



# QUALITY MANAGEMENT-RELATED CONFORMING AMENDMENTS TO THE IRBA CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS (REVISED NOVEMBER 2018)

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The IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) adopted the *International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (Including International Independence Standards)* published by the International Federation of Accountants (IFAC), which is used with the permission of IFAC. South African adaptations appear in underlined and in italics.

## **DEFINITIONS, INCLUDING LISTS OF ABBREVIATIONS AND STANDARDS**

Engagement quality <del>control</del> -review	<del>A process designed to provide an objective evaluation, on or before the report is issued.</del> <u>An objective evaluation</u> of the significant judgments <u>made by</u> the engagement team <del>made</del> and the conclusions <del>it</del> reached <del>in formulating the</del> <u>thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.</u>
<u>Engagement quality reviewer</u>	<u>A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.</u>
Key audit partner	The engagement partner, the individual responsible for the engagement quality <del>control</del> review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.
Network	A larger structure: <ul style="list-style-type: none"><li>(a) That is aimed at co-operation; and</li><li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality <del>control</del><u>management</u> policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li></ul>

**LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE**  
**LIST OF ABBREVIATIONS**

Abbreviation	Explanation
Assurance Framework	International Framework for Assurance Engagements
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoCo	Chartered Professional Accountants of Canada Criteria of Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISAEs	International Standards on Assurance Engagements
ISQM <del>Cs</del>	International Standards on Quality <del>Management</del> Control
ISREs	International Standards on Review Engagements

**LIST OF STANDARDS OR CODES REFERRED TO IN THE CODE**

Standard	Full Title
<u>IESBA Code</u>	<u>IESBA International Code of Ethics for Professional Accountants (including International Independence Standards)</u>
ISA 320	Materiality In Planning and Performing an Audit
ISA 610 (Revised 2013)	Using the Work of Internal Auditors
ISAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
ISQM <del>C</del> -1	Quality <del>Control</del> <u>Management</u> for Firms that Perform Audits <del>and-or</del> Reviews of Financial Statements, <del>and-or</del> Other Assurance <del>and-or</del> Related Services Engagements
<u>ISQM 2</u>	<u>Engagement Quality Reviews</u>
ISRE 2400 (Revised)	Engagements to Review Historical Financial Statements

## SECTION 120

### THE CONCEPTUAL FRAMEWORK

...

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, ~~the existence of a~~ system of quality management ~~system~~ designed, ~~and~~ implemented and operated by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

## SECTION 300

### APPLYING THE CONCEPTUAL FRAMEWORK – REGISTERED AUDITORS PERFORMING PROFESSIONAL SERVICES

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*The Firm and its Operating Environment*

300.7 A5 A registered auditor's evaluation of the level of a threat might be impacted by the work environment within the registered auditor's firm and its operating environment. For example:

...

- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.

## SECTION 320 PROFESSIONAL APPOINTMENTS

### Client and Engagement Acceptance

#### General

...

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
  - The nature of the client's business;
  - The complexity of its operations;
  - The requirements of the engagement; and
  - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements
- ~~The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.~~ Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

## SECTION 330 FEES AND OTHER TYPES OF REMUNERATION

### Contingent Fees

**R330.4 SA** *A registered auditor shall not charge contingent fees for the preparation of an original or amended tax return, as contingent fees for these services create a self-interest threat to objectivity that cannot be eliminated, and safeguards are not capable of being applied to reduce the threat to an acceptable level.*

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Disclosure to intended users of the work performed by the registered auditor and the basis of remuneration.



- Quality ~~control~~management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

**PART 4**  
**INDEPENDENCE STANDARDS (PARTS 4A AND 4B)**  
**PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**  
**SECTION 400**  
**APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

**Introduction**

**General**

400.4 ~~ISQC–ISQM~~ 1 requires a firm to ~~establish policies and procedures designed to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm, provide it with reasonable assurance that~~ As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence., Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, where applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject, ~~maintain independence where required by relevant ethics requirements.~~ ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A Firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with ISQM ~~ISQC–~~1. In addition, an individual registered auditor remains responsible for compliance with any provisions that apply to that registered auditor's activities, interests or relationships.

**Network Firms**

**R400.53** When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality ~~management control~~ policies and procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

...

400.53 A4 Common quality ~~control~~management policies and procedures are those designed, implemented

and ~~operated~~~~monitored~~ across the larger structure. (Ref: Para. R400.53(c)).

...

## Breach of an Independence Provision for Audit and Review Engagements

### Mergers and Acquisitions

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- R400.73** If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:
- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
  - (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality ~~control~~ review; and
  - (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having a registered auditor review the audit or non-assurance work as appropriate.
- Having a registered auditor, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is consistent with the objective of an engagement quality ~~control~~ review.

Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

...

### *When a Firm Identifies a Breach*

- R400.80** If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:
- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
  - (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
    - (i) Comply with those requirements; and
    - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
  - (c) Promptly communicate the breach in accordance with its policies and procedures to:
    - (i) The engagement partner;
    - (ii) ~~These~~ individual with operational responsibility for ~~the policies and procedures relating to compliance with~~ independence requirements;
    - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
    - (iv) Those subject to the independence requirements in Part 4A who need to take

appropriate action;

- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and
- (e) Depending on the significance of the breach, determine:
  - (i) Whether to end the audit engagement; or
  - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having ~~policies and procedures a~~ system of quality management designed to ~~provide it with reasonable assurance that independence is maintained~~ address independence requirements. It might be necessary to end the audit engagement because of the breach.

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## **SECTION 410 (REVISED) FEES**

### **Requirements and Application Material**

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410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly ~~the existence of a~~ system of quality management ~~system~~ designed, implemented and operated by the firm in accordance with the quality management standards issued by the IAASB) might also - impact the evaluation of whether the threats to independence are at an acceptable level.

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## SECTION 540

### LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

#### Requirements and Application Material<sup>7</sup>

...

Service in a combination of key audit partner roles

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**R540.15** Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality ~~control~~ review for four or more cumulative years, the cooling-off period shall be three consecutive years.

**R540.16** If an individual has acted in a combination of engagement partner and engagement quality ~~control~~-reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

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*[Note: Conforming amendments were made to paragraphs R540.5(b) and R540.12 to replace the terms “engagement quality control review” with “engagement quality review” as part of the finalization of the [EQR revisions](#).]*

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<sup>7</sup>To be read in conjunction with the Section 92 of the South African Companies Act, 2008 (Act No 71 of 2008) for the audits of companies in South Africa.

# PART 4B (REVISED) – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS SECTION 900

## APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

### Introduction

#### General

900.3 ISQMC-1 requires a firm to ~~establish policies and procedures designed to design, implement and operate a system of quality management for assurance engagements performed by the firm. provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards.~~ As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. In addition, ISAEs and ISAs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A Firms assigns operational responsibility for compliance with independence requirements a particular action to an individual(s) or a group of individuals (such as an assurance team) in accordance with ISQMC-1. Additionally, an individual registered auditor remains responsible for compliance with any provisions that apply to that registered auditor's activities, interests or relationships.

## **EFFECTIVE DATE**

The quality management-related conforming amendments to the Code will be effective as of 15 December 2022.