

Mr Imran Vanker
Director: Standards
Independent Regulatory Board for Auditors
PO Box 8237
Greenstone
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19 August 2022

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Greenstone Hill Office Park
Emerald Boulevard
Modderfontein
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Per email: standards@irba.co.za

Comment Letter: Proposed IRBA Rules Arising from the International Standards on Quality Management

Dear Mr. Vanker

We welcome the opportunity to comment on the exposure draft. This comment letter deals with responses to the questions posed in the exposure draft and our specific comments on the proposed IRBA Rules Arising from the International Standards on Quality Management. The comments and considerations expressed in this comment letter are based on collated views of Ernst & Young Inc. South Africa and do not represent the collective view of the global EY network of firms.

Our comments are structured in two parts:

- Part A: General Comments addresses a short introduction which provides some comments relevant to all the questions you have asked (for avoidance of repetition)
- Part B conforms to your requested format with our detailed answers to your specific questions.

We thank the Independent Regulatory Board for Auditors (IRBA) for an opportunity to contribute to the process. If you wish to discuss these comments further, please contact Roger Hillen (roger.hillen@za.ey.com)

Yours sincerely,

DocuSigned by:
Roger Hillen
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Roger Hillen

Africa Professional Practice Director

Part A: General comments

Overall, we are supportive of the IRBA Board approving the proposed IRBA Rules arising from the International Standards on Quality Management (proposed IRBA Rules) so as to supplement and/or strengthen the requirements contained in the ISQMs that are applicable to South African audit firms and registered auditors. The proposed IRBA rules provide additional clarity and are expected to result in greater consistency across audit firms in South Africa.

We recognise that the proposed IRBA Rules will require additional consideration around the internal structure of the audit firm including ensuring sufficient and appropriate capacity in respect of engagement quality reviewers. However, we believe that effective dates that are proposed in the “Project Timetable” section of the Exposure Draft provide sufficient time to implement the Proposed IRBA Rules.

Part B: Specific Comments

Respondent Information

Respondent type <i>Please select the capacity in which you are responding.</i>	Firm
Organisation Name <i>If you answered "Individual", please write "Private".</i>	Ernst & Young Inc.
Full Name	• Roger Hillen
Job Title	• Professional Practice Director
Email Address	• roger.hillen@za.ey.com

Question 1: Proposed IRBA Rule 1

Proposed IRBA Rule 1: A prohibition of non-RAs from holding the position of CEO (or equivalent) in a firm (as defined in the APA), 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).

- a) Do you support the proposed IRBA Rule 1? Yes / No
If "No", please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 1? Yes / No
If "Yes", please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 1? Yes / No
If "No", please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Response to Question 1

- a) Yes, we support the proposed IRBA Rule and believe most audit firms, including ours, already comply with the proposed Rule. Paragraph 20(a) of ISQM 1 establishes ultimate responsibility and accountability for the system of quality management to the CEO or managing partner or the firm's managing board of directors. Including the requirement for the CEO or equivalent to be a registered auditor (RA) would allow the IRBA, in its capacity as the regulator of the audit profession, to effectively hold CEOs accountable for significant failures in the system of quality management.

In addition, we welcome the fact that the proposed IRBA Rule does make provision to have multiple CEOs which should accommodate most current structures in place at audit firms.
- b) No. We do not believe that guidance is needed to be developed to support the proposed IRBA Rule 1. The proposed Rule is clear as to what is required to be implemented.
- c) Yes. We support the effective date that includes a transitional period of 24 months, allowing time for firms to implement the proposed IRBA Rule, to the extent that they are not compliant already.

Question 2: Proposed IRBA Rule 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.

- a) Do you support the proposed IRBA Rule 2? Yes / No
If “No”, please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 2? Yes / No
If “Yes”, please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 2? Yes / No
If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Response to Question 2.

- a) Yes, we support the proposed IRBA Rule 2. Several audit firms, including EY South Africa, already prepare an annual transparency report. The transparency report should facilitate compliance with paragraphs 33(d)(ii) and A114 of ISQM 1 as it relates to audit firms that audit financial statements of listed entities.

While we support limiting the scope of the proposed Rule, considering the importance of this information for external parties, we believe the scope should be extended to audit firm’s that audit financial statements of public interest entities rather than limiting the proposed Rule to listed entities. If there is a need for a distinction between listed PIEs and non-listed PIEs, this can be covered in the guidance.

- b) Yes, we do believe that specific guidance on the preparation of transparency reports should be developed that incorporates the needs of various external parties and that is formalised to support the consistent application of the proposed IRBA Rule 2. Although we recognise that the IRBA has already issued significant resources, information and communication on the topic on their website, we believe that the IRBA should incorporate all relevant aspects, including those set out in various IRBA communiques, into one guideline/pronouncement. In addition, we recommend that the IRBA establish a project or task group to perform a periodic review of international trends on transparency reporting to determine if any additional guidance is necessary to be included.
- c) Yes. We support the effective date that includes a transitional period of 24 months, allowing time for firms to implement the proposed IRBA Rule.

Question 3: Proposed IRBA Rule 3

Proposed IRBA Rule 3: That 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.

- a) Do you support the proposed IRBA Rule 3? Yes / No
If “No”, please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 3? Yes / No
If “Yes”, please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 3? Yes / No
If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Response to Question 3.

- a) Yes, we support the proposed IRBA Rule 3. As noted in the exposure draft, paragraph A133 of ISQM 1 notes public interest entities, public sector entities, specific industries and thresholds as examples of areas where law or regulations may require an engagement quality review to be performed. Therefore, extending the requirement to all audits of financial statements of public interest entities as defined in the IRBA Code is reasonable.

In addition, paragraph A134 of ISQM 1 also identifies entities other than listed entities that may have public interest or public accountability characteristics as an example of conditions, events, circumstances, actions or inactions that give rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response. This paragraph further supports the appropriateness of the proposed Rule.
- b) No. We do not believe that guidance needs to be developed to support the proposed IRBA Rule 3. The rule itself is clear and we believe that the IRBA Code of Professional Conduct contains sufficient requirements and application material to allow firms to develop appropriate policies or procedures in this regard.
- c) Yes. We support the effective date that includes a transitional period of 24 months, allowing time for firms to implement the proposed IRBA Rule.

Question 4: Proposed IRBA Rule 4

Proposed IRBA Rule 4: The engagement quality reviewer must be registered with the IRBA as a registered auditor (RA). Further, an assistant to an engagement quality reviewer must have, as a minimum, three years of relevant expertise.

- a) Do you support the proposed IRBA Rule 4? Yes / No
If “No”, please indicate the reason(s) for your response.
- b) Do you believe that there is guidance required in support of the proposed IRBA Rule 4? Yes / No
If “Yes”, please indicate what guidance is needed.
- c) Do you agree with the effective date for the proposed IRBA Rule 4? Yes / No
If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Response to Question 4.

- a) We support the proposed IRBA Rule 4 in respect of the requirement that an engagement quality reviewer must be a registered auditor. This is consistent with actions being considered by other audit regulators. We, however, disagree with the criteria of “*as a minimum, three years of relevant expertise*” that has been set for an assistant to an engagement quality reviewer for the following reasons:
 - i. We believe that paragraph 20(a) of ISQM 2 read together with paragraph A19 provides the necessary guidance as it relates to the assistant to the engagement quality reviewer having the competence and capabilities to assist the engagement quality reviewer with the engagement quality review.
 - ii. We do not believe that there is a basis for the IRBA’s decision to prescribe a minimum of three years of relevant expertise (not discussed in the Exposure Draft).
 - iii. No such requirement or criteria currently exists for an engagement quality reviewer or other critical roles on the engagement team including the engagement partner.
 - iv. We believe the requirement for audit firms to establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer is consistent with paragraph 20 of ISQM 2 and is sufficient to ensure the individuals assigned are appropriate for the circumstances.
- b) No. We do not believe that guidance needs to be developed to support the proposed IRBA Rule 4. The rule itself is clear and the footnotes provide further clarity on relevant expertise.
As noted, we do not support the rule with regards to the length of experience of the EQR assistant. If the IRBA was to keep the rule with regards to the EQR assistant having more than 3 years of relevant experience, it should be clarified whether it is meant that the 3 years includes time spent during the training contract, or 3 years post the training contract.
- c) Yes. We support the effective date that includes a transitional period of 24 months, allowing time for firms to implement the proposed IRBA Rule.

Question 5: Proposed IRBA Rule 5

Proposed IRBA Rule 5:

- The assembly of the final engagement file shall not exceed 60 days;
- The retention period for the engagement documentation 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 be for a minimum period of five years, or such longer period as determined by other laws and regulations or firm policies/procedures.
 - a) Do you support the proposed IRBA Rule 5? Yes / No
If “No”, please indicate the reason(s) for your response.
 - b) Do you believe that there is guidance required in support of the proposed IRBA Rule 5? Yes / No
If “Yes”, please indicate what guidance is needed.
 - c) Do you agree with the effective date for the proposed IRBA Rule 5? Yes / No
If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.

Response to Question 5.

- a) Yes, we support the proposed IRBA Rule 5. The proposed IRBA Rule is consistent with paragraph A83 and A85 of ISQM 1 and removes any ambiguity introduced by the reference to “ordinarily”.
- b) No, we do not believe that additional guidance is required in support of the proposed IRBA Rule 5. The proposed Rule is clear and consistent with ISQM 1.
- c) Yes. We support the effective date that includes a transitional period of 12 months, allowing time for firms to implement the proposed IRBA Rule.

Question 6:

- 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? Yes / No
- If "Yes", please provide details of your proposed rule(s) and indicate the reason(s) for your response.

Response to Question 6.

- a) No, there are no other rules that we believe the IRBA Board should consider as to supplement and/or strengthen the requirements contained in the ISQMs that are applicable to audit firms and registered auditors.