulfil the role required by paragraph 20(a) and (b) of ISQM 1 should be limited to the CEO (or equivalent).

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It may be delegated, but accountability and responsibility cannot be taken away. Further, it may assist to assign a quality control partner to assist the CEO, but the CEO should still take ultimate responsibility, as envisioned under ISQM 1. This then informs the need for the proposed Rule to prohibit non-RAs from holding the position of CEO (or equivalent) in a firm, as defined in the Act.

With the aforementioned reasons, the IRBA Board therefore proposes the following Rule:

A prohibition of non-RAs from holding the position of CEO (or equivalent) in a firm (as defined in the APA), subject to firms being allowed to appoint CEOs for their assurance divisions (the CEO must be an RA), if a different non-RA CEO is to be appointed for the non-assurance division (the CEO can be an RA or any other suitable individual).

### Proposed IRBA Rule 2: Transparency Reports

This proposed Rule is informed by the considerations in paragraphs 33(d)(ii) and A114 of ISQM 1, which state that: “The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A109)

...

(d) Relevant and reliable information is communicated to external parties, including:

...

(ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties’ understanding of the system of quality management. (Ref: Para. A114-A115)

Communication with Others External to the Firm (Ref: Para. 33(d)(ii))

A114. Examples of when law, regulation or professional standards may require the firm to communicate information to external parties ...

- *Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report.” (Emphasis added.)*

To promote audit quality as well as ensure comparability when audit committees consider the appointment of audit firms for listed entities, the Rule being proposed is as follows:

The mandatory annual preparation of transparency reports for firms, as defined in the Auditing Profession Act, that audit financial statements of listed entities.

The IRBA Code defines a listed entity as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or marketed under the regulations of a recognised stock exchange or other equivalent body.

### Proposed Rule 3: Engagement Quality Reviews

This proposed Rule is informed by the considerations in paragraphs 34(f)(ii) and A113 of ISQM 1, which state the following: “In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)

...

- (f) The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM 2, and require an engagement quality review for:

...

- (ii) Audits or other engagements for which an engagement quality review is required by law or regulation ... (Ref: Para. A133)

#### Engagements Subject to an Engagement Quality Review

#### Engagement Quality Review Required by Law or Regulation (Ref: Para. 34(f)(ii))

A133. *Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:*

- *Are public interest entities as defined in a particular jurisdiction;*
- *Operate in the public sector or which are recipients of government funding, or entities with public accountability;*
- *Operate in certain industries (e.g. financial institutions such as banks, insurance companies and pension funds);*
- *Meet a specified asset threshold; or*
- *Are under the management of a court or judicial process (e.g. liquidation)”.* (Emphasis added.)

The IRBA notes that ISQM 1, paragraph 34(f)(i), requires an engagement quality review for audits of financial statements of listed entities.

Further, the IRBA considered the examples in paragraph A133 and agreed that the following examples in that paragraph are addressed by the IRBA Code’s definition of a PIE as follows:

- Public interest entities as defined in a particular jurisdiction;
- Entities that operate in the public sector or are recipients of government funding, or entities with public accountability;
- Entities that operate in certain industries (e.g. financial institutions such as banks, insurance companies and pension funds); and/or
- Entities that meet a specified asset threshold.

Having reconciled the examples in paragraph A133 of ISQM 1 to the IRBA Code’s definition of a public interest entity, the IRBA considered whether it currently serves the public interest to limit engagement quality reviews to listed entities, as required by paragraph 34(f)(i) of ISQM 1.

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To address the further protection of the public interest, it is therefore proposed that the IRBA increases the scope (categories) of engagements when an engagement quality review should be performed, in addition to those engagements scoped in by ISQM 1. This increased scope should extend to audits of financial statements of PIEs, as defined in the IRBA Code. This proposed Rule would be in line with the enabling provisions in ISQM 1, paragraph A133.

The IRBA also noted that some firms are already voluntarily performing engagement quality reviews on engagements other than listed entities, based on their firm policies.

Furthermore, the IRBA notes that this Rule may have an impact on firm resources/fees, due to the increased number of engagements that will be subject to an engagement quality review.

The IRBA Code defines a public interest entity as follows:

- (a) A listed entity;
- (b) An entity:
  - (i) Defined by regulation or legislation as a public interest entity; or
  - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator; or
- (c) Other entities, as set out in paragraphs R400.8a SA and R400.8b SA.

In addition, the IRBA Code, paragraph R400.8a SA, states the following:

“Firms shall determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks, insurance companies, and pension funds.
- Number of equity or debt holders.
- Size.
- Number of employees.”

In paragraph R400.8b SA, the IRBA Code states the following:

“A registered auditor shall regard the following entities as generally satisfying the conditions in paragraph R400.8a SA as having a large number and wide range of stakeholders, and thus are likely to be considered as public interest entities:

- (a) Major public entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.
- (b) Banks as defined in the Banks Act, 1990 (Act No. 94 of 1990), and Mutual Banks as defined in the Mutual Banks Act 1993, (Act No. 124 of 1993).
- (c) Market infrastructures as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012).

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- (d) Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and the Short-term Insurance Act, 1998 (Act No. 53 of 1998), excluding micro lenders.
- (e) Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), that hold assets in excess of R15 billion.
- (f) Funds as defined in the Pension Funds Act, 1956 (Act No. 24 of 1956), that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- (g) Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act, 1956 (Act No. 24 of 1956)) with total assets under administration in excess of R20 billion.
- (h) Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), with assets under management in excess of R50 billion.
- (i) Medical Schemes as defined in the Medical Schemes Act, 1998 (Act No. 131 of 1998), that are open to the public (commonly referred to as “open medical schemes”) or are restricted schemes with a large number of members.
- (j) Authorised users of an exchange as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012), who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- (k) Other issuers of debt and equity instruments to the public.”

Further, paragraph R400.8c SA in the IRBA Code states the following:

“If a firm considers an audit client that falls under one or more of the above categories not to be a public interest entity, the firm shall document its reasoning and its consideration of paragraph R400.8b SA.”

The IRBA Board therefore proposes the following Rule:

That an engagement quality review should be performed for all audits of financial statements of public interest entities, as defined in the IRBA Code, in addition to those engagements scoped in by ISQM 1.

### Proposed Rule 4: Engagement Quality Reviewer (EQR) and an Assistant to an EQR

This proposed Rule is informed by the considerations in paragraphs 18(c), A16, 20(b) and A20-A21 of ISQM 2, which state the following: “The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4)

...

- (c) Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A16)

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Law or Regulation Relevant to Eligibility of the Engagement Quality Reviewer (Ref: Para. 18(c))

A16. *Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, in some jurisdictions, the engagement quality reviewer may need to possess certain qualifications or be licensed to be able to perform the engagement quality review.*” (Emphasis added.)

Paragraphs 20(b) and A20-21 of ISQM 2 state the following: “The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:

...

(b) Comply with relevant ethical requirements, including in relation to threats to their objectivity and independence and, *if applicable, the provisions of law and regulation.* (Ref: Para. A20-A21)

Circumstances When the Engagement Quality Reviewer Uses Assistants (Ref: Para. 20-21)

A20. The guidance in paragraph A14 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.

A21. When the engagement quality reviewer is assisted by an individual external to the firm, the assistant’s responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.” (Emphasis added.)

Paragraph 18 of ISQM 2 states the following: “The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and:

- (a) Has the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A5-A11)
- (b) Complies with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer; and (Ref: Para. A12-A15)
- (c) Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A16)”

Further, paragraph 19 of ISQM 2 states that “the firm’s policies or procedures established in accordance with paragraph 18(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of engagement quality reviewer. (Ref: Para. A17-A18)”

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In addition, paragraph 20 states the following: “The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:

- (a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: Para. A19)
- (b) Comply with relevant ethical requirements, including in relation to threats to their objectivity and independence and, if applicable, the provisions of law and regulation. (Ref: Para. A20-A21)”

With that background from ISQM 2, the IRBA Board proposes the following Rule, in addition to what is set out in ISQM 2, for eligibility as an EQR and an assistant to an EQR:

The engagement quality reviewer must be registered with the IRBA as a registered auditor (RA)<sup>3</sup>. Further, an assistant to an engagement quality reviewer must have, as a minimum, three years of relevant<sup>4</sup> expertise<sup>5 6, 7 8</sup>

### Proposed IRBA Rule 5: Assembly and Retention of Audit Documentation

This is informed by the considerations in paragraphs 31(f), A83, A85 and 60 of ISQM 1. Of these, paragraphs 31(f), A83 and A85 state the following: “The firm shall establish the following quality objectives that address the performance of quality engagements:

...

- (f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. (Ref: Para. A83-A85)

#### *Engagement Documentation* (Ref: Para. 31(f))

*A83. Law, regulation or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of engagements conducted under the ISAs or ISAEs, an appropriate time limit within which to complete the*

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<sup>3</sup> At the time of accepting the responsibility for being the EQR and throughout the engagement.

<sup>4</sup> What is relevant is a matter of professional judgment.

<sup>5</sup> The Glossary of Terms to the IAASB Handbooks defines expertise as “skills, knowledge and expertise in a particular field”.

<sup>6</sup> The expertise may be technical knowledge and/or practical skills.

<sup>7</sup> Before being appointed as an assistant to an EQR.

<sup>8</sup> This Rule does not extend to pre-issuance reviews (equivalent to an engagement quality review) as governed by the Auditor-General of South Africa through the Public Audit Act, No. 25 of 2004, as amended.

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assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

A85. *Law, regulation or professional standards may prescribe the retention periods for engagement documentation.* If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under the ISAs or ISAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable." (Emphasis added.)

Paragraph 60 of ISQM 1 states the following: "The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation."

The IRBA Board therefore proposes that to ensure a consistent application of the ISAs in the audit market, it should issue an IRBA rule to remove any ambiguity and interpretation issues.

The ISAs state that "... the assembly of the final engagement file is *ordinarily* not more than 60 days after the date of the engagement report ..." and "the retention period is *ordinarily* no shorter than five years from the date of the engagement report ..." (emphasis added).

The above wording in the ISAs is difficult to regulate and/or inspect, as it uses the words "ordinarily" regarding the time period for the assembly and retention of audit documentation; therefore, this proposal may also assist firms with achieving clarity for inspection purposes.

Further, the IRBA Board proposes that the retention period extends to the documentation of the system of quality management, as envisioned by paragraph 60 of ISQM 1.

To that end, the IRBA Rule proposes that:

- The assembly of the final engagement file shall not exceed 60 days;
- The retention period for the engagement documentation be a minimum of five years, or such longer period as determined by other laws and regulations or firm policies/procedures; and
- The retention of documentation for the system of quality management be for a minimum period of five years, or such longer period as determined by other laws and regulations or firm policies/procedures.



## **Overall Impact of the Proposed IRBA Rules**

### Implication for the auditing profession

The proposed IRBA Rules will promote and enhance audit quality, thereby, strengthening the reputation of the auditing profession, and assist in restoring confidence.

### Regulators (South African Reserve Bank, IRBA, etc.)

These proposed IRBA Rules will impact regulators and are intended to result in a strengthening of audit quality. Also, these proposals will have a bearing on the IRBA's regulatory authority and effectiveness.

### At a firm level and for registered auditors

The proposed amendments place additional responsibility on audit firms as follows:

- They will be required to consider the appointment of RAs as CEOs of their firms;
- Mandatory preparation of transparency reports in instances where the firms audit financial statements of listed entities;
- Specific entities and/or engagements when an engagement quality review should be performed, in addition to those engagements scoped in by ISQM 1; and
- Consideration of the assembly and retention of audit documentation.

### At an engagement level

- Minimum requirements to be eligible as an EQR and an assistant to an EQR, in addition to the requirements in ISQM 2; and
- Consideration of the assembly and retention of audit documentation.

### Impact on firms with non-RA CEOs

Proposed IRBA Rule 1 may result in firms appointing two CEOs in respect of the assurance and non-assurance divisions or the replacement of a non-RA CEO, for the firms to effect the aforementioned IRBA Rule. This may result in cost implications for the firms in relation to the appointment of two CEOs. Furthermore, this may lead to a restructuring of firms from a governance perspective. To account for the transitional period and the aforementioned considerations, the IRBA proposes that this Rule only be effective 24 months after its prescription.

### Impact on firms' succession planning

The restriction that the assurance division CEO be an RA may have an impact for firms that have policies that allow for the appointment of non-RA CEOs. However, this may also provide firms with an opportunity to ensure that their RA pools are well resourced to provide for succession planning, with respect to the appointment of the assurance division CEOs.

### Impact on the availability of an EQR/planning for engagement quality reviews

Proposed IRBA Rule 3 will affect firms that are planning for engagement quality reviews, as it widens the pool of engagements that require an engagement quality review from listed entities, as required in ISQM 1, to PIEs. This may also require firms' policies and methodologies to be updated, in addition to an increase in the firms' EQR resources.

Further, proposed IRBA Rule 4 may, in the short term, reduce the pool of EQRs as registration with the IRBA as a registered auditor was previously not a precondition to perform an engagement quality review. With these recommendations, though, IRBA Rule 4 proposes a required registration with the IRBA as a registered auditor, in addition to the eligibility requirements in ISMQ 2. This will also result in updates to the firms' policies and methodologies before they can implement this Rule.

### Cost implications for some engagements

Proposed IRBA Rules 3 and 4 may result in cost implications for those engagements where previously there was no engagement quality review performed and/or where individuals, other than RAs, were used as EQRs.

### Impact for firms that do not comply with proposed IRBA Rule 5 (assembly of the final engagement file within 60 days)

Firms that do not comply with the prescription of a maximum of 60 days for the assembly of the final engagement file run the risk of being issued with an IRBA inspection finding as well as the possible instigation of disciplinary proceedings resulting from such a finding(s).

### Impact on stakeholders and those charged with governance (TCWG) based on the availability of transparency reports

The availability of transparency reports will allow external stakeholders (including TCWG) to appropriately understand a firm's system of quality management by providing insights into a firm's:

- Structures and governance processes;
- System of quality management and its operating effectiveness;
- Quality risks<sup>9</sup> and responses to those risks; and

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<sup>9</sup> ISQM 1 defines a quality risk as a risk that has a reasonable possibility of:

- (i) Occurring; and
- (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

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- Other relevant information that will assist external parties to understand a firm's system of quality management.

### Impact of not meeting the requirements for the eligibility for an engagement quality reviewer

The possibility of not meeting the eligibility requirement will result in EQRs that cannot be held accountable and responsible for the performance of engagement quality reviews, as they will fall outside the regulatory reach of the IRBA. Not meeting this requirement will therefore have an impact on the achievement of the objectives of ISQM 1 and ISQM 2.

# PROPOSED IRBA RULES ARISING FROM THE INTERNATIONAL STANDARDS ON QUALITY MANAGEMENT

## Project Timetable

Subject to the comments received throughout this period, the IRBA intends to issue the final rules during the fourth quarter of 2022. The intention is for the various proposed IRBA Rules to be effective as follows:

- Proposed IRBA Rules 1-4 to be effective 24 months (two years) after the IRBA Board's prescription and/or publication of the Rules.
- Proposed IRBA Rule 5 (Assembly and Retention of Audit Documentation) to be effective 12 months (one year) after the IRBA Board's prescription and/or publication of the Rule.

## Transitional Provisions

As these are new IRBA Rules, there are no transitional provisions to be considered.

## Guide for Respondents

The IRBA welcomes comments on all matters addressed in the Exposure Draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the remarks and, where appropriate, make specific suggestions for any proposed changes to the wording.

In addition, the IRBA would prefer that respondents express a clear opinion on the specific questions raised and that opinions are supplemented by detailed comments, whether supportive or critical, on any matter. The IRBA considers both critical and supportive comments as essential for a balanced view of the proposed amendments.

## Request for Specific Comments

The IRBA would welcome views on the following specific questions:

### Question 1: Proposed IRBA Rule 1

- a) Do you support the proposed IRBA Rule 1? Yes / No  
If "No", please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 1? Yes / No  
If "Yes", please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 1? Yes / No  
If "No", please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

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Question 2: Proposed IRBA Rule 2

- a) Do you support the proposed IRBA Rule 2? Yes / No  
If “No”, please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 2?  
Yes / No  
If “Yes”, please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 2? Yes / No  
If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Question 3: Proposed IRBA Rule 3

- a) Do you support the proposed IRBA Rule 3? Yes / No  
If “No”, please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 3?  
Yes / No  
If “Yes”, please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 3? Yes / No  
If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Question 4: Proposed IRBA Rule 4

- a) Do you support the proposed IRBA Rule 4? Yes / No  
If “No”, please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 4?  
Yes / No  
If “Yes”, please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 4? Yes / No  
If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Question 5: Proposed IRBA Rule 5

- a) Do you support the proposed IRBA Rule 5? Yes / No  
If “No”, please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 5?  
Yes / No  
If “Yes”, please indicate what guidance is needed.

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- c) Do you agree with the effective date for the proposed IRBA Rule 5? Yes / No

If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Question 6: Request for Further Comments

- a) Are there any other rule(s) that you believe the IRBA Board should consider so as to supplement and/or strengthen the requirements contained in the ISQMs that are applicable to audit firms and registered auditors? Yes / No

If “Yes”, please provide details of your proposed rule(s) and indicate the reason(s) for your response.

PROPOSED IRBA RULES ARISING FROM THE INTERNATIONAL STANDARDS ON  
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**PROPOSED IRBA RULES<sup>10</sup>**

**Proposed Rule 1: Firm CEO**

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A firm's CEO should be an RA, subject to firms being allowed to appoint CEOs for their assurance divisions (the CEO must be an RA), if a different non-RA CEO is to be appointed for the non-assurance division (the CEO can be an RA or any other suitable individual).

**Proposed Rule 2: Transparency Reports**

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The mandatory annual preparation of transparency reports for firms, as defined in the Auditing Profession Act, that audit financial statements of listed entities.

**Proposed Rule 3: Engagement Quality Reviews**

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An engagement quality review should be performed for all audits of financial statements of public interest entities, as defined in the IRBA Code, in addition to those engagements scoped in by ISQM 1.

**Proposed Rule 4: Engagement Quality Reviewer (EQR) and an Assistant to an EQR**

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The engagement quality reviewer must be registered with the IRBA as a registered auditor<sup>11</sup>. Further, an assistant to an engagement quality reviewer must have, as a minimum, three years of relevant<sup>12</sup> expertise<sup>13 14, 15 16</sup>.

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<sup>10</sup> These Rules should be considered in line with the APA, IRBA Code and the QM Standards.

<sup>11</sup> At the time of accepting the responsibility for being the EQR and throughout the engagement.

<sup>12</sup> What is relevant is a matter of professional judgment.

<sup>13</sup> The Glossary of Terms to the IAASB Handbooks defines expertise as "skills, knowledge and expertise in a particular field".

<sup>14</sup> The expertise may be technical knowledge and/or practical skills.

<sup>15</sup> Before being appointed as an assistant to an EQR.

<sup>16</sup> This Rule does not extend to pre-issuance reviews (equivalent to an engagement quality review) as governed by the Auditor-General of South Africa through the Public Audit Act, No. 25 of 2004, as amended.

**Proposed Rule 5: Assembly and Retention of Audit Documentation**

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- The assembly of the final engagement file shall not exceed 60 days;
- The retention period for the engagement documentation should be a minimum of five years, or such longer period as determined by other laws and regulations or firm policies/procedures; and
- The retention of documentation for the system of quality management should be a minimum period of five years, or such longer period as determined by other laws and regulations or firm policies/procedures.

**Proposed Effective Dates with respect to the abovementioned proposed five IRBA Rules**

The IRBA proposes that:

- Proposed IRBA Rules 1-4 be effective 24 months (two years) after the IRBA Board's prescription and/or publication of the Rules.
- Proposed IRBA Rule 5 (Assembly and Retention of Audit Documentation) be effective 12 months (one year) after the IRBA Board's prescription and/or publication of the Rule.

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