

16 August 2022

The Director: Standards
Independent Regulatory Board for Auditors
Building 2 Greenstone Hill Office Park Emerald Boulevard
Modderfontein
Johannesburg, South Africa
Email: standards@irba.co.za

Dear Imran


Deloitte response to the request for comments on the proposed IRBA Rules arising from the International Standards on Quality Management

We thank you for the opportunity to provide comments in response to the proposed Rules Arising from the International Standards on Quality Management issued by the Independent Regulatory Board for Auditors (“IRBA”) during June 2022.

Deloitte appreciates the opportunity to respond on the proposed Rules and welcomes the efforts of the IRBA to work with the profession locally and globally in its endeavours to improve audit quality within the profession. Deloitte is committed to focus its continuous endeavours on reforms that will improve the quality of audits for all role players. We have therefore included our responses to your specific questions on the proposed rules in Appendix A, and where necessary, we have included reasons for our remarks and suggestions.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Johan Combrinck at jcombrinck@deloitte.co.za.

Yours sincerely

DocuSigned by:

156DCF784EA0495...

Johan Combrinck
Deloitte & Touche
Partner

APPENDIX A:

Specific comments on proposed rules

Proposed IRBA Rule 1 – Firm CEO

a) Do you support the proposed IRBA Rule 1? If no, please indicate the reason(s) for your response.

No, we do not support the proposed Rule where the meaning of the term “Firm” is afforded a broader interpretation than that of the IRBA registered entity. If the intention is to scope network Firms into the proposed Rule, we disagree with the approach. We believe that the use of the word “Firm” in the Rule should be afforded the meaning as defined in the Auditing Profession Act, 2005 (APA). The term in the IRBA Code of Professional Conduct for Registered Auditors (“the Code”) has been interpreted by IRBA as “network firm” in the past.

[(a) a partnership, company or sole proprietor referred to in Section 381 of the Act; (b) An entity that controls such parties in (a), through ownership, management or other means; and (c) An entity controlled by such parties in (a), through ownership, management or other means”.]

We furthermore believe that the Rule is jurisdictionally limited to the provision of Assurance services by the IRBA registered auditor or entity [read with the definition of an “audit “in the APA] where one would expect to have a Registered Auditor (“RA”) in the role of executive management or CEO (or equivalent). The suggestion that a Firm could “have two CEOs, an RA for the assurance division and a non-RA CEO for the non-assurance division”, is jurisdictionally problematic in that the IRBA cannot indirectly prescribe the governance arrangements of non-Assurance services that fall outside the ambit of the APA (as is potentially the case by implication with reference to “non-assurance *division*”). IRBA regulates registered auditors (entities in this context) and not necessarily divisions. Reference to Assurance and non- Assurance Divisions should be avoided and limited to IRBA registered entities.

In our view, such a Rule should speak to the Head of the Audit and Assurance division or department of a registered audit entity being an RA, and not necessarily the CEO of the broader Firm concept. The Head of Audit and Assurance can be assigned ultimate responsibility and accountability for the system of quality management as allowed for in ISQM 1 paragraph 20(a) where it refers to *the firm’s CEO or the firm’s managing partner (or equivalent)*.

We believe that the role and responsibilities of the “broader” Firm CEO go beyond audit and assurance capabilities; hence a Firm may require having a CEO that has a suitable skillset, but who may not necessarily be a registered auditor. Generally, professional organisations do not necessarily require CEO affiliation to the relevant professional body. Arguably having a CEO external to the profession could potentially have a positive effect on the governance of the Firm, where such a CEO could objectively assess the decisions and actions in the audit practice over quality standards and controls.

In addition, the assumption that a “CEO is a director” is incorrect. Although this comment may not influence the overall outcome of the Rule, we respectfully highlight this comment to ensure that the IRBA’s thought process is sound when arriving at a conclusion that will inform the proposed Rule. This statement is not always true and we propose that it is removed from the IRBA Rule.

- b) **Do you believe there is guidance required in support of the proposed IRBA Rule 1? If yes, please indicate what guidance is needed.**

Yes, we believe that guidance will be required to address:

- Confirmation that “Firm” has the meaning as defined in the APA;
- Clarification of the scope and ambit of the Rule to apply to registered auditors, performing audits (RA’s) as defined in the APA as opposed to “Audit and Assurance Divisions”;
- Guidance will also be required to address consequences where the CEO of a Firm is not an RA; and
- Transitional arrangements.

- c) **Do you agree with the effective date for the proposed IRBA Rule 1? If no, please indicate the reason(s) for disagreeing and suggest an effective date and transitional provisions that will be appropriate.**

No, we do not agree with the proposed effective date. A longer period would be required where Firms must transition into applying the Rule to amend their constitutions and consult with their global networks in some instances. Where the existing CEOs are not registered auditors, time will also be required to complete the registration process with the IRBA.

Proposed IRBA Rule 2 – Transparency Reports

- a) **Do you support the proposed IRBA Rule 2? If no, please indicate the reason(s) for your response.**

Yes, we support the proposed Rule. We believe that having registered audit firms issue transparency reports on an annual basis will promote audit quality. However, registered audit firms should be allowed sufficient time after their reporting period to compile the transparency reports.

- b) **Do you believe there is guidance required in support of the proposed IRBA Rule 2? If yes, please indicate what guidance is needed.**

Yes, guidance will be required on the objectives and the expected minimum areas to be covered within the transparency report. This will drive a level of comparability between the transparency reports of different audit firms. We understand that there is an existing IRBA task group working on a guide for transparency reports and believe that it will be important for the guide to be available prior to the introduction of this Rule. IRBA should also consider the reports and returns currently submitted by audit firms, as required by other regulators, to avoid duplication of information already contained in the transparency report.

- c) **Do you agree with the effective date for the proposed IRBA Rules 2? If no, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.**

Yes, we agree with the proposed effective date.

Proposed IRBA Rule 3 – Engagement Quality Reviews

a) Do you support the proposed IRBA Rule 3? If no, please indicate the reason(s) for your response.

No, we do not support the proposed Rule. We believe that consideration should be given to the size and/or complexity of the public interest entity when determining when an engagement quality review should be performed.

Currently, the IRBA definition of a public interest entity (“PIE”) encompasses relatively small and simple entities such as pension funds and medical schemes, which in our view do not necessarily require engagement quality reviewer involvement. The result of this will be excessive audit fees for such entities without necessarily adding to the quality of the audit as they are typically not complex engagements.

We also understand that there is a process underway by the IRBA to update the definition of a PIE. It is therefore challenging to support the proposed Rule which speaks to all PIEs without the proper understanding of how and to what extent the definition of a PIE will be changed. Therefore, it is our view that the Rule should be reconsidered once the definition of a PIE has been finalised.

Audit firms will likely face capacity constraints given the increase in the number of entities over which an engagement quality review will have to be performed, and this will be further exacerbated by the requirements in proposed IRBA Rule 4. This requirement may also have implications on the audit fee for these entities due to the additional time and cost required to perform the engagement quality reviews and therefore this should be considered carefully to take into account the impact on entities required to be audited.

b) Do you believe there is guidance required in support of the proposed IRBA Rule 3? If yes, please indicate what guidance is needed.

Yes, guidance will be required to specifically clarify the definition of a public interest entity and the entities that will be subject to the engagement quality review requirement.

c) Do you agree with the effective date for the proposed IRBA Rules 3? If no, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Yes, we agree with the proposed effective date as time will be required to broaden the audit firm’s EQR base.

Proposed IRBA Rule 4 – Engagement Quality Reviewer (EQR) and an Assistant to an EQR

a) Do you support the proposed IRBA Rule 4? If no, please indicate the reason(s) for your response.

No, we do not support the proposed Rule. We do not agree with the proposal that the engagement quality reviewer must be registered with IRBA as a registered auditor (“RA”). Restricting EQRs to RAs will result in a narrow pool of EQRs. The objective of an engagement quality review is to enhance the quality of an engagement through an objective evaluation of the significant judgments made by the engagement team and the conclusions reached. It is therefore imperative to have an EQR that has the requisite in-depth skills, knowledge and experience, including relevant experience in the industry which the client operates in. This combination of expertise may not always be available in South Africa, especially in highly specialised industries or areas of the audit.

Large audit firms are part of network firms which collaborate globally to draw on the expertise and specialised knowledge of individuals who may not necessarily be registered auditors with IRBA, but who hold equivalent qualifications in other jurisdictions. We suggest that consideration be given to include individuals with an equivalent RA designation in their particular jurisdiction to broaden the scope of this requirement. The risk of EQRs from other jurisdictions not understanding local regulatory requirements that are specific to South Africa will be mitigated as audit firms have relevant quality and risk management structures in place to support the EQR and ensure that all local regulations and requirements are adhered to and addressed as part of the audit.

This requirement will also exclude specific skill sets of professionals here in South Africa such as Registered Government Auditors. There are also cost and time implications on the audit firms which will emanate from the requirement to ensure that all EQRs are registered auditors with the IRBA.

We are not opposed to the proposal that the assistant to an EQR must have a minimum of three years relevant expertise. It is appropriate that EQR assistants are not required to be RAs as assistants to an EQR may be used due to their experience and skills in other areas such as valuations, IT, tax etc.

b) Do you believe there is guidance required in support of the proposed IRBA Rule 4? If yes, please indicate what guidance is needed.

No, we do not believe that any specific guidance is required. However, in our view the IRBA Rule should explicitly clarify that the EQR assistant does not need to be a registered auditor to avoid any misinterpretation in practice.

c) Do you agree with the effective date for the proposed IRBA Rules 4? If no, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Yes, we agree with the proposed effective date as time will be required to broaden the audit firm’s EQR base.

Proposed IRBA Rule 5 – Assembly and Retention of Audit Documentation

- a) Do you support the proposed IRBA Rule 5? If no, please indicate the reason(s) for your response.

Yes, we are in support of IRBA Rule 5.

- b) Do you believe there is guidance required in support of the proposed IRBA Rule 5? If yes, please indicate what guidance is needed.

Yes, we believe that it would be useful if the guidance can include what is considered administrative in nature during the file assembly period, as well as the level of audit documentation required for both administrative and non-administrative changes i.e. in addition to the changes themselves.

- c) Do you agree with the effective date for the proposed IRBA Rules 5? If no, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Yes, we agree with the proposed effective date.

Request for further comments

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

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

We do not believe that there are any other Rules that the IRBA Board needs to consider.