



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Director: Standards
Building 2
Greenstone Hill Office Park
Emerald Boulevard
Modderfontein
1616

19 August 2022

Dear Mr Vanker

Comments in response to proposed IRBA Rules Arising from the International Standards on Quality Management

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

We appreciate this opportunity to comment on the proposed IRBA Rules Arising from the International Standards on Quality Management.

Our response has been prepared by the Reporting and Methodology Business Unit of the Auditor General of South Africa's office.

Our comments are provided considering the following two perspectives:

- Although the Auditor-General is not a firm that is a registered auditor as per the Auditing Professions Act, 2005 (APA) and therefore not subject to compliance with IRBA rules issued in terms of the APA, we considered the practicality of adopting the proposed IRBA rules as best practice in our environment.
- We also considered the impact of the rules on registered auditors performing work on behalf of the AGSA or performing audits where the AGSA has opted not to audit.

Yours sincerely

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Question 1: Proposed IRBA Rule 1

A firm's CEO should be an RA, subject to firms being allowed to appoint CEOs for their assurance divisions (the CEO must be an RA), if a different non-RA CEO is to be appointed for the non-assurance division (the CEO can be an RA or any other suitable individual). Effective 24 months (two years) after the IRBA Board's prescription and/or publication of the Rules.

a) Do you support the proposed IRBA Rule 1?

Partially

If "No", please indicate the reason(s) for your response.

There should be consideration of the objective which resulted in the proposal of this rule and whether the objective will be met by the proposed rule. ISQM 20(a) requires that ultimate responsibility and accountability for the system of quality management (SOQM) shall be assigned to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent). ISQM 1 A.35 indicates that how the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that may affect the leadership and management structure or their assigned responsibilities.

We agree that the person who is assigned ultimate responsibility and accountability for the system of quality management should be a registered auditor to enable IRBA to enforce accountability in the case of a firm which is also a registered auditor.

We are however of the view that the focus should not be on the naming of this role such as CEO but rather be focused on the authority and influence that is held in this role. Challenges may be encountered with focusing on the naming of the role e.g. the proposed rule indicates that an assurance division CEO may be appointed who is an RA and that a different non-RA CEO may then be appointed for a different division. This may have the effect that resources such as human capital and information technology which forms part of the SOQM is subject to the authority of someone else than the assurance division CEO depending on the setup of the firm.

In the context of the AGSA, the term CEO is not used and the Auditor-General (AG) herself was identified as the person to which the Constitution and Public Audit Act, 2004 (PAA) ascribes full accountability for our public sector auditing mandate and all matters related to the audit. Therefore in our environment ultimate responsibility and accountability for the SOQM is assigned to the AG.

b) Do you believe that there is guidance required in support of the proposed IRBA Rule 1?

Yes

If "Yes", please indicate what guidance is needed.

Guidance should indicate that the objective of the rule is that the person who is assigned ultimate responsibility and accountability for the SOQM should have overall accountability, responsibility, influence and authority for all elements of the system.

c) Do you agree with the effective date for the proposed IRBA Rule 1?

Yes

If "No", please indicate the reason(s) for your response.

N/A

Question 2: Proposed IRBA Rule 2

The mandatory annual preparation of transparency reports for firms, as defined in the Auditing Profession Act, that audit financial statements of listed entities. Effective 24 months (two years) after the IRBA Board's prescription and/or publication of the Rules.

a) Do you support the proposed IRBA Rule 2?

Yes

If "No", please indicate the reason(s) for your response.

N/A

b) Do you believe that there is guidance required in support of the proposed IRBA Rule 2?

Yes

If "Yes", please indicate what guidance is needed.

ISQM 1. 33 (d)(ii) requires the communication of relevant and reliable information to external parties to support their understanding of the system of quality management. Generally in addition to information on the SOQM currently transparency reports also include information on matters such as Audit Quality Indicators, which are more predictive in nature and of which it may be questioned whether this provides reliable information needed to support external parties understanding of the SOQM. The rule and guidance on what should be included in the transparency report should rather be more focused on the provision of factual information in terms of the SOQM, linked to the application material guidance provided in A130. The guidance should also include what other consideration may be relevant when applying professional judgement in the determination of the contents of the communication.

c) Do you agree with the effective date for the proposed IRBA Rule 2?

Yes

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

N/A

Question 3: Proposed IRBA Rule 3

An engagement quality review should be performed for all audits of financial statements of public interest entities, as defined in the IRBA Code, in addition to those engagements scoped in by ISQM 1. Effective 24 months (two years) after the IRBA Board's prescription and/or publication of the Rules.

a) Do you support the proposed IRBA Rule 3?

Partially

If “No”, please indicate the reason(s) for your response.

In the AGSA environment we estimate that after refinement of the IRBA code we may have approximately 35% or roughly 300 of our audits identified as PIE audits. Currently we already subject these audits to Pre-issuance review but for auditees with less risk, this is done on a three year rotational basis. Having to subject all PIEs to Pre-issuance every year will have consequences for the cost of audits which is already a challenge in the public sector environment. We would suggest that all PIEs be subjected to pre-issuance reviews, but that this may be done on a cyclical basis in a three year period for auditees which have no significant risk attached to them.

b) Do you believe that there is guidance required in support of the proposed IRBA Rule 3?

No

If “Yes”, please indicate what guidance is needed.

N/A

c) Do you agree with the effective date for the proposed IRBA Rule 3?

Yes, but dependent on the effective date of the revised IRBA Code.

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

According to the current proposal the revision of the PIE definition in the IRBA Code is expected to be completed around July 2023. There will need to be an allowance of at least 12 months after this revision before proposed IRBA rule 3 on quality management becomes effective to enable proper planning for adherence to this requirement.

Question 4: Proposed IRBA Rule 4

The engagement quality reviewer (EQR) must be registered with the IRBA as a registered auditor. Further, an assistant to an engagement quality reviewer must have, as a minimum, three years of relevant expertise. Effective 24 months (two years) after the IRBA Board’s prescription and/or publication of the Rules.

a) Do you support the proposed IRBA Rule 4?

Yes, we support that where practicable an engagement quality reviewer should be an RA and recognise that an exception is available for pre-issuance reviews governed by the AGSA. At AGSA we do not intend to start allowing for the use of assistants on pre-issuance reviews although this is included as a possibility per ISQM 2.

Support that PIR should be RA. Important to manage experience of assistant, how do we manage the eligibility. What is the extent of the assistance, will determine better experience requirements. In AG space cannot be delegated to assistants. In principle don’t agree with use of assistants, but maybe we can only manage the experience.

If “No”, please indicate the reason(s) for your response.

N/A

b) Do you believe that there is guidance required in support of the proposed IRBA Rule 4?

Yes

If "Yes", please indicate what guidance is needed.

Guidance should be provided on to which extent an EQR may delegate work to an assistant. In some instances it is found that the entire review is delegated and the involvement of the EQR is very limited in which case the benefit of the experience and qualification requirements attached to the EQR may not be realised in the review.

c) Do you agree with the effective date for the proposed IRBA Rule 4?

Yes

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

N/A

Question 5: Proposed IRBA Rule 5

- **The assembly of the final engagement file shall not exceed 60 days;**
- **The retention period for the engagement documentation should be a minimum of five years, or such longer period as determined by other laws and regulations or firm policies/procedures; and**
- **The retention of documentation for the system of quality management should be a minimum period of five years, or such longer period as determined by other laws and regulations or firm policies/procedures.**
- **Effective 12 months (one year) after the IRBA Board's prescription and/or publication of the Rule.**

a) Do you support the proposed IRBA Rule 5?

Yes

If "No", please indicate the reason(s) for your response.

N/A

b) Do you believe that there is guidance required in support of the proposed IRBA Rule 5?

No

If "Yes", please indicate what guidance is needed.

N/A

c) Do you agree with the effective date for the proposed IRBA Rule 5?

Yes

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

N/A

Question 6: Request for Further Comments

a) Are there any other rule(s) that you believe the IRBA Board should consider so as to supplement and/or strengthen the requirements contained in the ISQMs that are applicable to audit firms and registered auditors?

No

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

N/A