

Proposed IRBA Rules Arising from the International Standards on Quality Management

Comments Due: 19 August 2022

Request for specific comments:

1. **Proposed Rule 1: Firm CEO** 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).
2. **Proposed Rule 2: Transparency Reports** The mandatory annual preparation of transparency reports for firms, as defined in the Auditing Profession Act, that audit financial statements of listed entities.
3. **Proposed Rule 3: Engagement Quality Reviews** 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.
4. **Proposed Rule 4: Engagement Quality Reviewer (EQR) and an Assistant to an EQR** The engagement quality reviewer 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.
5. **Proposed Rule 5: Assembly and Retention of Audit Documentation**
 - 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.

Question 1

Proposed Rule 1: Firm CEO - 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).

Questions

- 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

Question No	Response
a.	We strongly believe that IRBA, in formulating these rules, should align the current South African legislation with global practices – this would go a long way in ensuring that South African firms are led and managed by the individuals who are best suited for the job (irrespective of the RA designation, as long as the CEO has sufficient experience and stays up to date with latest developments).
b.	No
c.	Yes, if the rule as it currently stands had to be implemented

Question 2

Proposed Rule 2: Transparency Reports - The mandatory annual preparation of transparency reports for firms, as defined in the Auditing Profession Act, that audit financial statements of listed entities.

Questions

- 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

Question No	Response
a.	No. We believe that transparency reports should not only be limited to firms that perform audit of listed entities but should also be extended to all audit firms that perform audit of public interest entities as defined in paragraph R400.8a SA and R400.8b SA of the IRBA Code of Professional Conduct and also to an audit firm who have 5 or more partners / directors performing audit assurance engagements. Furthermore, firms that performs audits in terms of section 4(3) of the Public Audit Act should also prepare transparency reports.
b.	No
c.	Yes

Question 3

Proposed Rule 3: Engagement Quality Reviews 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.

Questions

- 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

Question No	Response
a.	<p>No</p> <p>The IRBA Code defines a public interest entity (PIE) as follows: <i>(a) A listed entity;</i> <i>(b) An entity:</i> <i>(i) Defined by regulation or legislation as a public interest entity; or</i> <i>(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</i> <i>(c) Other entities, as set out in paragraphs R400.8a SA and R400.8b SA.</i></p> <p>There are certain entities that are required by regulation and/or legislation to be audited that would be defined as public interest entities as per the definition above. However, in many cases an entity may not satisfy the requirements to be in the public interest merely by virtue of the requirement to be subject to an audit based on regulation and/or regulation.</p> <p>One such example is an owner managed business where the Public Interest Score requires an audit but there is no public interest in such entity.</p> <p>We believe that the engagement quality review should be performed for audits of listed entities and the audit of public interest clients as defined in paragraph R400.8a SA and R400.8b SA of the IRBA Code of Professional Conduct and the firm’s internal policy for any other engagements to be reviewed.</p>
b.	<p>Yes – guidance is needed to explain the following requirement, especially the underlined, in terms of the PIE definition in order to establish which entities would fall within the</p>

Question No	Response
	definition of a PIE as per the example provided above: <i>(b)(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;</i>
c.	Yes

Question 4

Proposed Rule 4: Engagement Quality Reviewer (EQR) and an Assistant to an EQR The engagement quality reviewer 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.

Questions

- Do you support the proposed IRBA Rule 4? (Yes / No)
If "No", please indicate the reason(s) for your response.
- 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.
- 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

Question No	Response
a.	Yes
b.	No
c.	Yes

Question 5

Proposed Rule 5: Assembly and Retention of Audit Documentation

- 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.

Questions

- Do you support the proposed IRBA Rule 5? (Yes / No)
If "No", please indicate the reason(s) for your response.
- 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.
- 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

Question No	Response
a.	Yes
b.	No
c.	Yes

Question 6: Request for Further Comments

- 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

Question No	Response
a.	No