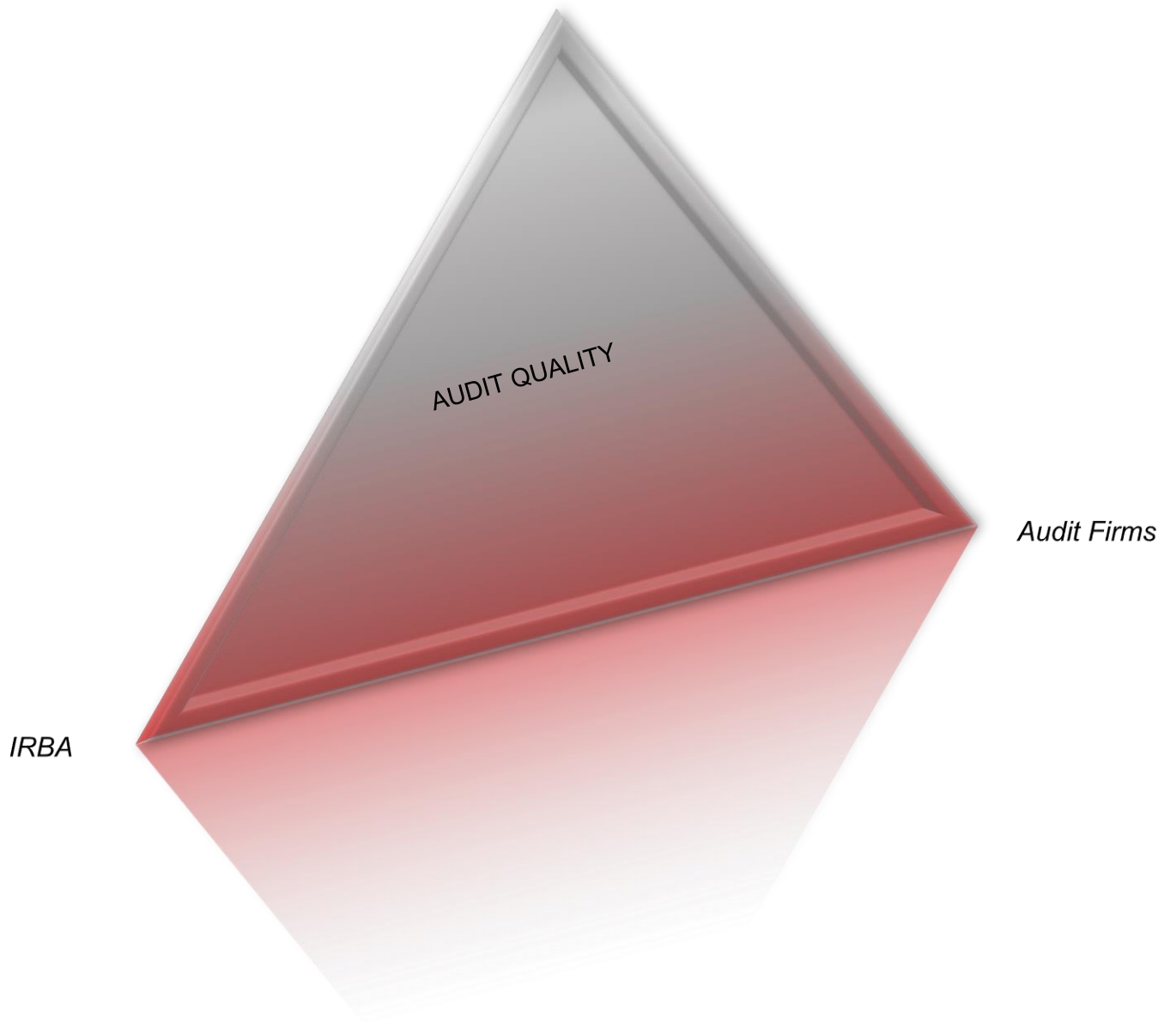


FEEDBACK REPORT: AUDIT QUALITY INDICATORS 2019

Audit Committees



DISCLAIMER

The content of this Feedback Report is based on information provided by selected audit firms, is not verified by the Independent Regulatory Board for Auditors (IRBA), and is for information purposes only. The IRBA does not accept any responsibility or liability for any claim of any nature whatsoever arising out of or relating to this report. Appendix 1 provides a description of the IRBA's methodology and observations about data quality.

HOW TO USE THIS REPORT

Audit Quality Indicators (AQIs) are context specific. High or low ratios may mean different things to different users, and may be interpreted differently when correlated with other statistics. AQIs are also based on the data provided by firms; as such, better quality data may produce more accurate results. Users may consider how AQIs that firms present at an engagement level or firm level compare to the AQIs presented in this Feedback Report. Such comparisons can lead to further discussions and enquiries with auditors, and that can provide deeper insights into audit quality. The Feedback Report does not set out to establish benchmarks or trends. The context of the AQIs should be carefully considered at all times.

The AQIs discussed in this Feedback Report are not exhaustive or the only indicators of audit quality that should be considered.

The references to the *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)* (the IRBA Code)¹ are not exhaustive.

The full suite of the International Auditing and Assurance Standards Board's International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (International Standards), the IRBA Code and applicable legislation should be considered by the user of this Feedback Report.

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¹ The *IRBA Code of Professional Conduct for Registered Auditors* is available on the [IRBA website](#).

Foreword by the IRBA CEO

The IRBA is the statutory regulator of registered auditors in South Africa. Its strategic focus is to protect the financial interests of the public by ensuring that registered auditors deliver services of the highest quality and adhere to the highest ethics standards. The introduction of Audit Quality Indicators (AQIs) is in line with the IRBA's strategic objectives to be more proactive and help restore confidence in the auditing profession.

The AQIs may be used by:

- Auditors to help manage audit quality within their firms;
- Audit committees, as a tool when overseeing and assessing the quality of external auditors; and
- The IRBA, as a further source of information for business intelligence gathering and risk-based selections as part of the IRBA inspections process.

The AQIs cover the following thematic areas: independence; tenure; internal firm quality review processes; workload of partners and audit managers; span of control; technical resources; and training.

Market participants, such as audit committees, are encouraged to solicit this information directly from their current and prospective auditors to assist in their oversight of the external audit function. The IRBA believes this tool and the agreed formulae will assist audit committees to compare the audit quality scores of their auditors against others in the market. It will also assist audit committees and firms to have open conversations about audit quality and what measures could be put in place to satisfy audit committees that the firms they engage can meet their expectations.

Audit firms accredited with the Johannesburg Stock Exchange (JSE) Limited to perform audits of listed companies were requested to submit AQI-related information for their Public Interest Entity (PIE) clients only. This Feedback Report (this report) describes the results of the information submitted, under the broad thematic categories of AQIs listed above. The report also presents the results, with explanations, that audit committees and other users could consider when requesting similar information from their existing or new audit firms, both during the re-appointment and tendering/new appointment processes.

This is the first time that the IRBA has requested this information from firms; it is also the first Report on AQIs in South Africa. We would like to thank the leadership and personnel of the firms for embracing this initiative and for their timely submission of the data. We value the feedback from firms that have indicated how this initiative will be incorporated into their internal quality management processes, and how data quality will be improved.

The AQIs presented in this report provide a rich source of information not seen or published before in this format in South Africa. The granularity of the data and comparisons across firms give the user insights that demonstrate significant differentiations in the audit marketplace. The range of ratios (or scores), with large gaps between the highest and lowest, are an indication that firms' approaches do differ, investments in resources differ and that these inputs may have a bearing on the individual inspection outcomes arising from the IRBA inspections.

We believe that this data will:

- a) Encourage firms to understand the gaps and, where relevant, close those gaps, where they are measured to be laggards; and
- b) Assist firms to consider their approaches to quality and grow their investment in quality to improve their ratios (or scores).

Bernard Peter Agulhas

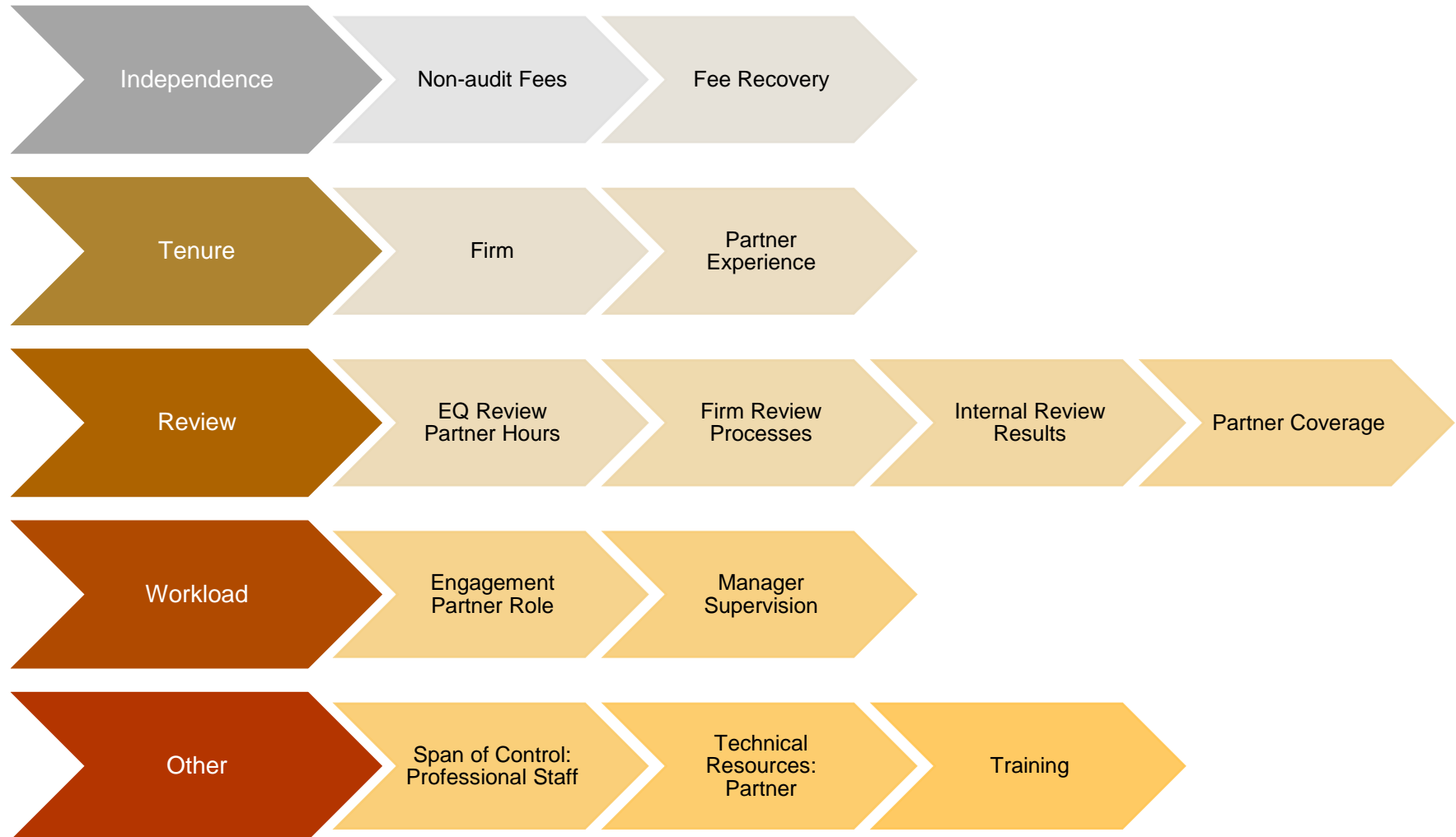
Chief Executive Officer

December 2019

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Overview of AQI Categories



Background to AQIs^{2,3}

What are AQIs?

AQIs refer to a portfolio of quantitative measures provided by an audit firm to an audit committee of their client, or future client; or for use in transparency reports and for regulatory purposes. These measures could be used to enhance dialogue about, and an understanding of, auditors and their audits as well as ways to evaluate their audit quality. That way, audit committees can be better informed about key matters that may contribute to the quality of an audit (both at audit firm level and audit engagement level). This could be to the benefit of the audit committee in discharging its oversight responsibilities regarding the external audit process, including the appointment or reappointment of the external auditor.

What are the benefits of using AQIs?

- They facilitate efficient and effective dialogue between management, those charged with governance and auditors, leading to improved oversight and project management of the audit.
- AQIs can help create a mutual understanding of the roles and responsibilities of each of the parties related to audit quality.
- They focus discussions on those areas, and factors, of the audit that impact audit quality the most.
- AQIs offer improved knowledge of the audit process as well as a more efficient measurement and an evaluation of audit quality, with a proactive focus on potential weaknesses.

What are the challenges of using AQIs?

- AQIs could be misinterpreted, if the context is not provided and/or considered.
- Determining the appropriate and relevant AQIs for the specific engagement and the firm.
- There can be difficulties with understanding unexpected AQI outcomes.
- The collection of AQI information is complex. The quality of data needs to be considered. Refer to the observations about data quality in Appendix 1.

What kinds of decisions can AQIs help audit committees make?

- Asking appropriate questions regarding potential weaknesses in the audit quality value chain.
- Requesting remedial adjustments to be made, e.g. to audit resourcing.
- Which auditors to appoint (tendering process – compare AQIs across firms).
- Whether the auditor should be reappointed.

The context of each AQI should be understood as it is interrogated, in order to make meaningful decisions that will promote high audit quality.

² Some content has been derived from the Canadian Public Accountability Board's *Audit Quality Indicators – Final Report, 2018*, which can be accessed at <http://www.cpab-ccrc.ca/Documents/Topics/Audit%20Quality%20Indicators/AQI%20Final%20Report%20EN.pdf>.

³ Refer to **Appendix 1** for details on our approach; data quality and systems limitations; understanding the graphs – limitations; definitions and parameters; and key observations and learnings.

AQI Observations

Independence: Non-audit Fees (%)

Description/purpose

Non-audit fees billed (Rands invoiced) to the audit client as a percentage of the total audit fees billed (Rands invoiced) to the audit client for completed engagements.

How to interpret the AQI

This is a measure that may indicate threats to independence. It is an indicator that measures the extent to which the firm is dependent on a particular client for audit versus non-audit fees. The indicator is presented as an average per firm.

A higher percentage indicates that the firm receives more fees for non-audit services, such as taxation and consulting, than what it receives for audit services. This may create the impression of diminished independence. Independence threats may jeopardise audit related decision-making.

A higher percentage may also indicate a higher demand (sanctioned by audit committees) from the firm's audit clients for non-audit services.

The King IV Report on Corporate Governance for South Africa, 2016 requires the audit committee to oversee the provision of non-audit services by the external auditor.

The Companies Act of South Africa, 2008 (Act 71 of 2008) requires that the auditor must be acceptable to the company's audit committee as being independent of the company. Furthermore, the IRBA Code places the responsibility for the determination of independence on the auditor.

IRBA Code considerations

Section 410 of the IRBA Code addresses fee dependencies and their impact on independence for audit and review engagements.

R411.4: A firm shall not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

R600.4: Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall determine whether providing such a service might create a threat to independence.

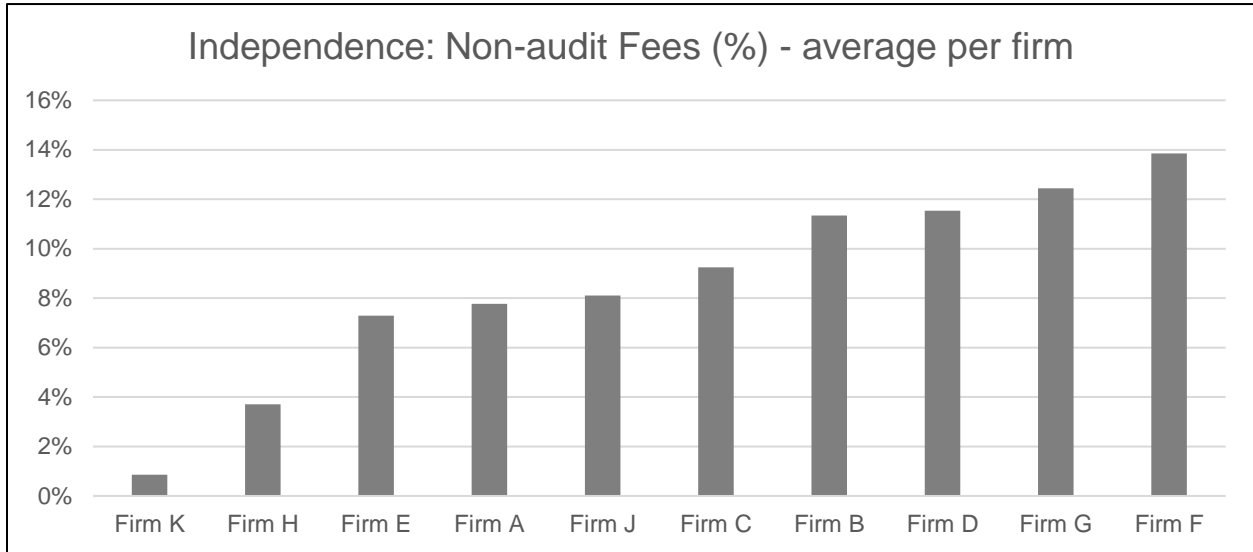
600.5 A4: A firm or network firm might provide multiple non-assurance services to an audit client. In these circumstances, the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Key observations

Lowest percentage: 1%

Highest percentage: 14%

Average percentage: 9%



Independence: Fee Recovery (%)

Description/purpose

Total audit fees billed (Rands invoiced) to the audit client as a percentage of the total audit fees (Rands) internally charged to the audit client for completed engagements.

How to interpret the AQI

A low percentage indicates that a firm has charged less for its actual services (time spent); therefore, fees have been “written off” and not recovered. This may indicate inefficiencies in supervision and project management (time wasted on an audit); or lowballing (discounted fees or fee pressures).

A high percentage indicates that a firm has recovered more of the actual service (hours spent on the engagement) it has provided; therefore, fees have been recovered. This may indicate better efficiencies in supervision and project management. The firm may have budgeted more accurately and final time spent on the engagement may have been more in line with the budget.

This AQI is presented as an average per firm.

IRBA Code considerations

300.6 A1 (a): Self-interest Threats (arise when):

- A registered auditor quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.

330.3 A1: The level of fees quoted might impact a registered auditor’s ability to perform professional services in accordance with professional standards.

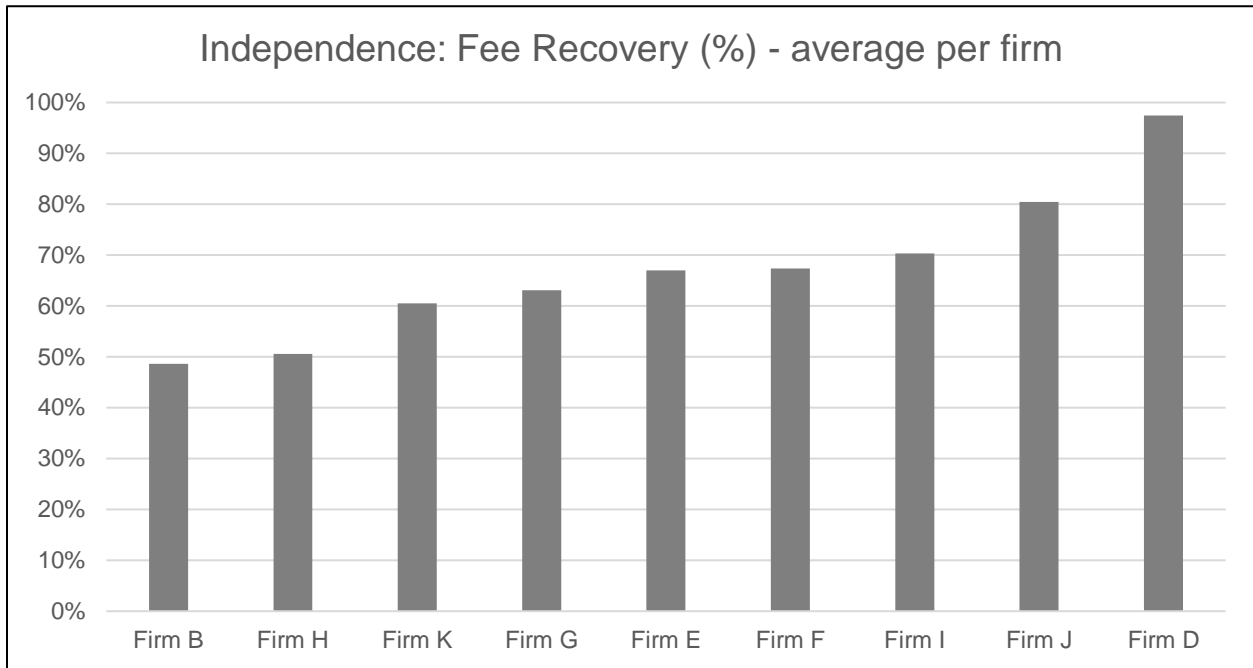
330.3 A2: A registered auditor might quote whatever fee is considered appropriate. Quoting a fee lower than another registered auditor is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care, if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.

Key observations

Lowest average percentage: 49%

Highest average percentage: 97%

Average percentage: 67%



Tenure: Firm (years)

Description/purpose

Average number of completed years as the audit firm for the audit client. This is an indicator of independence.

How to interpret the AQI

The longer the tenure, the greater the familiarity threat to independence. Alternatively, the shorter the tenure, the greater the risk of lack of experience and knowledge of the business. This indicator is presented as an average per firm. It should also be considered in conjunction with:

- the IRBA Rule relating to Mandatory Audit Firm Rotation (MAFR)⁴, and
- the IRBA Rule relating to Disclosure of Audit Firm Tenure on an Audit Client⁵

IRBA Code considerations

Familiarity threat – the threat that due to a long or close relationship with a client, a registered auditor will be too sympathetic to that client’s interests or too accepting of their work.

Key observations

Lowest average number of years: 3

Highest average number of years: 19

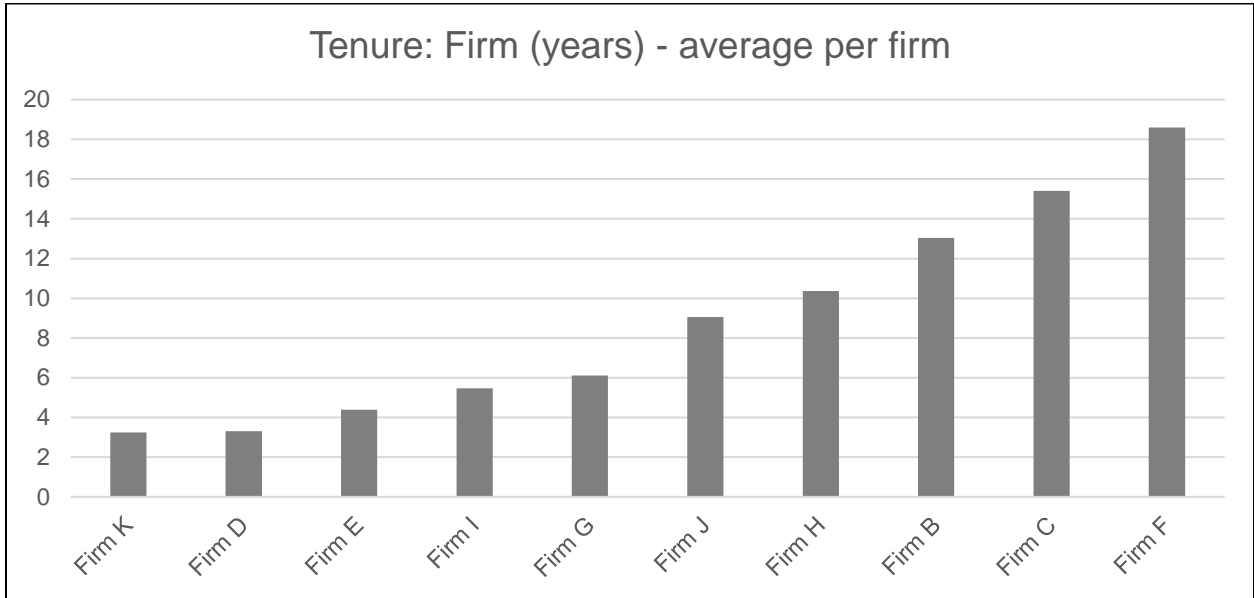
Average number of years: 9

⁴ Available on the IRBA website at:

<https://www.irba.co.za/upload/Government%20Gazette%20with%20Final%20Rule%20-%201%20June%202017.pdf>.

⁵ Available on the IRBA website at:

<https://www.irba.co.za/guidance-for-ras/general-guidance/audit-tenure>.



Tenure: Partner Experience (years)

Description/purpose

An average tenure as an engagement partner (in years). This is also an indicator of years of experience as an engagement partner.

How to interpret the AQI

The greater the number of years, the more experience the engagement partner is likely to have obtained. In understanding this AQI, considerations could be given to whether the engagement partner has kept up to date with Continuing Professional Development requirements and the type of experience gained as an engagement partner.

This AQI is presented as an average per firm.

IRBA Code considerations

R113.1 A registered auditor shall comply with the principle of professional competence and due care, which requires a registered auditor to:

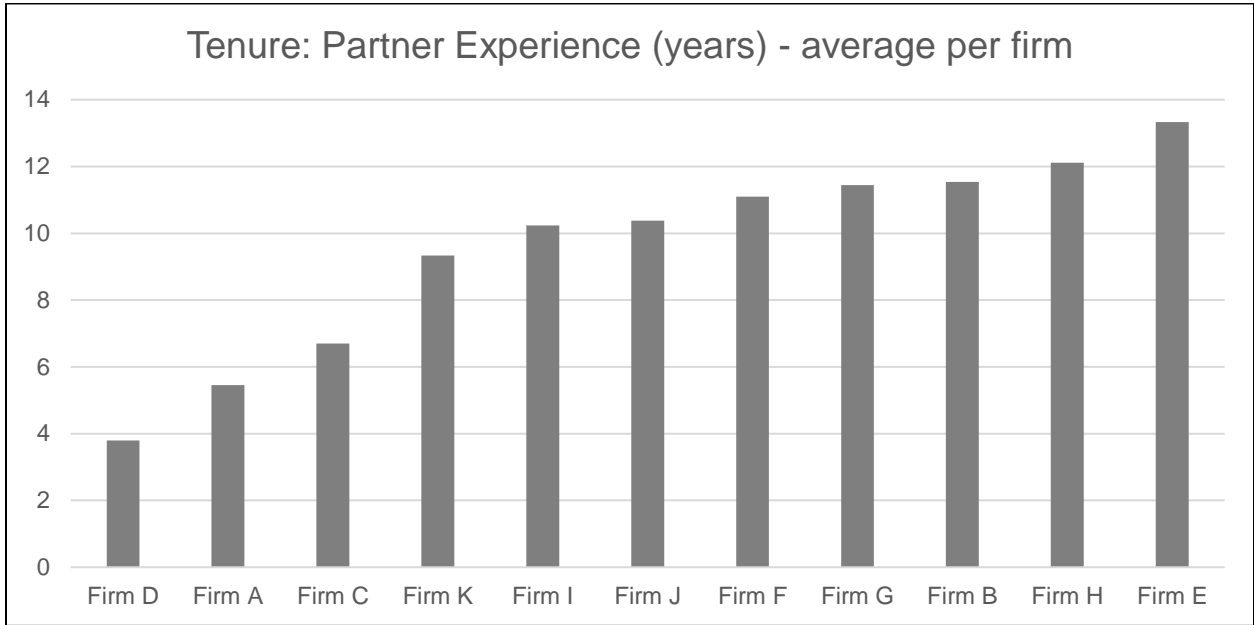
- (a)** Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b)** Act diligently and in accordance with applicable technical and professional standards.

Key observations

Lowest average number of years: 4

Highest average number of years: 13

Average number of years: 10



Review: EQ Review Partner Hours (%)

Description/purpose

The engagement quality (EQ) review partner hours charged to the audit client by the EQ review partner as a percentage of total audit hours charged to the audit client for completed engagements.

How to interpret the AQI

This provides a measure of the depth of pre-issuance EQ reviews, measured by time spent. Higher ratios indicate a greater involvement of the EQ review partner, and potentially a greater number of areas of significant judgement covered in an audit file. Alternatively, lower ratios may indicate that insufficient time was spent by the EQ review partner or that areas of significant judgement were not adequately addressed.

This measure is not an indicator of the eligibility and objectivity of the EQ reviewer.

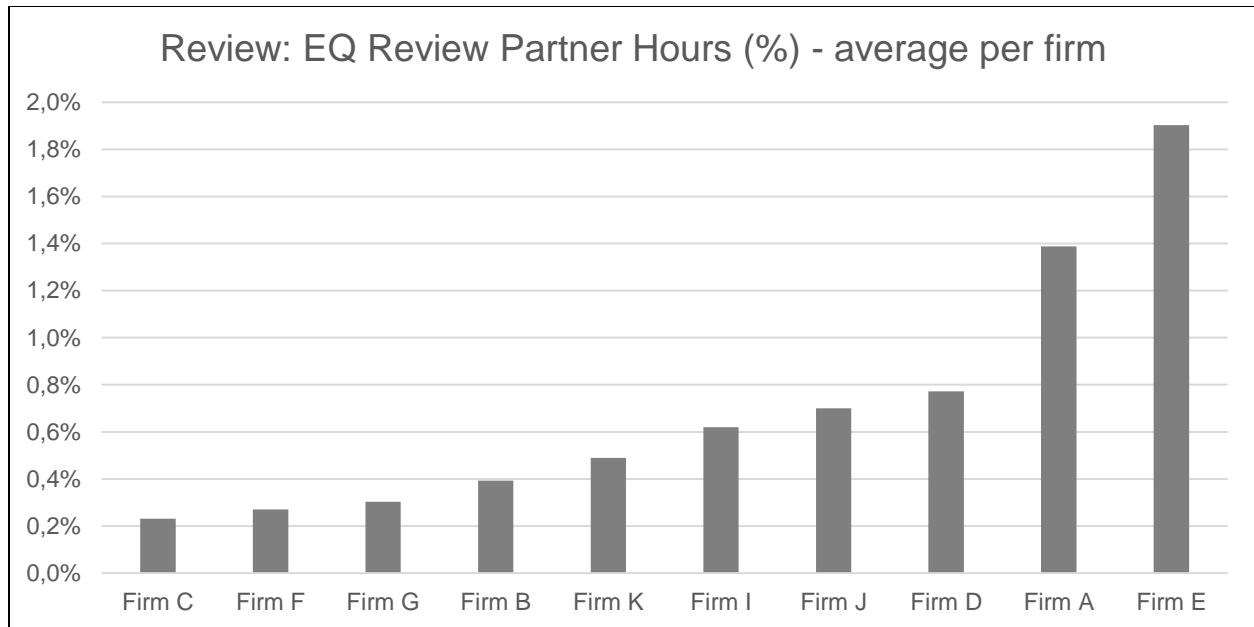
This AQI is presented as an average per firm.

Key observations

Lowest average percentage: 0.2%

Highest average percentage: 1.9%

Average percentage: 0.7%



Review: Firm Review Processes

Description/purpose

A description of and conclusions on engagement related reviews performed by the firm (by personnel outside the engagement team), including the nature of reviews, how many partners were covered and the frequency of reviews.

How to interpret the AQI

This can be used to assess the firm's internal quality management processes (e.g. internal monitoring systems) as well as the quality of engagement performance (the outcome/findings of the internal monitoring systems). Satisfactory results could be an indication that the quality of the engagements is adequate. These internal quality management results can also be compared to the external inspection results (obtainable from the firm).

Key observations

Common features of the majority of firms' internal monitoring systems

- Evidence of the application of 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*; and ISA 220, *Quality Control for an Audit of Financial Statements*.
- **Selection of partners** to be reviewed:
 - A review of engagement partners takes place at least every three (3) years, with some firms performing reviews more frequently and one firm every 3-5 years.
 - Firms with only a few partners, in some cases, review all the engagement partners every year.
 - Several firms described how they select partners for review for a specific year. Factors included:
 - New partners (whether promoted or newly employed).
 - Partners with high-risk clients, such as large, complex, multi-locational, initial, joint and/or regulated industries engagements.
 - Partners with unsatisfactory internal or external review results, including the IRBA inspections results.
 - Several firms mentioned that the selection of partners to be reviewed is done by an independent party (independent of the office, partner and engagement); and the review is performed by an independent party.
- Firms provided the following examples of the **scope** of the review (but not all of the areas listed below are included in each firm's reviews):
 - Acceptance and continuance considerations.
 - Independence and ethical considerations.
 - Planning and completion considerations (all or parts).
 - Risk assessment procedures.

- Communication with management and those charged with governance.
- Audit/assurance evidence obtained for all material amounts, high-risk or significant risk areas.
- Consultations, if any.
- Corrected and uncorrected misstatements.
- Overall conclusions.
- Matters that led to reportable irregularities.
- Audit report, especially where opinions were qualified or modified.
- Annual financial statements.
- Full engagement review for a partner's first review.
- Re-reviews (prior year unsatisfactory results) may be the full scope of the engagement or focus areas.

Review results and implications

- All firms have a rating process, generally from 1 to 3 (with some variations). A rating of 1 would be for satisfactory results, 2 for some low-risk findings and 3 for unsatisfactory results. Most firms perform re-reviews of partners, if the review has shown unsatisfactory results within a year.
- Where the firms are part of a global network, the global policies and procedures are used and adapted for the South African firm. Monitoring of the process occurs at a global level. Reporting on results is at local, regional and global levels.
- Some firms use panels, quality management teams or moderators that are independent member firms to decide on results.
- Several firms mentioned that they consider unsatisfactory results in their remuneration and promotion decisions.
- Most firms provided information on plans to address significant findings or common findings through firm level improvement plans and remediation actions.
- Several firms provided information on communication with staff, including emails, training and additional guidance.

Less common features of firms' internal monitoring systems

- Several firms include an element of surprise in selecting reviews. For example, one firm selects partners to be reviewed based on the above listed factors and then, in addition, performs a few surprise reviews every year. Reviews are then performed without a prior notification of the partner.
- One firm reviews all partners on listed engagements every year.
- One firm has appointed an independent external consultant to perform the reviews.
- One firm mentioned that it performs a root cause analysis (RCA) of findings, and positive elements are also included in the RCA. Positive elements are then communicated to audit teams and may be built into the quality management system.

Review: Internal Review Results (%)

Description/purpose

An average percentage of all results ratings of engagement partners, subject to internal reviews during the calendar year.

How to interpret the AQI

All firms have a rating process, generally from 1 to 3 (with some variations). A rating of 1 is for satisfactory results, 2 for some low-risk findings and 3 for unsatisfactory results. The ratings have been standardised for the purpose of the graph below. For example, where a firm has a rating system of 1 to 4, ratings 3 and 4 have been included in this standardised rating of 1 to 3.

Results have been depicted as a percentage of review results. For example, 35% of a firm's engagement partners received a satisfactory review rating of 1; 45% received a low-risk finding review rating of 2; and 20% received an unsatisfactory review rating of 3.

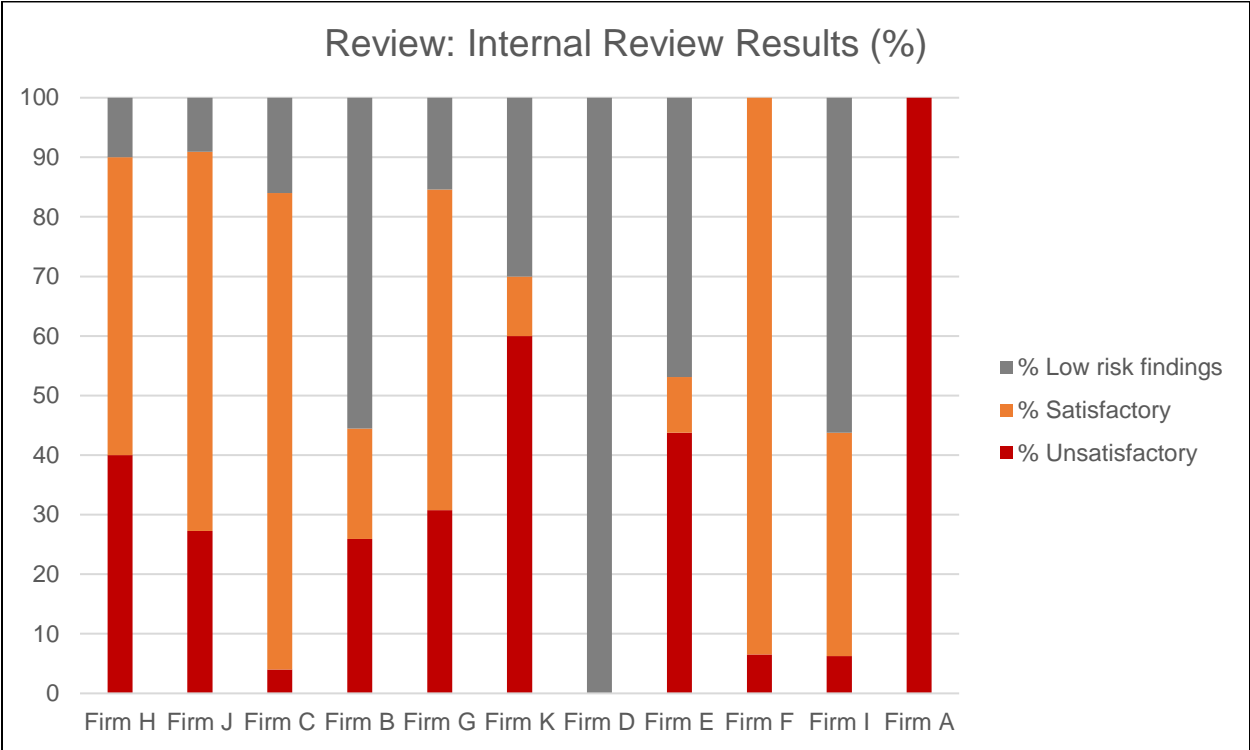
The correlation of firm internal review results with the same firm's IRBA (external) inspection results (obtainable from the firm) may indicate the effectiveness of the firm's internal monitoring process.

Key observations

Highest percentage of rating 1 – satisfactory: 93%

Highest percentage of rating 2 – low-risk findings: 100%

Highest percentage of rating 3 – unsatisfactory: 100%



Review: Partner Coverage (%)

Description/purpose

A percentage of engagement partners subject to internal reviews during the calendar year. This is internal monitoring coverage.

How to interpret the AQI

The higher the percentage, the greater the proportion of engagement partners subjected to a firm's internal reviews during the period. Therefore, the likelihood of detecting shortcomings in audit quality may be higher. This does not indicate the quality of the audit engagements (consider the "internal review results" AQI), or the effectiveness of the internal review.

IRBA Code considerations

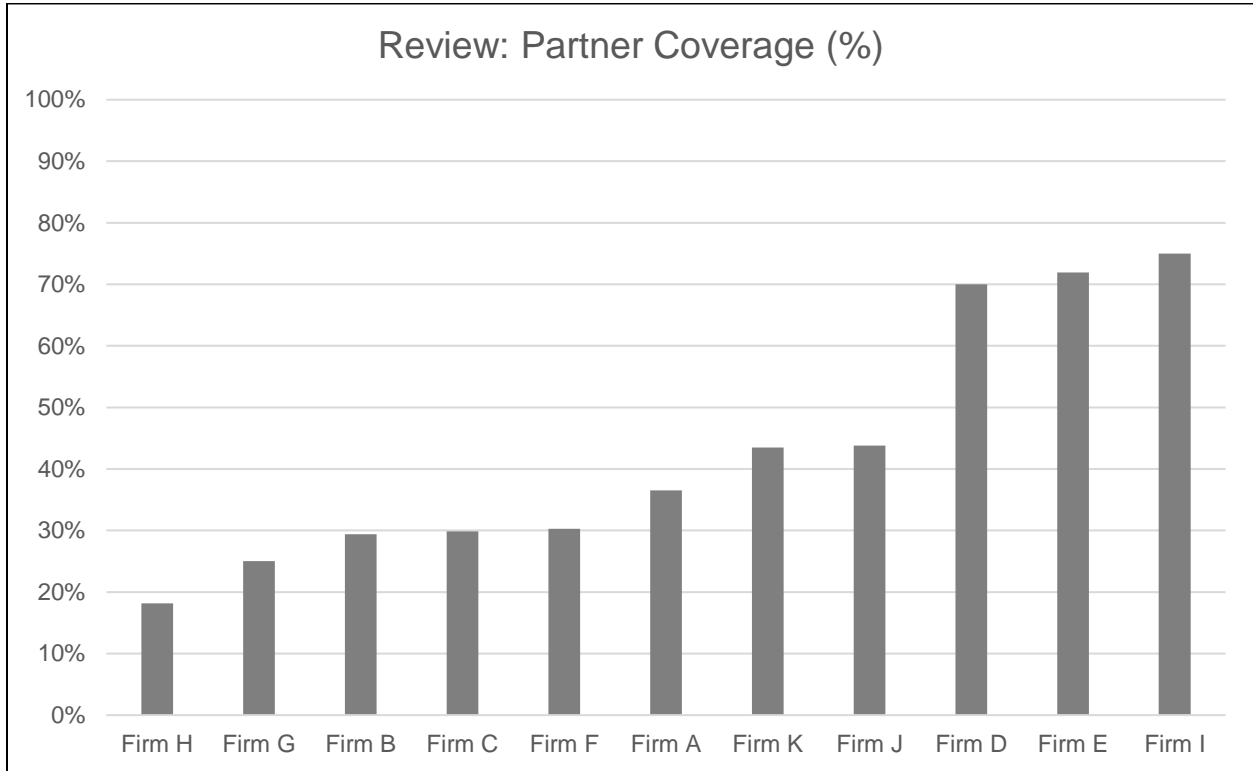
400.4: ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethics 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 organisation. 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. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with 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.

Key observations

Lowest percentage: 18%

Highest percentage: 75%

Average percentage: 43%



Workload: Engagement Partner Role (%)

Description/purpose

Engagement partner (excl. EQ review partner) hours charged to the audit client as a percentage of total audit hours charged to the audit client for completed engagements. This provides a measure of the level of involvement by the engagement partner.

How to interpret the AQI

Higher ratios indicate a greater involvement of the engagement partner and may be indicative of a higher quality audit file, or an audit with more areas of significant judgement. Alternatively, high ratios may indicate an understaffed or inexperienced engagement team, or other execution issues. This indicator is presented as an average per firm.

This ratio can be compared to the workload: manager supervision (%) ratio and the review: EQ review partner hours (%) ratio.

IRBA Code considerations

“Professional Competence and Due Care” is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

- (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (ii) Act diligently and in accordance with applicable technical and professional standards.

Section 320 Client and Engagement Acceptance acknowledges that there might be a self-interest threat when accepting a new engagement due to complexity, experience, technical knowledge, etc. Paragraph 320.3 A5 includes the following examples of safeguards that address competencies and time on the engagement:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic timeframe for the performance of the engagement.

In paragraph 300.8 A2, where safeguards to self-interest threats are discussed, the following actions that in certain circumstances might be safeguards to address threats are mentioned:

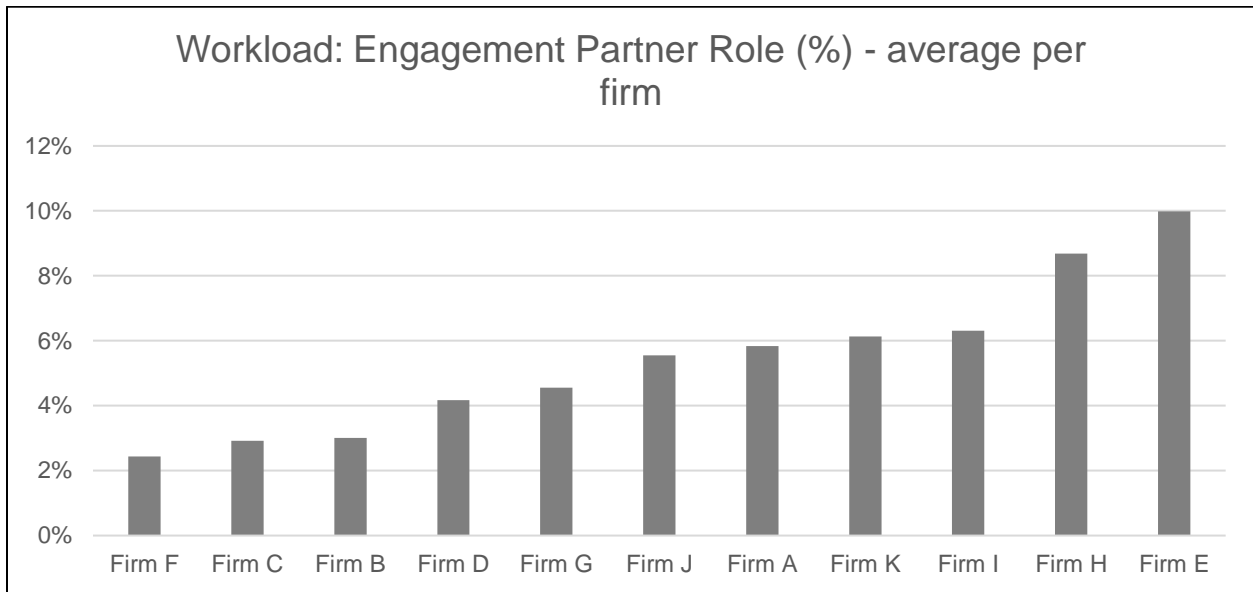
- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.

Key observations

Lowest average percentage: 2.4%

Highest average percentage: 10.0%

Average percentage: 5.4%



Workload: Manager Supervision (%)

Description/purpose

Total audit manager hours charged to the audit client as a percentage of total audit hours charged to the audit client for completed engagements.

How to interpret the AQI

Higher ratios indicate a greater involvement of the audit manager/s. There may be many reasons for such involvement. Alternatively, high ratios may indicate a lack of review and involvement by the engagement partner and/or an understaffed engagement team. In understanding this AQI, the firm's model and nature of engagements would need to be considered.

IRBA Code considerations

"Professional Competence and Due Care" is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

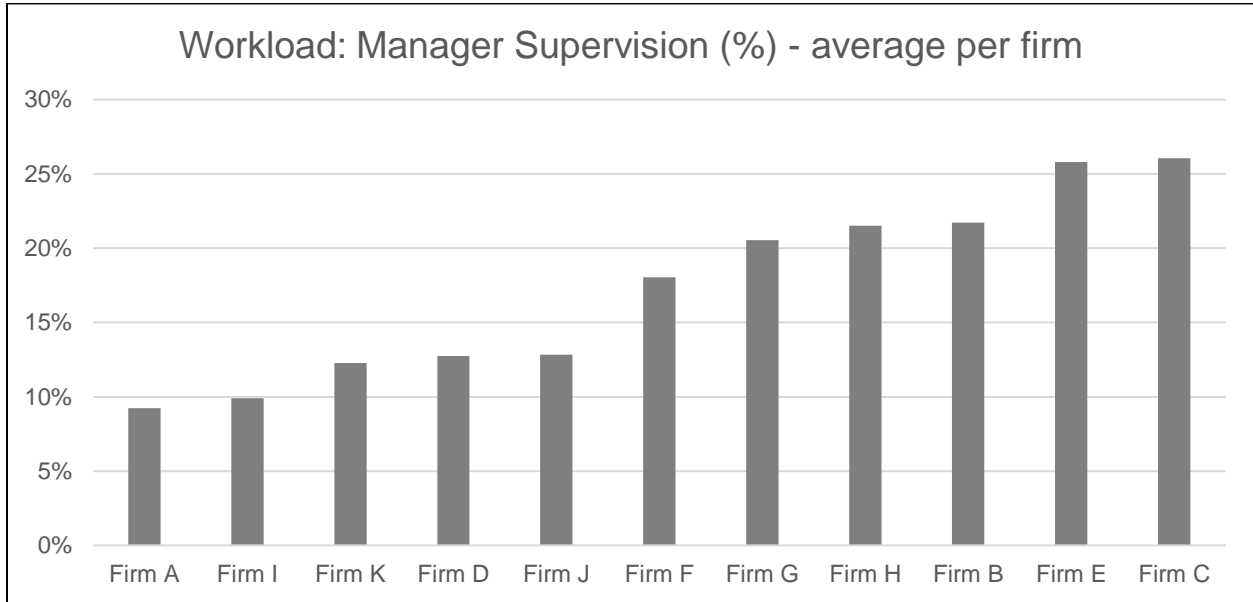
- (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (ii) Act diligently and in accordance with applicable technical and professional standards.

Key observations

Lowest percentage: 9.2%

Highest percentage: 26.0%

Average percentage: 17.3%



Span of Control: Professional Staff (ratio)

Description/purpose

Audit professional staff headcount (accounting, audit and risk) as a ratio to partners in the audit firm. This indicates the capacity of partners to supervise junior audit team members in the audit firm, and the level of professional support for audit partners.

How to interpret the AQI

Higher ratios may indicate that a partner has more responsibilities. That, however, may also indicate possible related time pressure as more people need to be managed, which may distract the partner from giving appropriate attention to a particular audit engagement. Higher ratios may also indicate either relatively few partners, or a firm that is better resourced with professional staff to support partners. In addition, higher ratios may indicate that the partners manage their professional staff better, or their professional staff are more skilled and require less supervision.

IRBA Code considerations

“Professional Competence and Due Care” is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

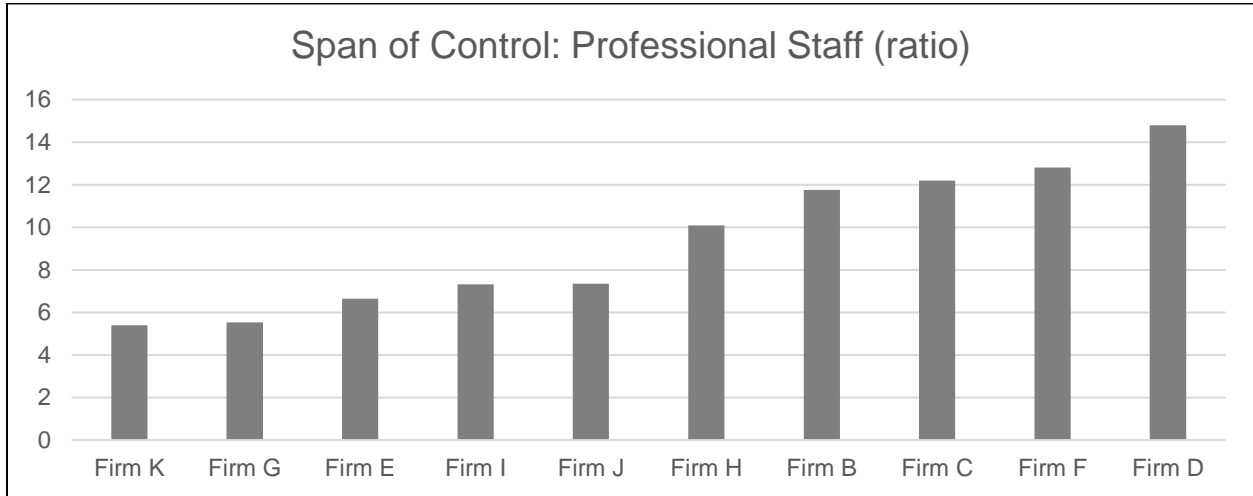
- (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (ii) Act diligently and in accordance with applicable technical and professional standards.

Key observations

Lowest ratio: 5:1

Highest ratio: 15:1

Average ratio: 9:1



Technical Resources: Partner (ratio)

Description/purpose

Engagement partner to technical partner ratio.

How to interpret the AQI

The higher the ratio, the more engagement partners a technical partner serves. Therefore, a high ratio may mean that an engagement partner does not have as much access to a technical partner resource as an engagement partner in a firm with a lower ratio would have. In understanding this ratio, the nature of the firm as well as the nature and scope of engagements are also relevant.

IRBA Code considerations

“Professional Competence and Due Care” is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

- (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (ii) Act diligently and in accordance with applicable technical and professional standards.

The IRBA Code highlights the importance of technical support by including in the definition of Audit Team:

- (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement.

The need to obtain technical expertise is also applicable when exercising professional judgement as follows:

120.5 A3: In exercising professional judgement to obtain this understanding, the registered auditor might consider, among other matters, whether:

- There is a need to consult with others with relevant expertise or experience.

In paragraph 300.6 A1 of the IRBA Code, under the discussion of threats to compliance with the fundamental principles, the following is mentioned as an example of a fact and circumstance that might create an intimidation threat:

- A registered auditor feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.

Additionally, paragraph 400.53 A3 elaborates on “professional resources” under the Network Firm discussion, and includes the following:

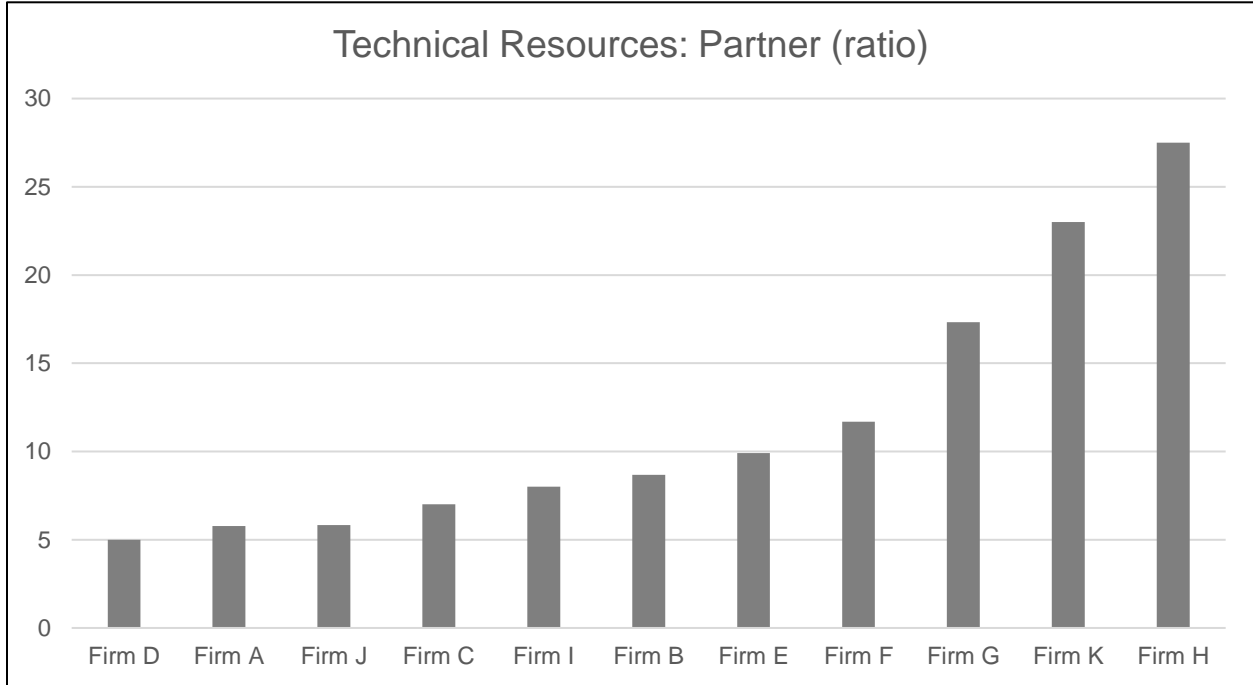
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.

Key observations

Lowest ratio: 5:1

Highest ratio: 28:1

Average ratio: 12:1



Training (hours per person)

Description/purpose

Total hours of structured training delivered for audit professional staff for the previous calendar year as a ratio to average (monthly) audit professional staff for the previous calendar year.

How to interpret the AQI

The level of investment in formal training is an indication of the firm's investment in improving audit quality, and in maintaining professional knowledge. In understanding this AQI, the type, quality and relevance of the training should be considered, as well as whether it is input or output based (attendance versus demonstration of knowledge gained).

IRBA Code considerations

R113.2: In complying with the principle of professional competence and due care, a registered auditor shall take reasonable steps to ensure that those working in a professional capacity under the registered auditor's authority have appropriate training and supervision.

Exercise of Professional Judgement

120.5 A1 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgement is required when the registered auditor applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

When discussing the Firm and its Operating Environment, paragraph 300.7 A5 of the IRBA Code considers the following as an example of a factor the registered auditor will consider when evaluating a threat to the fundamental principle:

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:

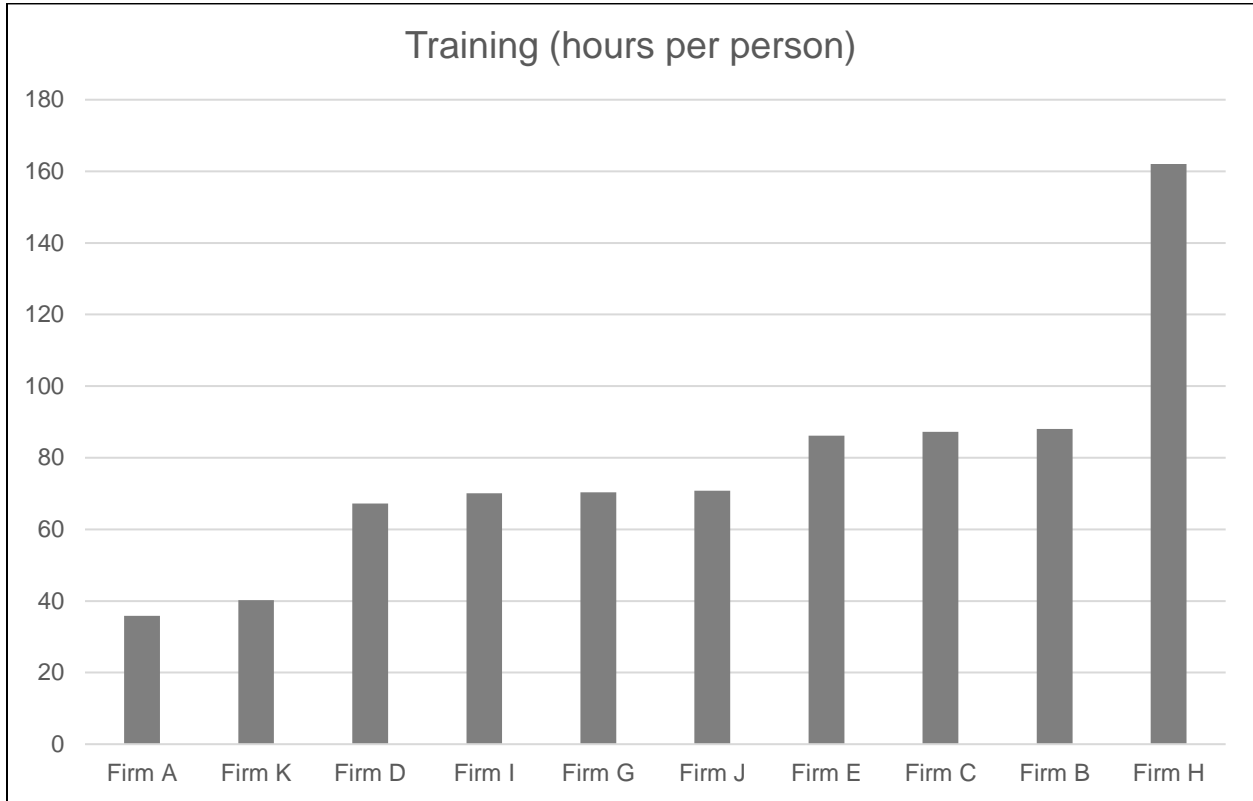
- Educational, training and experience requirements.

Key observations

Lowest ratio: 36 hours per person

Highest ratio: 162 hours per person

Average ratio: 78 hours per person



Way Forward

The IRBA plans to request AQI information again from audit firms. Only JSE-accredited firms that audit PIEs will be requested to provide this information. Information for the same category of clients, i.e. PIEs, will be requested. For corporate structures that are groups, information will be collected at the group level and not at the subsidiary level.

The information to be requested will build on what was requested for this report, with some further fields to be identified. At a minimum, the following additional information will be requested:

- Engagement year-end.
- Type of registered auditor, e.g. engagement partner, technical partner or risk advisory partner.

Clarity will be provided regarding the following two matters highlighted in this report:

- Granularity of data required.
- Period for which the data is required.

Where there were interpretation issues of definitions and guidelines, these will be clarified.

Firms will be requested to provide evidence of a quality review of the data submitted, with authorisation (sign-off) by a suitable senior firm representative. Firms are expected to provide the IRBA with complete and accurate information.

The next report will include some interpretation and analysis of AQIs, in order to provide further guidance to audit committees. Some links to audit quality may be made.

Information received will be cross-checked to other sources, e.g. tenure to audit reports, the number of partners with the IRBA's Registry department, and the list of JSE-accredited firms with the JSE Limited.

Firms are encouraged to embed the AQI system in their processes, as this will be an ongoing process.

For any questions or suggestions regarding this Report, please send an email to standards@irba.co.za.

Further Resources

Please refer to the Transparency Reporting and Audit Quality Indicators page on the IRBA website. The link is: <https://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/transparency-reporting-and-audit-quality-indicators-aqis>.

The Public Inspections Report can be accessed through the following link. The link is : <https://www.irba.co.za/guidance-to-ras/inspections/reports>

Appendix 1: Our Approach

The IRBA requested AQI-related information for audits of *PIEs*⁶ only, specifically from *firms accredited with the JSE Limited*. This category of firms was chosen as they are generally the larger firms and medium-sized firms, have more sophisticated systems in place to extract the information, and usually audit the higher risk clients and clients with a high public interest. Such firms are the only ones that are accredited with the JSE Limited to perform audits of listed companies.

Number of audit firms accredited with the JSE Limited, from whom information was requested and received: 18⁷

Of these, the number of firms that were analysed in this report: 11⁸

Approximate total number of audited entities (PIEs and related entities): 2 064

Approximate total number of PIEs (groups or corporate structures) where audits were completed: 526

Average number of PIEs (and related entities) audited by the four biggest firms: Approximately 400

Average number of PIEs (and related entities) audited by the seven (7) other firms: Approximately 55

The IRBA consulted extensively with various stakeholders while researching global developments on AQIs. The AQIs selected were developed based on those that were raised frequently by other regulators and certain parties we consulted, and were also based on the local environment. These selected AQIs will provide valuable information to the IRBA and other stakeholders to better identify some indicators of independence and audit quality, and to help make better informed assessments of risks. We also considered the practicality, for firms, of collecting and collating the information.

Our stakeholder consultations included workshops and meetings with other regulators, audit committee members and Heads of Quality at several audit firms. Stakeholders that were consulted included the JSE Limited; two of the new South African stock exchanges; several large and medium-sized audit firms; the South African Reserve Bank; the Companies and Intellectual Property Commission (CIPC); the Auditor-General South Africa; the Association for Savings and Investment South Africa; the South African Institute of Chartered Accountants; and the Institute of Directors.

⁶ Refer to **Appendix 2** for the definition of Public Interest Entities.

⁷ Firms accredited with the JSE Limited, including network firms: BDO South Africa Inc; HLB CMA South Africa Inc.; Crowe JHB; Deloitte & Touche; Ernst & Young Inc; KPMG Inc.; Mahdi Meyer Steyn Chartered Accountants Inc.; Mazars; Middel & Partners; Moore Stephens; Nexia SAB&T; Ngubane & Co (Johannesburg) Incorporated; Nolands JHB Inc.; PKF South Africa; PricewaterhouseCoopers Inc.; RSM South Africa Incorporated; Sizwentsalubagobodo Grant Thornton Inc.; and Tuffias Sandberg.

⁸ These seven firms were removed from the analysis as they advised us that they had completed the audits of only 0, 1 or 2 PIEs in the specified period: Moore Stephens; Crowe JHB; Nolands JHB Inc.; HLB CMA South Africa Inc.; Middel & Partners; Mahdi Meyer Steyn Chartered Accountants Inc.; and Tuffias Sandberg.

Data Quality and Systems Limitations

The IRBA understands that there are system readiness and data quality concerns in relation to the information submitted to us. In our consultations with several firms, a number of them had committed to providing the information requested. However, they later indicated that their systems were not, in some cases, ready or able to provide the required data by 31 March 2019.

The implication is that data quality could be regarded as not mature; and as the AQIs are interrogated and used by decision-makers, the data quality could be expected to improve over time.

It is also understood that some data was identified or summarised differently between firms. For example, internal cost accounting may differ between firms (i.e. charge-out rates differ, some firms use standard costing, others use fully absorbed costing, while some may have different charge-out rates for different divisions or offices). This is a practical reality of a data collection exercise, and this feedback has also featured in responses to requests for comments from other regulators around the world.

We have highlighted below how differences in interpretation of the AQIs by firms, incomplete data or data quality not yet at a high level, may influence the understanding of some graphs:

Understanding the graphs – limitations

Independence: Non-audit fees (%)	One firm indicated that it did not provide non-audit services to the PIEs it audits. Thus, non-audit fees as a percentage of total audit fees billed to the firm's clients for completed engagements were 0%.
Independence: Fee recovery (%)	One firm's data was omitted as data for internally charged fees was not provided. One firm's data was omitted as the information request was misinterpreted by the firm, and could not be analysed.
Tenure: Firm (years)	One firm did not provide this information.
Tenure: Partner Experience (years)	In understanding the data and the graph, we recognise that firms were not consistent in their use of the term "engagement partner"; and some firms may have only counted experience of engagement partners within that firm only, and not prior experience as an engagement partner with another firm(s).
Review: EQ Review Partner Hours (%)	One firm did not provide this information.
Span of Control (Professional Staff)	One firm did not provide this information.
Training (hours per person)	One firm did not provide this information.

Definitions and Parameters

The definitions and parameters used in the data submitted by the firms are listed in **Appendix 3**.

The overarching parameters were:

- JSE-accredited audit firms only.
- Regarding client data, information for PIEs only (and related entities).
- Regarding registered auditor data, information for engagement (signing) partners only.
- Information for audit engagements only, unless otherwise stated (e.g. non-audit fees).
- Information for engagements completed (opinions signed off) during the year only (1 January 2018 to 31 December 2018).

Key Observations and Learnings

Results

The purpose of this Report is to provide results of and observations on data submitted. The data has undergone a desktop-based data cleaning exercise. The results and observations have been depicted in a graphical format, with some notes on statistics such as the highest or lowest number.

A section has been dedicated to each of the AQIs identified as being of the most use in the context of audit firms and audit committees in South Africa. Each section provides a description and purpose of the AQI, an explanation on how to interpret the AQI, key observations (highest, lowest and average results); and a graph comparing the results across the firms. The appendices provide further context to the data collection and analysis exercise.

In addition, the IRBA Code considerations have been explained, with certain paragraph references where relevant.

Results are anonymous. Firms have not been identified.

Data quality

All sizes of firms reported that obtaining the data was, in many cases, difficult; and the information often had to be manually extracted from existing systems. Our analysis indicates where data quality challenges were encountered. Despite the limitations of the data described elsewhere in this Report, we were encouraged that the data submitted by firms was sufficiently usable to generate this first iteration of this Report.

In some cases, firms provided “best estimates”. In those cases, the reason the exact information could not be provided and the explanation of how the estimate was calculated were accepted.

The lack of a quality check of the data submitted was evident in several of the submissions. In future, firms will be required to assess the data before it is submitted to the IRBA. Reasonability tests should be performed as a cursory overview of the data would in some cases show obvious errors.

Commonly found data quality and consistency issues included the following:

- Data provided was not in line with the request. For example, data was provided for audit engagements that were not completed during the year, or data was provided for fees, etc., billed during the year only. The request had been for information for engagements completed during the year only (1 January 2018 to 31 December 2018), with the information for the complete engagement provided.
- Incomplete information: Sometimes this was explained; in other cases, the data was not provided and there was no explanation. Explanations are required and no cell should be left blank without an explanation.
- Duplications – identical audit fee, engagement hours, etc., for the same client.
- Mergers of firms affected data – previously unreliable data was combined with reliable data. Data may also have been different, and now needed to be aligned with the merged firm.
- The number of years was captured as dates.
- Numerical content was captured as text, thereby making sorting and filtering of data difficult.
- Firm tenure could not be provided, or a rough estimate was provided (e.g. greater than five years).
- Inconsistent data: For example, EQ review team hours were given, but no EQ review partner hours were given.
- Illogical data: For example, firm tenure was much lower than the engagement partner tenure.
- Inconsistent data formats: For example, use of “nil”, “0”, “-”, “not required”, “N/A” and blank cells.
- Spelling errors: Filtering and pivoting of data would not be correct in these cases.
- Firms providing inconsistent data due to internal inconsistencies proved to be problematic.
- Client names were not captured in full. Client names should be captured exactly as per their registration with the CIPC.

What did not work

Across the board, the firms were not able to provide quality data down to a client engagement level. Hours and fees are booked at group or holding company level. Subsidiaries, therefore, did not “stand on their own” in terms of data content; and any form of AQIs calculated to this level were generally not helpful. The holding company and subsidiaries needed to be aggregated to group level.

Information was requested for engagements completed during the year only (1 January 2018 to 31 December 2018). Therefore, the information was not expected to match to the Assurance Work Declaration (annual declarations) submitted annually by firms to the IRBA. However, some firms reconciled the information they submitted to their annual declarations. It was decided not to remove this data, as year-on-year the data will smooth out. However, where this misinterpretation has occurred, it is highlighted elsewhere in Appendix 1.

Appendix 2: Definition of Public Interest Entities

The IRBA Code is based on Parts 1, 3, 4A and 4B of the Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board of Accountants (the IESBA Code) published by the International Federation of Accountants (IFAC) in April 2018 and used with the permission of IFAC. South African amendments to the IESBA Code are underlined and in italics in the Code.

“Public Interest Entity” is defined in the IRBA Code as:

- (a) A listed entity; or
- (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.

R400.8a SA 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.

R400.8b SA 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:

- Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.
- 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).

- Market infrastructures as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012).⁹
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- Other issuers of debt and equity instruments to the public¹⁰.

⁹ Market Infrastructure is defined in the Financial Markets Act, 2012 (Act No. 19 of 2012), as:

(a) A licensed central securities depository;

(b) A licensed clearing house;

(c) A licensed exchange; and

(d) A licensed trade repository.

¹⁰ For the purposes of this section, “the public” shall mean the public in general or large sectors of the public, such as participants in Broad-Based Black Economic Empowerment schemes or participants in offers to large industry sectors that result in the debt or equity instruments being owned by a large number and wide range of stakeholders.

Appendix 3: Definitions and Parameters regarding Data Submitted

The following definitions and parameters apply:

- **Audit** – financial statement audit only (those engagements that require the application of International Standards of Auditing (ISAs)). Non-audit is therefore non-ISA engagements.
- **Audit manager** – anyone designated as an audit manager (or equivalent) in the firm, or network, or firm in a network, who was part of the engagement team.
- **Audit professional staff** – audit managers, supervisors and trainees only, including staff in technical roles related to audit quality.
- **Billed** – excludes disbursements, expenses and taxes.
- **Charged** – this includes hours recorded on the firm's time-keeping system and may be more or less than the hours billed.
- **Client** – individual statutory entity for which an audit report has been prepared. Although information for clients is requested at the lowest level in terms of legal audit opinion (i.e. signed opinion for subsidiaries), information should be furnished at the level that it is practicable.
- **Engagement** – audit engagements only.
- **Engagement team** – as defined in the International Auditing and Assurance Standards Boards' (IAASB) Handbook.
- **EQ review partner** – the partner performing the engagement quality reviews, the individual, whether from the network firm, in the network or external service provider, who is responsible for the review as per ISQC 1.
- **EQ review hours** – include all EQ review hours charged by the EQ review partner, NOT hours related to the cyclical inspection of files, or in-process reviews or other forms of engagement monitoring.
- **Group** – link individual clients to the group by identifying the highest level entity within the group to which the lower level entity relates.
- **Partner** – the common term meaning, in the audit profession, and including the individuals who are legally directors of firms in the form of incorporated companies. Partners in leadership and in technical roles in audit practice. Partners included in the engagement team (as defined in the IAASB Handbook).
- **Partner hours** – include partner hours from the network and the firms in the network.
- **Public interest entities** – definition as per the *IRBA Code*. Once a group is deemed to be a PIE by the firm, information is to be provided for all entities audited by the firm within that group. (See **Appendix 2**).
- **Retention** – measures should be based on the formal grade of the staff. Where staff fall between grades, e.g. assistant manager, these individuals should be grouped into the lower

grade for the purposes of reporting. This excludes promoted staff as they are still considered to be part of the firm and the resources available to perform audits.

- **Reviews** – formal internal reviews as defined in the firm's policies.
- **Technical partner** – partners designated as firm IFRS specialists, partners dedicated to the firm's technical department and partners responsible for firm risk and independence matters that are part of the audit firm and the network firm (excludes external service providers). For partners with mixed roles, then determine FTEs (full-time equivalents).
- **Tenure** – calculated as per the guidance in the IRBA communique dated 4 December 2015, and Section 90 of the Companies Act.
- **Time period** – unless otherwise stated, information should be provided for completed engagements during the previous calendar year. For example, for the March 2019 AQI submission, period refers to engagements completed during 2018.
- **Total audit hours** – the hours of all engagement team members (as defined in the IAASB Handbook).
- **Training** – total hours of structured training. Formal training events provided by the firm and measured for attendance and time. Training events exclude academic courses for trainees, such as the SAICA Board courses or APT. The type of structured training activities included should follow SAICA's Continuing Professional Development requirements, which will primarily comprise the following focus areas that are perceived to have the most significant impact on audit quality: audit, accounting, ethics, etc.