

Reference #: 773253

19 August 2022

The Director Standards
Independent Regulatory Board for Auditors

By e-mail: standards@irba.co.za

Dear Imran,

Comments on the Proposed IRBA Rules Arising from the International Standards on Quality Management

SAICA appreciates the opportunity to provide comments on the Proposed IRBA Rules Arising from the International Standards on Quality Management (the Proposed Rules).

To inform our submission, SAICA established a task group consisting of members of our Assurance Guidance Committee, its related project groups and of members of our Legal Compliance Committee. Our response was furthermore informed by responses to a survey on the Proposed Rules that was circulated to SAICA members in June 2022. The survey posed the same questions as those asked in the Exposure Draft. Although the response rate was not sufficient to be regarded as a representative view of our members, it provided us with an indication of the views, supportive or otherwise, of the respondents. We have included some of the comments made by respondents in our responses to the specific questions in the Exposure Draft, for context.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Annerie Pretorius (AnnerieP@saica.co.za).

Kind regards



Thandokuhle Myoli

Executive: Audit and Assurance
The South African Institute of Chartered Accountants



Responses to specific questions in the Exposure Draft

Question 1: Proposed IRBA Rule 1

(a) Do you support the proposed IRBA Rule 1? Yes / No

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

1. No, we do not support proposed IRBA Rule 1.
2. There is, in our view, no intrinsic advantage in requiring the CEO of a firm, as defined in the Auditing Profession Act, 2005 (the APA), to be a registered auditor.
3. International Standard on Quality Management (ISQM) 1 paragraph 20(a) requires the ultimate responsibility and accountability for the system of quality management to be assigned at the highest level in the firm, as is appropriate to a particular firm. This paragraph in the standard refers to the CEO or managing partner or if appropriate the firm's managing board of partners, instead of just the CEO. Furthermore, paragraph A35 of ISQM 1 also speaks to the fact that large firms may have an independent governing body which may decide to assign various roles and responsibilities to certain individuals. We should not disregard the role of a governing board.
4. In our view, firms should be allowed to apply the principles of the standard.
5. We respectfully question some of the reasoning that underpins the proposed Rule, as discussed below.
6. Our response to this question is structured as follows:
 - Our proposals
 - Our comments on the IRBA Board's reasoning
 - Our comments on the IRBA Manco's reasoning
 - Comments on the articulation of the proposed Rule
 - Comments received from SAICA members

Our proposals

7. We list our proposals in descending order of preference:
 - 7.1 The proposed Rule should be removed.
 - 7.2 The proposed Rule should be amended as follows: Ultimate responsibility and accountability for the system of quality management in a firm, as defined in the Auditing



Profession Act, that has registered as an auditor with the IRBA, shall only be assigned to a registered auditor / registered auditors.

7.3 Should the IRBA Board proceed with the proposed Rule, we suggest wording changes to enhance the articulation thereof:

Where a firm, as defined in the Auditing Profession Act, that has registered as an auditor with the IRBA, has appointed one or more CEO, A the firm's CEO(s) responsible for the firm's assurance division(s) should shall be an RA / RA(s), subject to Such firms are being allowed to appoint more than one CEO, provided that the CEO(s)s for their assurance divisions(s) (the CEO must shall be an RA / RAs.), if a different nNon-RA CEO(s) may be is to be appointed for the non-assurance divisions. (the CEO can be an RA or any other suitable individual.)

Our comments on the IRBA Board's reasoning

As a result, the IRBA Board is of the opinion that the ultimate responsibility to fulfil the role required by paragraph 20(a) and (b) of ISQM 1 should be limited to the CEO (or equivalent). (Page 9 of the Exposure Draft)

8. The proposed Rule is described as being informed by the considerations in paragraphs 20(a), 20(b), 21, A35 and A37 of ISQM 1.
9. Paragraphs 20 and A35 of ISQM 1 address the assignment of responsibility related to the system of quality management. The scalability example in paragraph A35 demonstrates how assigning roles and responsibilities may be undertaken in a less complex firm, where there may be a single managing partner, and in a more complex firm, where there may be multiple layers of leadership.
10. Paragraphs 21 and A37 of ISQM 1 address qualification criteria that firms have to consider when assigning the roles in paragraph 20.
11. An IRBA Rule that operationalises a view that the ultimate responsibility for the system of quality management (paragraph 20(a)) **and** the operational responsibility for the system of quality management (paragraph 20(b)) should be limited to the CEO or equivalent would be problematic, in our opinion, because:
 - It would remove the flexibility and scalability afforded by ISQM 1;
 - It would require firms to assign *ultimate responsibility and accountability*- and *operational responsibility* for the system of quality management, to a combined role (the CEO or equivalent would be responsible for both); and
 - It would not take into account how some firms in South Africa are currently structured. Some firms, for example, do not currently have CEOs.



12. The proposed Rule on page 23 of the Exposure Draft, however, only addresses the *qualification criteria* of a firm's CEO and on face value does not appear to operationalise the IRBA Board's opinion on the application of paragraphs 20(a) and (b). There are however different interpretations of the proposed Rule in this regard.
13. Some respondents to our survey furthermore interpreted the proposed Rule as *requiring* the appointment of a CEO for all firms while others interpreted the proposed Rule to mean that *if* a firm had appointed a CEO, that CEO must be an RA.

Our comments on the IRBA Manco's reasoning

The CEO is a director in terms of the Companies Act and as such cannot be a non-RA in relation to a firm as defined in the APA. This is because the APA requires all directors of a firm to be RAs. (Page 8 of the Exposure Draft)

14. We agree that the APA (in section 38) requires that all directors must be RAs, for firms operating as companies that have registered as an auditor with the IRBA.
15. There is however no requirement in the Companies Act, 2008 for a CEO to be a director. Whether the CEO is also a director (in addition to being an employee) is entirely up to how the governance of the company is structured. A CEO, if not a director, will however be regarded as a prescribed officer for purposes of assigning duties and liability in terms of the Companies Act but this is different from being a director.
16. The assertion that a "CEO is a director" is mostly, but not always true. Although this comment may not influence the overall outcome of the Rule, we respectfully highlight this discrepancy to ensure that the thought process is sound when arriving at a conclusion that will inform the proposed Rule. There are instances where the CEO may very well be a director that also sits on the Board of a company, depending on the appointment terms, governing legislation, the CEO's mandate and/or provisions of the Memorandum of Incorporation of the Company. Where it is not clear, the factual circumstances and the role of the CEO may lead to the conclusion that the CEO is a *de facto* director. Our Courts have held persons to be *de facto* directors where they acted as directors, although there was some defect in their appointment and in some instances where they were not appointed at all¹.
17. A legal analysis is however not necessarily helpful to reach a conclusion on the proposed Rule.

¹ [Re Canadian & Reclaiming & Colonizing Co (Coventry & Dixon's Case) supra 664; Re New Par Consols 1898 1 QB 573; S v De Jager supra 622–623; Corporate Affairs Commission v Drysdale supra 242; 764; Re Lo-Line Electric Motors Ltd supra 490; 699–700; Beach Petroleum NL v Johnson (1993) 11 ACSR 103 (FCA) 109.]



An RA CEO is considered to have the right skills and expertise required to discharge the responsibilities that arise out of ISQM. (Page 8 of the Exposure Draft)

18. The Explanatory Memorandum did not include research or evidence to support the presumption that the designation of RA causes an individual to have more skills and expertise to discharge the responsibilities that arise from ISQM, compared to an individual that does not have an RA designation.

The CEO will only fall under the IRBA's regulatory reach/ umbrella if the CEO is required to be an RA as per the APA. (Page 8 of the Exposure Draft)

19. Agreed. The firm would however be under the IRBA's regulatory reach.

20. Paragraph A33 of ISQM 1 explains that notwithstanding the assignment of responsibilities related to the system of quality management in accordance with paragraph 20, the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles.

The current mixed views in the marketplace regarding whether a non-RA can be a CEO of a firm as defined in the APA necessitate an IRBA rule for clarification purposes. (Page 8 of the Exposure Draft)

21. We agree that mixed views may require direction from IRBA but the direction to be provided may include that it is permissible to have a non-RA as CEO of the firm.

ISQM 1 allocates responsibilities to the CEO, as such there is no other way to appropriately discharge these responsibilities unless one is an RA (Page 9 of the Exposure Draft)

22. ISQM 1 paragraph 20(a) requires the firm to assign ultimate responsibility and accountability for the system of quality management to the firm's CEO or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent).

The CEO is the correct level of authority to set the tone in an organisation and takes ultimate responsibility, and is required to sign a confirmation over the entire firm's quality management (Page 9 of the Exposure Draft)

23. We agree only partially with this statement since the board is the governing body and therefore the highest decision-making structure in the company. As such the board's role in this should not be disregarded.



Comments on the articulation of the proposed Rule

References to “firm”

24. The proposed Rule refers to “firm”, without a reference to the definition thereof. Large firms may be structured in such a way (e.g. Africa-wide firms) that their CEO may not be South African and not be registered as an RA. It is not clear if the proposed Rule would extend to a CEO of e.g. an Africa-wide firm.

References to “assurance divisions”

25. The proposed Rule appears to envision firms to be split between “assurance” and “non-assurance” divisions. Some firms, especially large firms, may be structured in such a way that assurance engagements may be performed in more than one “division” in the firm. For example, audit and review engagements may (primarily) be performed in one division, and other assurance engagements may (primarily) be performed in another division. A variety of permutations may however exist in practice. The proposed Rule appears to envision the possible appointment of two CEOs in an audit firm (one for the assurance division, and one for the non-assurance division). The implementation of the proposed Rule may however result in a number of CEOs being appointed in a firm, which may result in complex governance structures.

Comments received from SAICA members

26. We relay comments received from some of our SAICA members on the proposed Rule to provide insight into the structure and operation of some audit firms:

“In providing consultation for small audit firms, it has come to my attention that quite a few of them are structured in such a way that they have a partner, who is an RA. They also have a second in command senior person, who is usually an AGA(SA). Because of the fact that AGA(SA) cannot register as an RA, they cannot become a partner in the firm. This however does not take away from their relevant experience, capabilities, knowledge and qualifications.

In most instances, these individuals have been working for the firm for a very long period of time, is involved in the management of the entity, and was in charge of the operational responsibilities of quality control under the extant ISQC1.

These individuals are acknowledged as the CEO of the firm due to their seniority, experience, responsibilities and capabilities. As far as ISQM 1 is concerned, this individual will be the person with full operational responsibility to ensure that it is implemented. Their designation as CEO provides them with the authority to do so, even if they may not be an RA. They will however report back to the managing partner who will have ultimate responsibility for the ISQM process.



Should this designation be removed, it would impact negatively on their authority. It also questions their experience, skillset and qualifications.

As such I agree with the comments as per the CFAS that it will exclude valuable expertise if we limit the role of a firm's CEO to an RA. I do not believe that the "separate CEO" will be a practical work around for these small firms, as they do not necessarily have the resources to sustain this."

"A role of CEO goes much further than the audits performed, from quality control, staff training, debtor management, leadership etc. This should not just be limited to RA's, but to the best person to fulfill that role in a specific firm. This should go further to directors as well, as not all directors wish to be registered with IRBA - and not all staff that could buy into the practice as it grows, are linked to the audit division. I do agree that in the audit division, there should be someone who is taking ultimate responsibility over the quality control and training, but this need not be the "CEO" of the firm. In our firm, we have a 4 partner structure. It is a small firm and we do not have CEO as such, but rather different partners are responsible for different parts of the firm, be it firm management (including debtors and our firm bookkeeping), quality control, training, IT, tax, estates and fiduciary, monthly accounting etc. There are many facets to a smaller firm and normally directors are involved in all aspects."

"We cannot afford a CEO and run the firm by consensus among the three members of the Management Committee (Manco)"

"Running a firm operationally is not necessarily the skills acquired from becoming an RA. While a non-RA may not know intricacies of audit and risks etc. Running a business with multiple RA's as EXCO members would mitigate this."

Question 1: Proposed IRBA Rule 1

(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.

27. Yes, we believe that guidance is required.



28. If the IRBA Board proceeds with the Rule, guidance on the following may be useful to practitioners:
- Governance in a company where more than one CEO has been appointed.
 - Whether divisions (assurance vs non-assurance) should operate in separate legal entities, or whether assurance and non-assurance divisions may operate in the same legal entity (with more than one CEO).
 - The scalability of the Rule regarding smaller firms.

Question 1: Proposed IRBA Rule 1

(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.

29. No, we do not agree with the proposed effective date of the proposed Rule.
30. If the IRBA Board proceeds with the proposed Rule, we suggest that the proposed Rule should be effective 36 months (three years) after the IRBA Board’s prescription and/or publication of the Rule to allow for the following:
- Firms may have cumbersome succession processes in place;
 - Firms may experience difficulty in finding suitable successor(s) for currently appointed CEOs; and
 - An appropriate lead-time for registering CEOs as RAs is required.

Question 2: Proposed IRBA Rule 2

(a) Do you support the proposed IRBA Rule 2? Yes / No

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

31. Yes, we support the proposed Rule.
32. Although we support the proposed rule, we have suggested amendments regarding the articulation thereof.



Suggested wording changes to the rule

33. We propose that the rule should be drafted as an instruction to be consistent with the drafting convention used in the other four Rules:

~~The mandatory annual preparation of transparency reports for fFirms, as defined in the Auditing Profession Act that have registered as an auditor with IRBA, that audit financial statements of listed entities, shall prepare transparency reports on an annual basis.~~

Question 2: Proposed IRBA Rule 2

(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.

34. Yes, we believe guidance is required.

35. Guidance on the content of a transparency report is required. We are aware that the IRBA is in process of developing such guidance.

36. One respondent to the SAICA survey (who indicated that they were from the following stakeholder groupings: Investor, analyst or a user of financial or other reporting; Those Charged with Governance) indicated that transparency reports provided no added value to directors or investors, or anyone using the firms. While this was an isolated comment, it emphasises the importance of the IRBA’s engagement with the users of the auditor’s report in developing guidance on the content of the transparency report to ensure that relevant, useful and informative information is reflected in transparency reports.

Question 2: Proposed IRBA Rule 2

(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.

37. Yes, we agree with the proposed effective date of the proposed Rule.



Question 3: Proposed IRBA Rule 3

(a) Do you support the proposed IRBA Rule 3? Yes / No

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

38. Yes, we support the proposed Rule.

39. Although we support the proposed rule, we have a suggested amendment regarding the articulation thereof.

Suggested wording change to the rule

40. We propose that “shall” instead of “should” is used consistently in all proposed rules to articulate the requirements of the rules:

41. An engagement quality review ~~should~~ shall 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.

Question 3: Proposed IRBA Rule 3

(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.

42. Yes, we believe that guidance is required.

43. SAICA supports mandatory engagement quality reviews for audits of financial statements of public interest entities (PIEs).

44. We do however have concerns as to whether the rule will be executable in practice, on consideration of an apparent shortage of qualified engagement quality reviewers. The importance of properly defining “public interest entity” cannot be overstated. We acknowledge the IRBA’s efforts and projects in this regard.

45. Information sessions from the IRBA on the PIE definition may be useful to practitioners. We acknowledge that this would not be guidance on the rule *per se*, but guidance on the PIE definition itself.



Question 3: Proposed IRBA Rule 3

(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.

46. Yes, we agree with the proposed effective date of the proposed Rule.

47. Although we support the rule becoming effective 24 months (two years) after the IRBA Board’s prescription and/or publications thereof, we do not support retrospective application of any legislation. We therefore suggest that the rule should be effective for audit engagements of public interest entities, as defined in the IRBA Code, in addition to those engagements scoped in by ISQM 1, for which the terms of engagement are agreed on or after the effective date of the rule.

Question 4: Proposed IRBA Rule 4

(a) Do you support the proposed IRBA Rule 4? Yes / No

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

48. No, we do not support the proposed rule for the reasons explained below.

Our proposals

49. We list our proposals in descending order of preference:

49.1 The proposed Rule should be removed.

49.2 If the IRBA Board proceeds with this rule, we suggest that it should only apply to audit engagements of financial statements of public interest entities.

Reasons for our proposals

50. We are of the view that the eligibility criteria for appointment as an engagement quality reviewer (EQR) should be based on an individual’s skills, knowledge, expertise and experience. We question the proposed rule’s apparent assumption that an RA designation will in all cases be indicative of a person’s skills, knowledge, expertise and experience. The Explanatory Memorandum did not provide research or evidence to support this assumption. We are furthermore not aware of indications that monitoring inspections have identified a difference in quality between RA and non-RA EQRs.



51. To our understanding, the pool of eligible EQRs in South Africa is small. The proposed rule will decrease the number of individuals eligible to perform such reviews.
52. The rule would preclude the utilisation of the following individuals as EQRs:
- Skilled individuals from a firm's network firm, including specialists, from jurisdictions other than South Africa; and
 - Registered Government Auditors.
53. The proposed Rule would introduce inconsistency with regard to pre-issuance reviews performed for the Auditor-General(SA). Employees at the AGSA that perform pre-issuance reviews on AGSA auditees are not required to be registered as RAs. However, individuals from the private sector that perform pre-issuance reviews for the AGSA would be required to be registered as RAs in terms of the proposed Rule.
54. Furthermore, the proposed Rule does not specify whether it only applies to **audit** engagements, or to all engagements covered by ISQM 1.

Question 4: Proposed IRBA Rule 4

(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.

55. Yes, we believe that guidance is necessary.
56. If the IRBA Board proceeds with the proposed Rule, it may be useful to provide guidance on whether RAs that perform the role of EQR but who don't sign engagement reports are classified as "assurance" or "non-assurance" RAs. Our understanding is that such EQRs will be classified as "non-assurance" having considered the IRBA document titled "What does assurance and non-assurance mean?"
57. Guidance will be needed on the qualification criteria for individuals performing pre-issuance reviews for the AGSA.

Question 4: Proposed IRBA Rule 4

(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.



58. Yes, if the IRBA Board proceeds with the proposed Rule, we agree with the rule becoming effective 24 months (two years) after the IRBA Board's prescription and/or publications thereof. We however do not support retrospective application of any legislation and therefore suggest that the rule should be effective for audit engagements of public interest entities for which the terms of engagement are agreed on or after the effective date of the rule.

Question 5: Proposed IRBA Rule 5

(a) Do you support the proposed IRBA Rule 5? Yes / No

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

59. Yes, we support the proposed Rule.

60. Although we support the proposed Rule, we have suggested amendments regarding the articulation thereof.

60 day file assembly period

61. It is not clear whether the 60 day file assembly period is determined by reference to calendar days, weekdays or working days. We suggest that the rule should be clarified to indicate that the 60 day period refers to calendar days.

File assembly and engagement documentation retention periods to be linked to date of engagement report

62. To avoid possible perceived inconsistency between the rule and ISQM 1, we suggest that the rule should be articulated in context of the date of the engagement report regarding the assembly period of the engagement file and engagement documentation.

Drafting conventions used in the rules

63. We propose that "shall" instead of "should" is used consistently in all proposed rules to articulate the requirements of the rules.

64. *Suggested wording changes to the rule:*

- The assembly of the final engagement file shall not exceed 60 calendar days after the date of the engagement report;
- The retention period for the engagement documentation ~~should~~ shall be a minimum of five years from the date of the engagement report, 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~~ shall be a minimum period of five years, or such longer period as determined by other laws and regulations or firm policies/procedures.



Question 5: Proposed IRBA Rule 5

(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.

65. Yes, we believe that guidance is required.

66. Guidance on the implication of the rule in a group audit with components registered in jurisdictions other than South Africa may be useful to practitioners. Such components may have different rules that apply in their jurisdiction.

Question 5: Proposed IRBA Rule 5

(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.

67. Yes, we support the proposed effective date.

68. Although we support the rule becoming effective 12 months (one year) after the IRBA Board’s prescription and/or publications thereof, we do not support retrospective application of any legislation. We therefore suggest that the rule should be effective for engagement reports signed on or after the effective date of the rule and on documentation for the system of quality management prepared after the effective date of the rule.

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? Yes / No

69. No, there are no further rules that we believe the IRBA Board should consider.

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