



2020 SURVEY REPORT: AUDIT QUALITY INDICATORS



DISCLAIMER

The content of this 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 report. Such comparisons can lead to further discussions and enquiries with auditors, and can provide deeper insights into audit quality. The 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 report are neither exhaustive nor the only indicators of audit quality that should be considered. Audit firms are responsible for promptly remedying audit quality deficiencies identified by internal or external monitoring reviews.

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

The user of this report should consider 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.

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

FOREWORD BY THE ACTING IRBA CEO

This report presents information that is relevant to those charged with governance, firm leadership and the IRBA. As the regulator of registered auditors in South Africa, the IRBA is focused on driving significant improvements in audit quality. In so doing, the financial interests of the investing public will be protected and confidence will be uplifted.

This second Audit Quality Indicators (AQIs) report, following the 2019 first edition, continues in making headway by placing actionable information in the hands of stakeholders. Consequently, a number of other jurisdictions have shown a keen interest in this project and report, and are embarking on similar projects. Also, this report indicates the IRBA's commitment in promoting improved quality and accountability.

Firms use the AQIs to help benchmark and manage audit quality internally, while audit committees and others use them when overseeing and assessing the quality of external auditors. The IRBA relies on AQIs as a source of information for business intelligence gathering and risk-based selections, as part of its inspections process as well as to monitor the overall trend of audit quality in the profession.

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; training; and staff turnover.

Collating, analysing and presenting this data is a formidable exercise, and it would be extremely difficult without the cooperation of firm leadership and personnel. We thank them for continuing to enhance their systems and data collection tools, and recognising the value of this information, especially with the benefit of two years of data.

So, how can the different users of this report benefit from AQIs?

AQIs are an effective mechanism when it comes to being transparent with key stakeholders about the firm's commitment to audit quality. As such, they are becoming a prominent feature in firms' transparency reports when communicating with employees, clients and other stakeholders.

The granularity of the data, across firms and covering two years, will give users insight into marketplace differentiation. The gaps between the highest and

lowest ratios (or scores) indicate that firms' strategies and investments in resources differ; they also raise questions about the correlation of these inputs to measures of audit quality and inspection results.

Members of audit committees face immense pressure and risks. They face the demands of managing concerns regarding the reliability of financial reporting, while dealing with multiple assurance service providers. Mandatory Audit Firm Rotation (MAFR), decisions around the appointment of auditors and fee determinations should not be performed in a vacuum, solely relying on the experience of those around the table. These indicators can be used to compare and benchmark current audit service offerings with other firms, and to set meaningful and relevant milestones for discussions around quality. If audit committees emphasise matters such as training hours, supervision, review time and experience in their interactions with their auditors, then auditors will respond appropriately.

Our review of the targeted firms' survey data indicates an overall improvement in accuracy and consistency across most of the firms, when compared to the previous year's submissions. However, there is room for a further improvement of the level of comparability and integrity of the data received. We, therefore, encourage firms to sharpen their collection and analysis of AQIs.

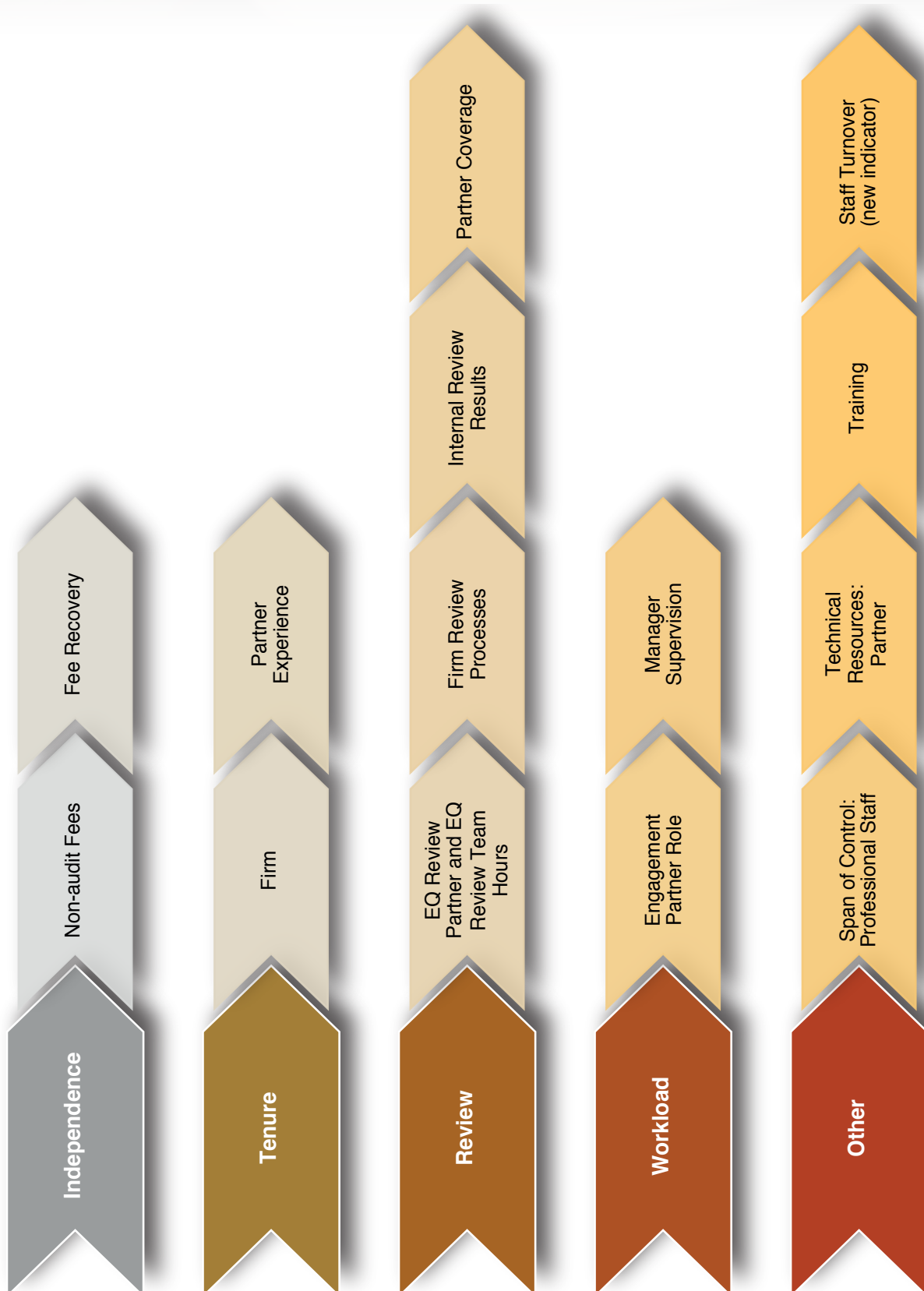
Furthermore, the insights provided in this report must act as an enabler to reassure the users of the audit product on the rigour of audit quality applied by firms. This dashboard of indicators is a tool to enhance audit quality, thereby, managing risks of potential audit failure and enhancing public confidence in the audit profession. It will be continuously improved upon as we embark on this journey of optimising the use of AQIs and how to anticipate the consequences of measuring, reporting and monitoring. To that effect, the IRBA plans to conduct a separate user survey that will assist in refining the AQI process and reporting.

Imre Nagy
Acting Chief Executive Officer

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OVERVIEW OF AQI CATEGORIES



BACKGROUND TO AQIs²

WHAT ARE AUDIT QUALITY INDICATORS (AQIs)?

AQIs refer to a portfolio of quantitative measures provided by an audit firm to an audit committee or other constituents of those charged with governance (TCWG) of their client or future client, 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, users 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 TCWG in discharging their oversight responsibilities regarding the external audit process, including the appointment or reappointment of the external auditor.

Furthermore, embedding AQIs within the audit firms' systems of quality control will provide more real-time, measurable outcomes that will enhance the firm's ability to monitor audit quality. AQIs are also an effective way to be transparent with key stakeholders about the firm's commitment to audit quality and, as such, could be a prominent feature in transparency reports.

The IRBA relies on AQIs as a source of information for business intelligence gathering and risk-based selections, as part of its inspections process as well as to monitor the overall trend of audit quality in the profession.

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.
- They help to identify risk as well as to monitor the overall trend of audit quality in the profession.

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, and the need for improvement.

WHAT KINDS OF DECISIONS CAN AQIs HELP USERS 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.
- Whether any areas require a closer focus or remediation.

To make meaningful decisions that will promote high audit quality, the context of each AQI should be understood as it is interrogated.

²Refer to Appendix 1 for details on our approach; data quality and systems limitations; understanding the graphs – limitations; definitions and parameters; as well as 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, in relation to what it receives for audit services. This may create the impression of diminished independence, and 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, 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.

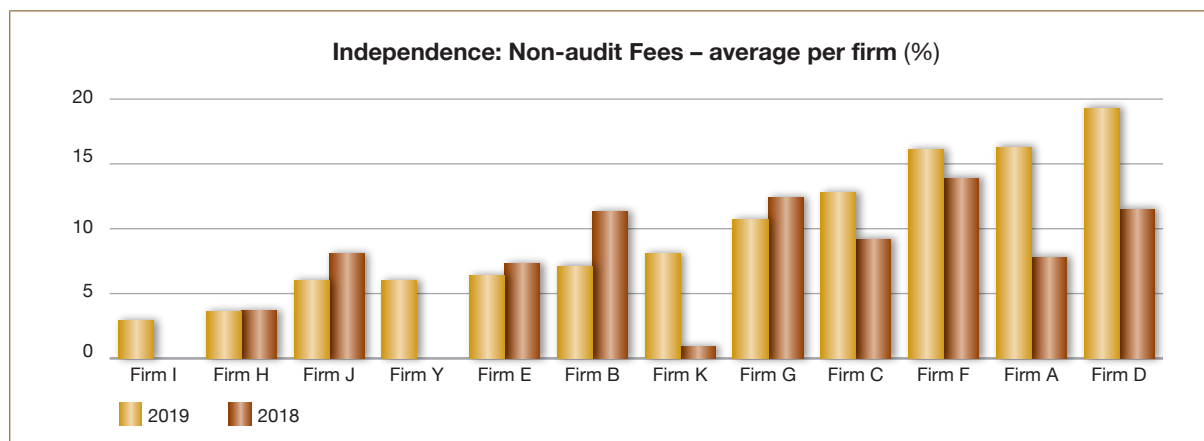
Understanding the graphs – limitations

The AQIs published have been limited to those firms that performed audits on more than two public interest entities (PIEs) during the 2019 calendar year. This parameter is consistent with the prior year.

Furthermore, data quality issues prevented the publication of some of the AQIs per firm in the previous year. The current year report only includes comparative information where these were part of the published report in the previous year. The result is that two firms do not have comparatives disclosed.

AQI OBSERVATIONS *(continued)*

Key Observations	2019	2018
Lowest	3%	1%
Average	9%	9%
Highest	19%	14%



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.

AQI OBSERVATIONS *(continued)*

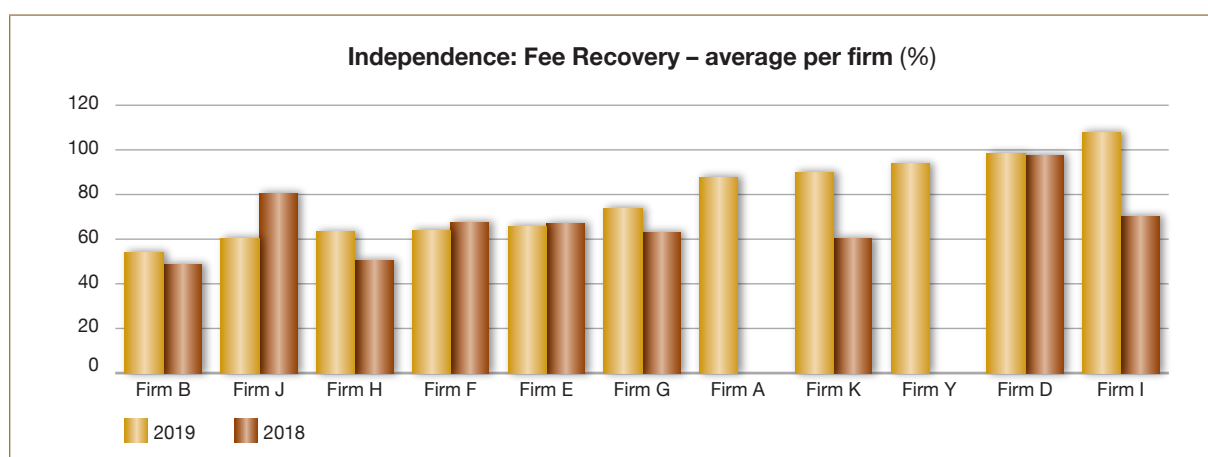
Understanding the graphs – limitations

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One firm's data was omitted as systems, costing and billing arrangements were not comparable with those of other firms.

Key Observations	2019	2018
Lowest	54%	49%
Average	78%	67%
Highest	108%	97%



AQI OBSERVATIONS *(continued)*

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 possibility of a lack of experience and knowledge obtained 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 MAFR³; and
- The IRBA Rule relating to Disclosure of Audit Firm Tenure on an Audit Client⁴.

IRBA Code considerations

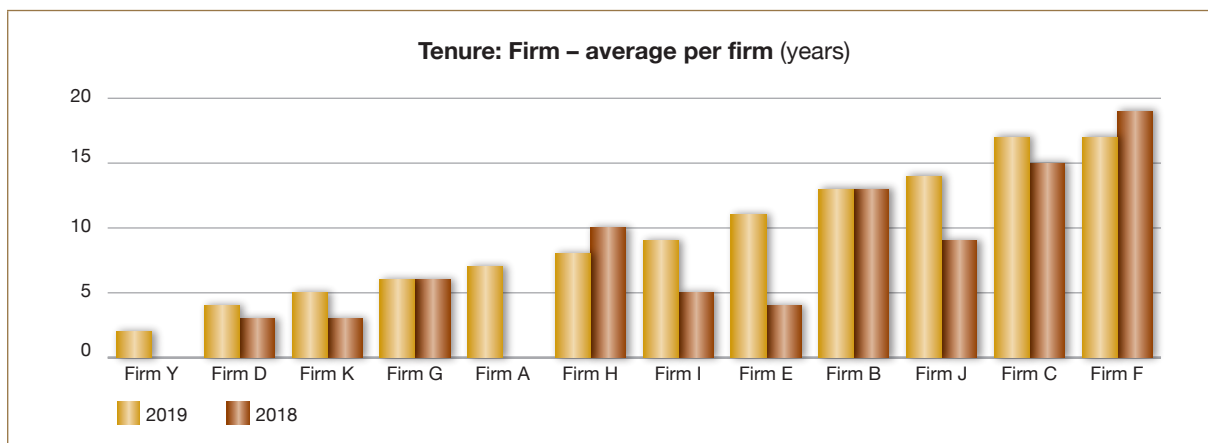
Familiarity threat – the threat that due to a long or close relationship with a client, a registered auditor will be too sympathetic to that client’s interests or too accepting of their work.

Understanding the graphs – limitations

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Key Observations	2019	2018
Lowest	2	3
Average	9	9
Highest	17	19



³Available on the IRBA website at: <https://www.irba.co.za/upload/Government%20Gazette%20with%20Final%20Rule%20-%201%20June%202017.pdf>.

⁴Available on the IRBA website at: <https://www.irba.co.za/guidance-for-ras/general-guidance/audit-tenure>.

AQI OBSERVATIONS *(continued)*

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 (CPD) 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:

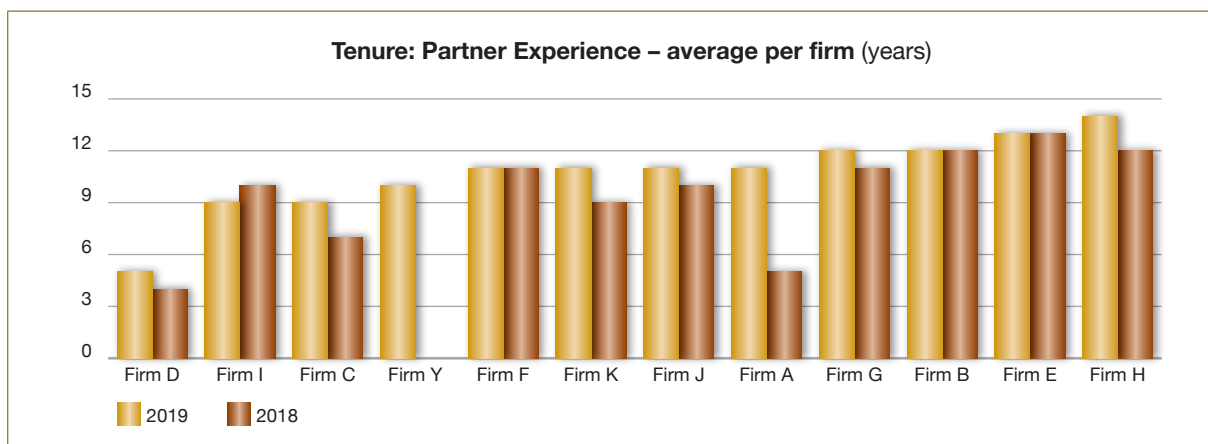
- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) Act diligently and in accordance with applicable technical and professional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

Understanding the graphs – limitations

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Key Observations	2019	2018
Lowest	5	4
Average	11	10
Highest	14	13



AQI OBSERVATIONS *(continued)*

REVIEW: EQ REVIEW PARTNER HOURS AND EQ REVIEW TEAM HOURS (%)⁵

Description/purpose

The engagement quality (EQ) review partner hours and the EQ team hours charged to the audit client by the EQ review partner and the EQ team 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 extent 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.

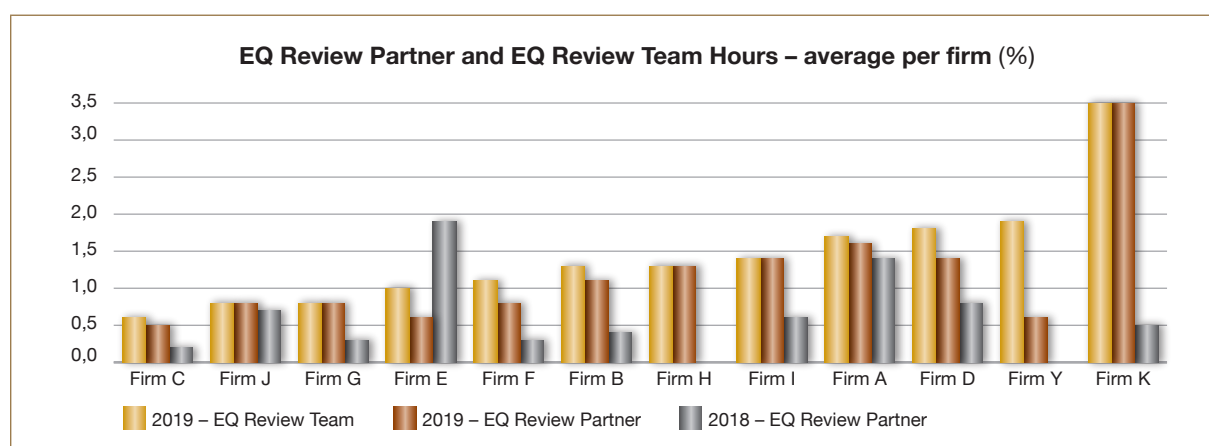
This AQI is presented as an average per firm.

Understanding the graphs – limitations

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Key Observations	2019	2018
Lowest	0.6%	0.2%
Average	1.4%	0.7%
Highest	3.5%	1.9%



⁵In 2019, firms had submitted both the EQ review partner hours as well as the EQ team hours, where relevant. A comparison of the averages across the firms between EQ review partner and EQ team hours in that year did not reveal significant differences to warrant publication. However, this year some differences became evident and so this AQI is published for both the EQ review partner and the EQ review team.

AQI OBSERVATIONS *(continued)*

REVIEW: FIRM REVIEW PROCESSES⁶

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 International Standard on Auditing (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 to 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.

⁶It should be noted that no significant changes have been identified in the current year submissions, compared to last year. Therefore, the description remains consistent with the prior year.

- 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 also 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.

AQI OBSERVATIONS *(continued)*

- 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 (random selection) in selecting file reviews. For example, one firm selects partners to be reviewed based on the above listed factors; in addition, it performs a few random reviews every year without any 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 also 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 graphs 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 a firm's 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.

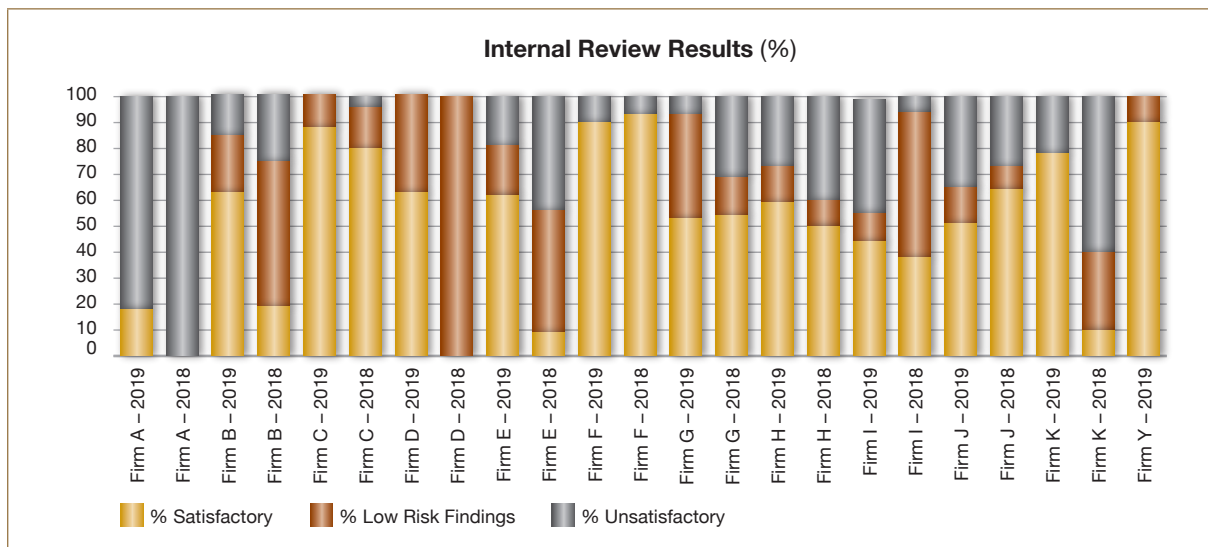
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AQI OBSERVATIONS *(continued)*

Key Observations	2019	2018
Highest percentage of rating 1 – satisfactory	90%	93%
Highest percentage of rating 2 – low-risk findings	40%	100%
Highest percentage of rating 3 – unsatisfactory	82%	100%



REVIEW: PARTNER COVERAGE (%)

Description/purpose

A percentage of engagement partners subject to internal reviews during the calendar year. This is the 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 quality 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 are required to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Firms therefore 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.

AQI OBSERVATIONS *(continued)*

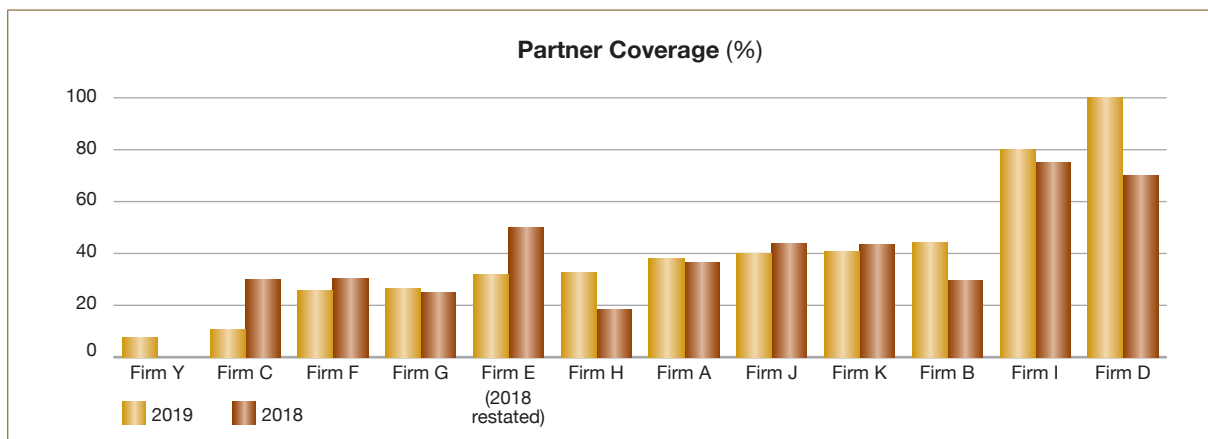
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Firm E indicated that there was an error in the 2018 AQI. The AQI published was 72%, while it should have been 50%.

Key Observations	2019	2018
Lowest	8%	18%
Average	40%	43%
Highest	100%	75%



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 EQ review partner hours (%) ratio.

AQI OBSERVATIONS *(continued)*

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 action that in certain circumstances might be a safeguard to address threats is mentioned:

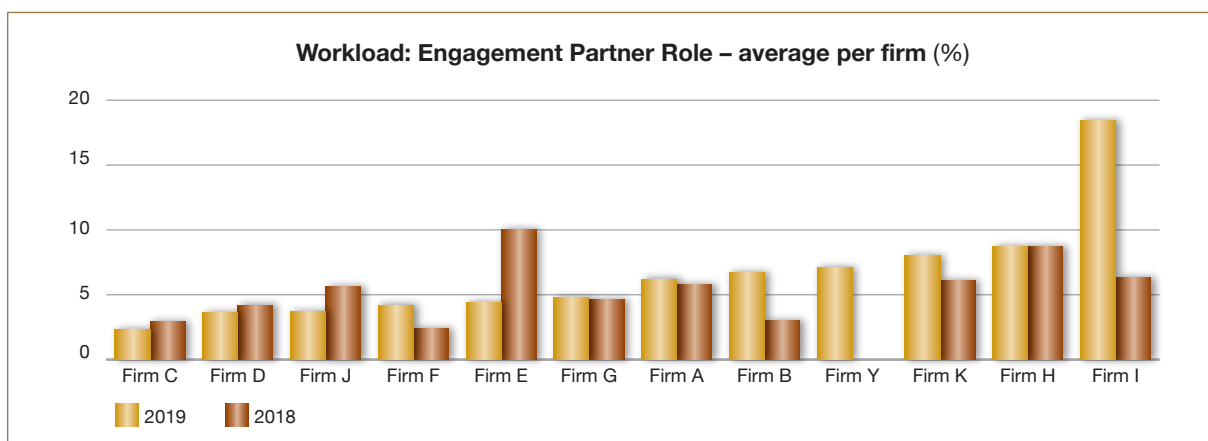
- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.

Understanding the graphs – limitations

The AQIs published have been limited to those firms that performed audits on more than two PIEs during the 2019 calendar year. This parameter is consistent with the prior year.

Furthermore, data quality issues prevented the publication of some of the AQIs per firm in the previous year. The current year report only includes comparative information where these were part of the published report in the previous year. The result is that one firm does not have comparatives disclosed.

Key Observations	2019	2018
Lowest	2.3%	2.4%
Average	6.5%	5.4%
Highest	18.4%	10.0%



AQI OBSERVATIONS *(continued)*

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; and 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:

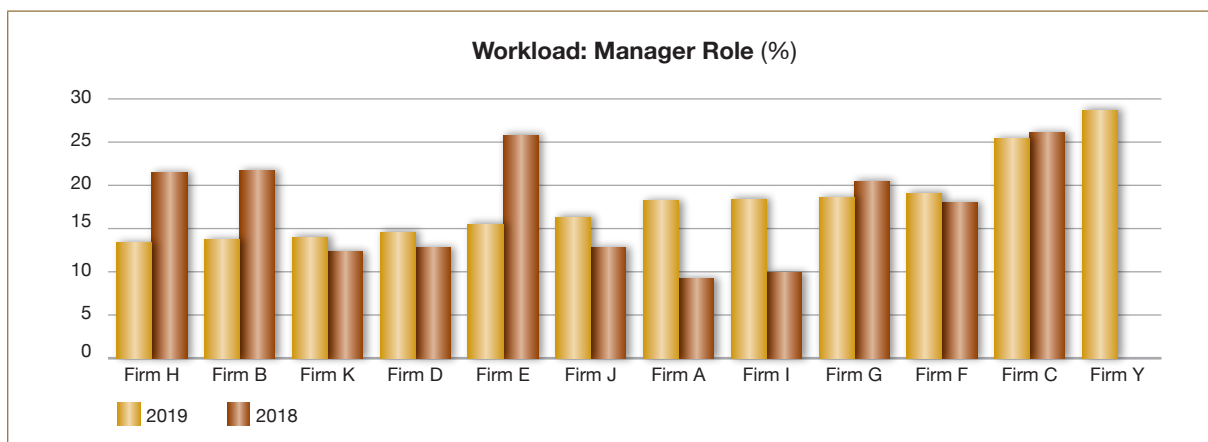
- (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (ii) Act diligently and in accordance with applicable technical and professional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

Understanding the graphs – limitations

The AQIs published have been limited to those firms that performed audits on more than two PIEs during the 2019 calendar year. This parameter is consistent with the prior year.

Furthermore, data quality issues prevented the publication of some of the AQIs per firm in the previous year. The current year report only includes comparative information where these were part of the published report in the previous year. The result is that one firm does not have comparatives disclosed.

Key Observations	2019	2018
Lowest	13.4%	9.2%
Average	18.4%	17.3%
Highest	28.7%	26.0%



AQI OBSERVATIONS *(continued)*

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:

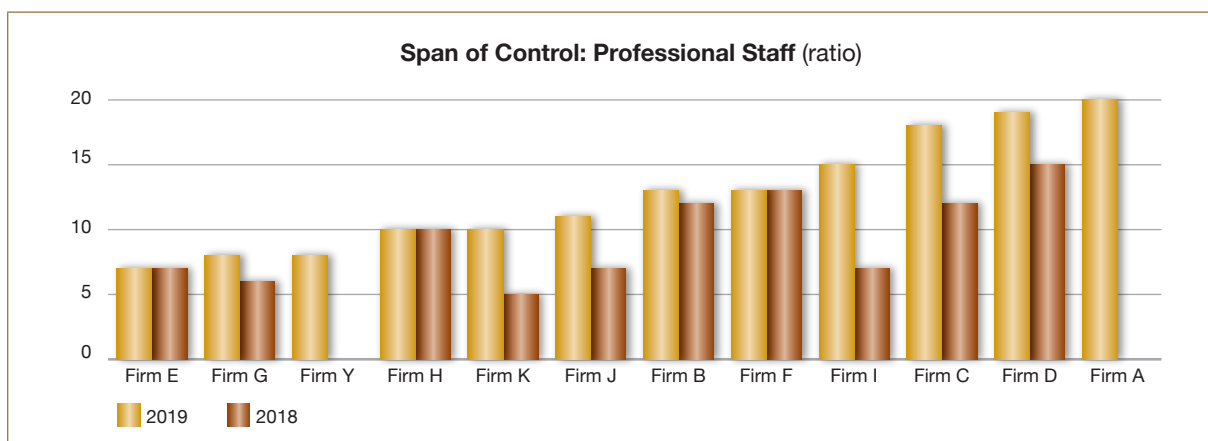
- (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (ii) Act diligently and in accordance with applicable technical and professional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

Understanding the graphs – limitations

The AQIs published have been limited to those firms that performed audits on more than two PIEs during the 2019 calendar year. This parameter is consistent with the prior year.

Furthermore, data quality issues prevented the publication of some of the AQIs per firm in the previous year. The current year report only includes comparative information where these were part of the published report in the previous year. The result is that two firms do not have comparatives disclosed.

Key Observations	2019	2018
Lowest	7	5
Average	13	9
Highest	20	15



AQI OBSERVATIONS *(continued)*

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 on 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.

Understanding the graphs – limitations

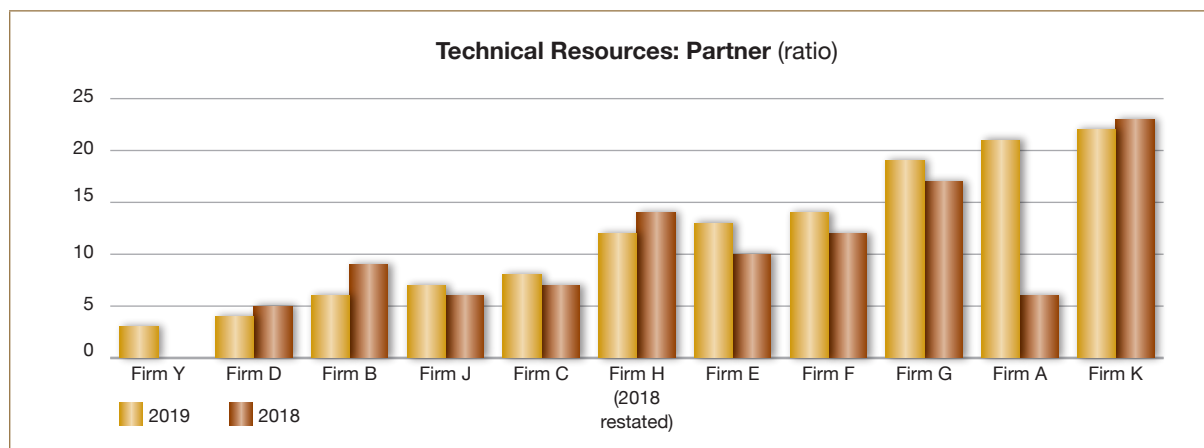
The AQIs published have been limited to those firms that performed audits on more than two PIEs during the 2019 calendar year. This parameter is consistent with the prior year.

Furthermore, data quality issues prevented the publication of some of the AQIs per firm in the previous year. The current year report only includes comparative information where these were part of the published report in the previous year. The result is that one firm did not disclose comparatives.

One firm disclosed nil technical partners for the current year and, therefore, does not feature in the graph. Firm H indicated that there was an error in the 2018 AQI. The AQI published was 28, but it should have been 14.

AQI OBSERVATIONS *(continued)*

Key Observations	2019	2018
Lowest	3	5
Average	12	12
Highest	22	23



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 one indicator of the firm's investment in improving audit quality and 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.

AQI OBSERVATIONS *(continued)*

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:

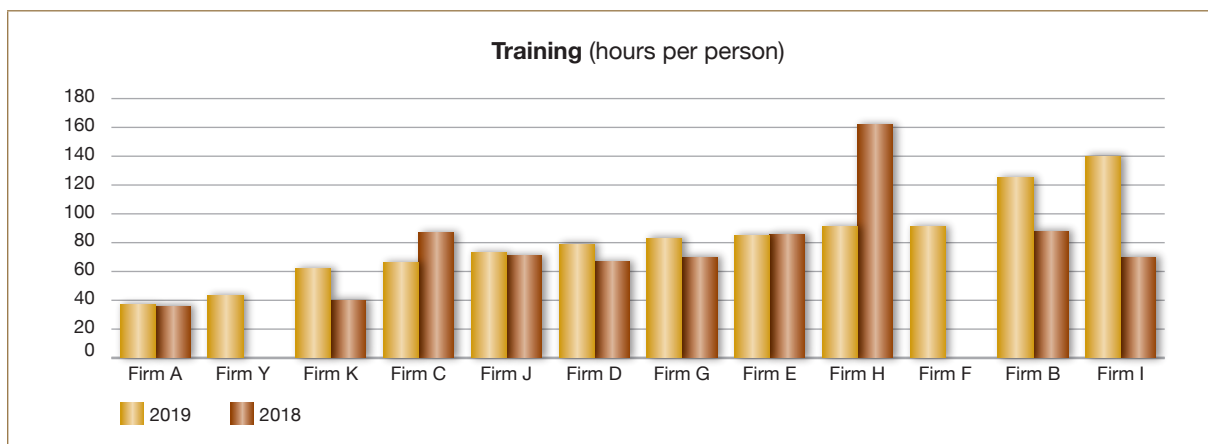
- Educational, training and experience requirements.

Understanding the graphs – limitations

The AQIs published have been limited to those firms that performed audits on more than two PIEs during the 2019 calendar year. This parameter is consistent with the prior year.

Furthermore, data quality issues prevented the publication of some of the AQIs per firm in the previous year. The current year report only includes comparative information where these were part of the published report in the previous year. The result is that two firms did not disclose comparatives.

Key Observations	2019	2018
Lowest	37	36
Average	81	78
Highest	140	162



STAFF TURNOVER (%) – NEW AQI

Description/purpose

The percentage of staff who have left the firm, excluding staff whose training contracts have ended, in the categories of engagement partners, audit managers and audit supervisors, based on the opening number of staff in each of the three categories. Promotions between ranks are not to be considered as staff turnover. Staff turnover is calculated as the total number of leavers divided by the average number of staff for the year (that is, the monthly average over the calendar year).

How to interpret the AQI

The level of turnover of staff is an indication of the consistency of the firm’s engagement teams. Consistent teams may help with sustainability or improving audit quality and maintaining professional knowledge within the firm. Firms may want to maintain a balance between retaining staff and adding new staff to promote new and fresh ideas, ultimately improving and maintaining high audit quality.

AQI OBSERVATIONS *(continued)*

Understanding the graphs – limitations

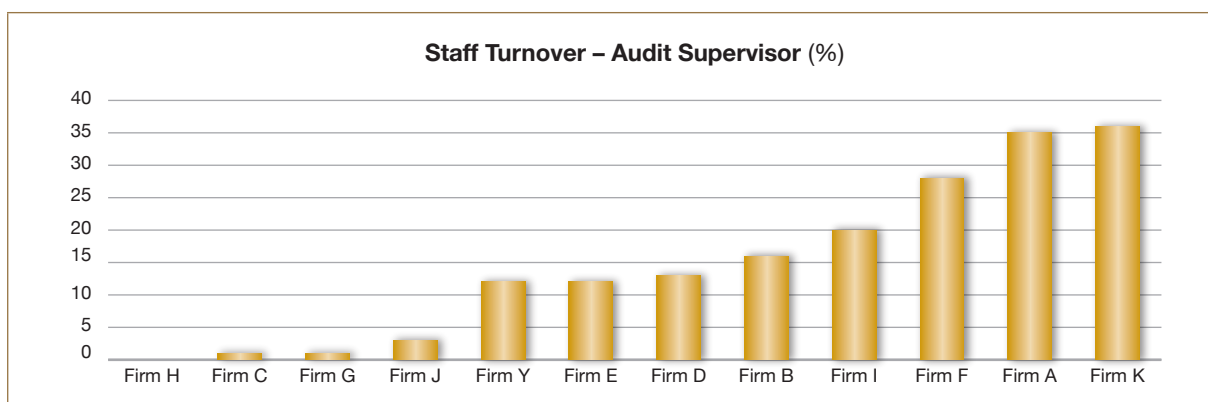
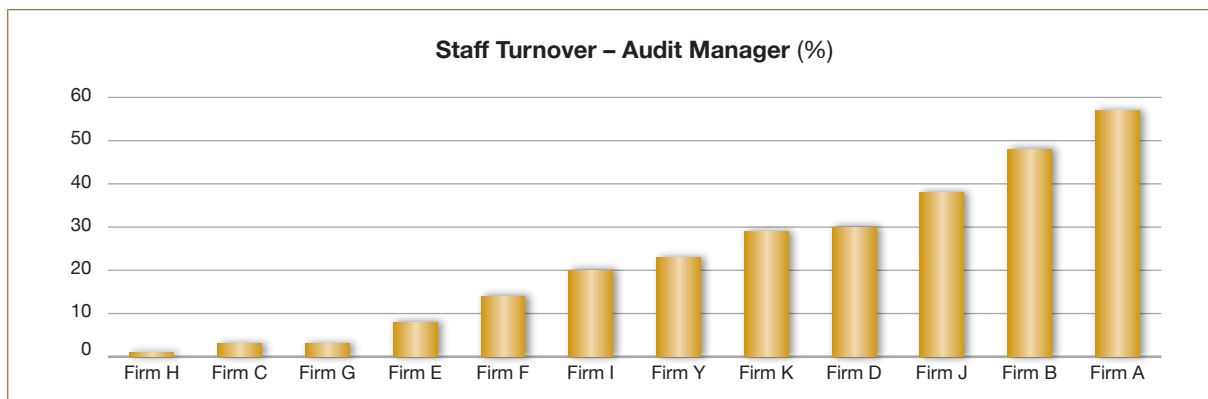
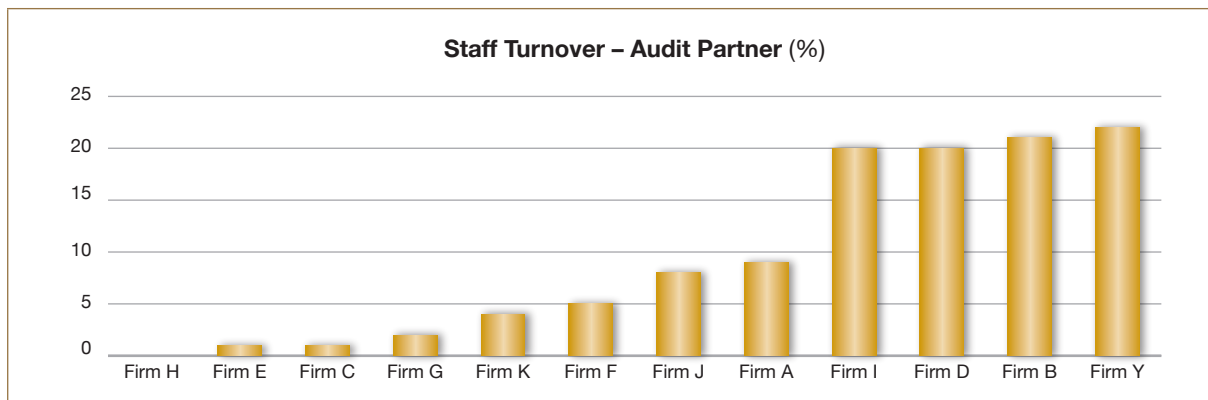
The AQIs published have been limited to those firms that performed audits on more than two PIEs during the 2019 calendar year. This AQI is being published for the first time.

Key observations

Highest percentage of turnover for audit partners: 22%

Highest percentage of turnover for audit managers: 57%

Highest percentage of turnover for audit supervisors: 36%



WAY FORWARD

As this is the second iteration of the report, the IRBA plans to survey key stakeholders regarding potential changes that may be warranted. This may result in significant changes going forward.

As at the date of this report, the IRBA plans to request AQI information again from audit firms, but only JSE-accredited firms will be requested to provide this. Information for the same category of clients, that is PIEs, will be requested. For corporate structures that are groups, information will be collected at the group level and not at the subsidiary level. However, detailed information may be requested for PIEs within a particular group.

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

Firms will still 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.

To provide further guidance to users, the next report may include some interpretation and analysis of AQIs. Some links to audit quality may also be made.

Information received will be cross-checked to other sources. This may entail checking the tenure to audit reports, as well as cross-checking 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>.

To access the Public Inspections Report, visit: <https://www.irba.co.za/guidance-to-ras/inspections/reports>.

APPENDIX 1: OUR APPROACH

The IRBA requested AQI-related information for audits of PIEs⁷ only, specifically from firms accredited with the JSE Limited. This category of firms was chosen as it has the generally larger and medium-sized firms that have more sophisticated systems in place, and from which to extract the information; and these firms 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: 18

Of these, the number of firms that were analysed in this report: 12

Approximate total number of PIEs (groups or corporate structures) where audits were completed: 481

Average number of PIEs (and related entities) audited by the four biggest firms: Approximately 84

Average number of PIEs (and related entities) audited by the eight other firms: Approximately 18

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 they 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 ethics/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 other 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.

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 30 May 2020.

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.

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 calendar year only (1 January 2019 to 31 December 2019).

⁷Refer to Appendix 2 for the definition of Public Interest Entities.

APPENDIX 1: OUR APPROACH *(continued)*

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 cleansing exercise. The results and observations have been depicted in graphical formats, with some notes on statistics such as the highest or lowest measure.

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 exercises.

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

Results are anonymous, as firms have not been identified.

Survey 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 second iteration of this report.

The lack of a quality check on the data submitted was evident in some of the submissions. In summary, the IRBA performed three rounds of data quality checks:

1. A detailed analysis of firm specific data.
2. A comparison of data across the various firms.
3. A comparison of data against the previous year's submissions.

After each round of quality checks, outliers and anomalies identified were queried directly with the respective firms. Responses from the firms at each stage resulted in confirmations of data accuracy, minor corrections being made or complete re-submissions.

As a result, our review of the data finally submitted indicates an overall improvement in accuracy and consistency across most of the firms, when compared to the previous year's submissions. However, there is room for further improvement.

Examples of data quality and consistency issues identified included the following:

- Data provided revealed errors in the prior year numbers submitted.
- 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.
- Inconsistent data: For example, EQ review team hours were given, but no EQ review partner hours were given.
- Inconsistent data formats: For example, use of "nil", "0", "-", "not required", "N/A" and blank cells.
- Inconsistent data: Internal monitoring review results submitted were incomplete, where some firms limited submissions to PIEs and others included all internal reviews performed.
- Inconsistent data: Foreign currency amounts were submitted for some engagements that have a foreign reporting currency.
- Client names: These were not captured in full. Client names should be captured exactly as per their registration details.

What did not work?

In the current submission, information was requested for an additional AQI that attempted to link the size of an entity by client revenue to the audit fee charged. Comparisons across different engagements and firms did not reveal meaningful trends. This may be due to significant qualitative factors, such as the effort and resources required for an engagement being based on the complexity and risk profile of the client rather than purely on the size of the client. Therefore, this potential AQI was not included in this report.

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).⁸
- 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 public⁹.

⁸Market 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.

⁹For 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 on Auditing (ISAs)). Non-audit, therefore, refers to non-ISA engagements.
- **Audit manager** – anyone designated as an audit manager (or equivalent) in the firm, 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 (International Financial Reporting Standards (IFRS), ISAs, Risk).
- **Billed and/or invoiced (rands)** – excludes disbursements, expenses and taxes.
- **Calendar year** – previous calendar year ending 31 December.
- **Client** – an individual statutory entity or group for which an audit report has been issued.
- **Engagement** – audit engagements only.
- **Engagement partner** – as defined in the International Auditing and Assurance Standards Boards (IAASB) Handbook. Engagement partners should be interpreted as signing partners, meaning this should also include, for example, associate directors who sign-off audit reports.
- **Engagement team** – as defined in the IAASB Handbook.
- **Engagement quality (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. This also includes EQ review hours charged by an external EQ review partner (an external service provider).
- **EQ review partner** – the partner performing the engagement quality reviews, the individual, whether from the network firm, in the network or an external service provider, who is responsible for the review, as per International Standard on Quality Control 1 (ISQC 1).
- **EQ review team** – the team performing the engagement quality reviews, including individuals, whether from the network firm, in the network or an external service provider, that is responsible for assisting the EQ review partner in performing the review, as per ISQC 1.
- **Firm tenure** – calculated as per the guidance in the IRBA communique dated 4 December 2015 and Section 90 of the Companies Act.
- **Hours charged** – this includes hours recorded on the firm’s time-keeping system, and these may be more or less than the hours billed.
- **Industry** – a particular form or branch of economic or commercial activity. A predefined list of industries has been provided on the accompanying spreadsheet. Where a group operates within multiple industries, a single industry should be selected based on the size and significance of the operations within that industry in relation to the group’s activities as a whole.
- **Internally charged (fees)** – refers to the fees based on the actual time spent by the firm on the specific engagement; the amount that best represents the actual cost of an audit. The amount may differ from the amount invoiced/billed to the client. For example, some firms may charge time to a “work-in-progress” billing schedule, which would provide a view of the actual time and cost spent.
- **Job description of the registered auditor** – high level title, e.g. engagement partner, technical partner, risk advisory partner, etc.
- **Monthly average of the audit professional staff for the calendar year** – an average should be calculated for the calendar year, taking into consideration the month-end staff during the year.
- **Nature of the engagement** – this should always be for the year-end audit of the financial statements, but it may include an explanation that it is a joint audit or a subcontracted part of the audit. Also, indicate who the other party in the engagement is.
- **Non-audit fees** – relate to fees of engagements other than those that relate to ISA engagements.
- **Partner** – the common term meaning, in the audit profession, and including the individuals who, legally, are directors of firms that are incorporated companies. It is also partners in leadership and in technical roles in audit practice, and 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 of Professional Conduct (Revised November 2018).

APPENDIX 3: DEFINITIONS AND PARAMETERS REGARDING DATA SUBMITTED *(continued)*

- **Reviews** – formal internal firm reviews as defined in the firm’s policies.
- **Staff turnover** – a percentage measure that 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 resources that are available to perform audits. Training contracts that have been completed should be excluded.
- **Statutory non-audit fees** – relate to fees of engagements other than those that relate to ISA engagements, but are limited to those required by law and/or regulation.
- **Technical partners** – 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 (excluding external service providers). For partners with mixed roles, then determine full-time equivalents.
- **Time period** – unless otherwise stated, information should be provided for completed engagements during the previous calendar year. For example, for the April 2020 AQI submission, period refers to engagements completed during 2019. For information regarding non-audit engagements, the period used should match that of the period used for the completed audit engagement.
- **Total audit hours** – the hours charged by all engagement team members (as defined in the IAASB Handbook).
- **Training** – total hours of structured training. This includes formal training events provided by the firm and recorded for attendance and time. Training events exclude academic courses for trainees, such as the South African Institute of Chartered Accountants (SAICA) board courses. The type of structured training activities included should follow SAICA’s CPD requirements, and primarily comprise the following focus areas that are perceived to have the most significant impact on audit quality: audit, accounting, ethics and other (report writing, leadership, etc.). Training includes both internal and external training, i.e. training provided by external service providers.



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