INTEGRITY | PUBLIC INTEREST | AUDIT QUALITY

South African Auditing Practice Statement (SAAPS) 7

Transparency Reports of Firms that Audit Financial Statements of Publicly Traded Entities

SOUTH AFRICAN AUDITING PRACTICE STATEMENT 7, TRANSPARENCY REPORTS OF FIRMS THAT AUDIT FINANCIAL STATEMENTS OF PUBLICLY TRADED ENTITIES

(Effective for transparency reports prepared and published on or after 15 December 2025)

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STATUS OF AUTHORITY

This South African Auditing Practice Statement (SAAPS) is aimed at assisting firms that audit financial statements of publicly traded entities to achieve compliance with paragraphs 33(d)(ii) and A114 of the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), and the regulatory requirement applicable to firms in South Africa, relating to the content and format of a firm's transparency report.

For the purpose of this SAAPS, the regulatory requirement being addressed is the Independent Regulatory Board for Auditors (IRBA) Rule 2 (Transparency Reports) of the IRBA Rules Arising from the International Standards on Quality Management, published in Government Gazette No. 49757 of 24 November 2023 (pursuant to Sections 9 and 10, read with Sections 1, 2 and 3 of the Auditing Profession Act 26 of 2005, as amended (APA)). Reading this SAAPS 7 is not a substitute for reading and applying the APA, the IRBA Rules and ISQM 1.

The IRBA develops and issues South African Practice Statements (SAPS) to provide practical assistance to auditors in the implementation of relevant International or South African *Standards on Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements*. SAPS do not impose requirements on auditors beyond those included in the International or South African Standards or South African regulatory requirements. Also, they do not change the auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or the South African regulatory requirements relevant to the audit, review, other assurance or related services engagements.

A firm or auditor is required to have an understanding of the entire text of every SAPS, to enable the firm and/or auditor to assess whether or not any particular SAPS is relevant; and if so, to enable the firm and/or auditor to properly apply the requirements of the particular International or South African Standard(s) to which the SAPS relates.

In terms of Section 1 of the APA, a SAPS is included in the definition of "auditing pronouncements". Also, with regard to the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

INTRODUCTION

Scope

1. Paragraph 13 of the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), stipulates the effective date of ISQM 1 as follows:

> Systems of quality management in compliance with this ISQM are required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management required by paragraphs 53-54 of this ISQM is required to be performed within one year following December 15, 2022.

2. ISQM 1, paragraph 1, states its scope as the following:

> This International Standard on Quality Management (ISQM) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

3. With regard to the requirement for a firm to communicate externally in respect of its system of quality management, paragraph 33(d)(ii) of ISQM 1 indicates that:

> The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: …
>
> (d) Relevant and reliable information is communicated to external parties, including: …
>
> (ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management.

4. Paragraph A114 of ISQM 1 provides further guidance in respect of publishing a transparency report, as specified in the second bullet point below.

> *Examples of when law, regulation or professional standards may require the firm to communicate information to external parties*
>
> - The firm becomes aware of non-compliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances.
> - Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report.
> - Securities law or regulation requires the firm to communicate certain matters to those charged with governance.

5. This South African Auditing Practice Statement (SAAPS) 7, *Transparency Reports of Firms that Audit Financial Statements of Publicly Traded Entities* (SAAPS 7), is aimed at assisting firms that prepare and publish transparency reports, both for compliance with the regulatory requirement applicable to firms in South Africa and ISQM 1, as related to the content and format of a firm's transparency report. For the purpose of this SAAPS 7, the regulatory requirement being addressed is the Independent Regulatory Board for Auditors (IRBA) Rule 2 (Transparency Reports) in the IRBA Rules Arising from the International Standards on Quality Management, published in Government Gazette No. 49757 of 24 November 2023 (pursuant to Sections 9 and 10, read with Sections 1, 2 and 3, of the Auditing Profession Act 26 of 2005, as amended (APA)). Reading SAAPS 7 is not a substitute for reading and applying the APA, the IRBA Rules and ISQM 1.

6. The IRBA Rule 2 states that:

   > Firms, as defined in the Auditing Profession Act, as amended, that have registered as an auditor with the IRBA, that audit financial statements of publicly traded entities, shall prepare and publish transparency reports on an annual basis.

   The Rule is effective for firms that audit financial statements of a publicly traded entity for periods beginning on or after 15 December 2025. Early adoption is permitted.

7. Therefore, it follows that this SAAPS is effective for transparency reports prepared and published on or after 15 December 2025.

8. Where a firm audits a publicly traded entity as part of a joint audit engagement, IRBA Rule 2 applies to each firm in that joint audit arrangement.

Definitions

9. For the purpose of this SAAPS, unless otherwise specified or the context clearly indicates the contrary, all the terms defined in the ISAs and reflected in the *Glossary of Terms* have the same meanings here as well.

10. A firm is as defined in the APA.

11. The IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023), as amended, is the IRBA Code.

12. A publicly traded entity is an entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity, as defined by relevant securities law or regulation, is an example of a publicly traded entity.[1]

13. A transparency report, as prescribed through IRBA Rule 2 and for the purpose of this SAAPS, is a report prepared and published, annually, by a firm that audits publicly traded entities, and that provides insight to external parties about a firm's system of quality management.

[1] As defined in the IRBA Code.

A TRANSPARENCY REPORT

14. A transparency report allows external parties – such as existing and prospective clients (including their boards, audit committees and shareholders), regulators and other stakeholders – to appropriately understand a firm's system of quality management (SoQM). In respect of audit committees and those charged with governance, a transparency report is a tool that may be used to assess firms when effecting their appointments or reappointments.

15. ISQM 1, paragraph 6, states that a SoQM addresses the following eight components:

    - The firm's risk assessment process;
    - Governance and leadership;
    - Relevant ethical requirements;
    - Acceptance and continuance of client relationships and specific engagements;
    - Engagement performance;
    - Resources;
    - Information and communication; and
    - The monitoring and remediation process.

16. In order to comply with IRBA Rule 2, at a minimum, a transparency report addresses the abovementioned eight components of a SoQM and serves the purpose of providing insight into a firm's:

    - System of quality management and its operating effectiveness; and
    - Process for determining its quality risks[2] and responses to those risks.

17. This SAAPS sets out content that firms may consider for inclusion in a firm's transparency report addressing the eight components of a SoQM. Firms are not required to include all of the content suggested for consideration for each of the eight components of a SoQM in this SAAPS. Firms are also permitted to include content that is not addressed in this SAAPS in their transparency report, provided that cognisance is given to paragraph 18 of this SAAPS.

18. A transparency report is not primarily a marketing[3] tool; therefore, its information is presented in a neutral, relevant and factual manner, without exaggeration. A transparency report should not contain false or misleading information.

19. This SAAPS uses the words "include"/ "inclusion" and "disclosure" in a transparency report interchangeably.

20. The firm applies professional judgement in respect of the level of detail of the disclosure in its transparency report and discloses aspects of the SoQM that are considered material to the users of the report.

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[2] ISQM 1, paragraph 16(r), defines a quality risk as a risk that has a reasonable possibility of:

(i) Occurring; and

(ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

[3] Also refer to Section R115.2 of the IRBA Code.

TIMING OF THE ISSUE OF THE TRANSPARENCY REPORT

21. ISQM 1, paragraph 53, requires that:

> The individual(s) assigned the ultimate responsibility and accountability for the system of quality management shall evaluate, on behalf of the firm, the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually.

22. It is recommended that a firm issues its transparency report as soon as possible after the date that the individual assigned ultimate responsibility and accountability for the SoQM concludes, on behalf of the firm, on the SoQM as required by paragraph 54 of ISQM 1. Preferably no later than four months after the conclusion date to ensure that the firm communicates relevant information to external parties.

23. When the date of reaching a conclusion on the SoQM required by ISQM 1, coincides with the firm's financial year-end, the aforementioned four months' recommendation applies to the financial year-end.

24. If a firm becomes aware of events or conditions after reaching the conclusion on the SoQM required by ISQM 1 but before the transparency report is issued that, had those events or conditions been known at the time the SoQM conclusion was reached, would have changed the conclusion reached, a firm considers disclosing these event(s) or condition(s) in the transparency report.

NAME OF THE TRANSPARENCY REPORT

25. In accordance with IRBA Rule 2, a firm clearly names or titles the report referred to in this SAAPS as a transparency report, so that external parties can easily identify and refer to it.

RELEVANCE AND RELIABILITY OF THE DISCLOSURES IN A TRANSPARENCY REPORT

26. A firm may explain in its transparency report the controls and system(s) used to develop the report, to demonstrate to the intended users that the report is relevant and reliable in its communication to external parties, as required by paragraph 33(d)(ii) of ISQM 1. Further, the firm may apply any legal requirements as well as its own provisions on quality management and assurance over all its external and statutory reporting.

27. Information in a transparency report may contain certain forward-looking statements, such as remedial action plans, and preparations for new standards. Ordinarily, such forward-looking statements should be separately identifiable.

ACCOUNTABILITY FOR THE TRANSPARENCY REPORT

28. It is recommended that the transparency report indicate the individual(s) who take(s) ultimate responsibility and accountability for the transparency report. Such responsibility and accountability for the transparency report may be evidenced through a statement to that effect in the report – a signature evidencing accountability is not required in the transparency report.

29. The IRBA is neither mandating independent external assurance on the transparency report nor precluding the firm from doing so.

30. The IRBA, as part of its regulatory work, may review the firm's transparency report to ensure compliance with IRBA Rule 2.

INFORMATION THAT MAY BE CONSIDERED FOR DISCLOSURE IN A TRANSPARENCY REPORT REGARDING THE EIGHT COMPONENTS OF A SOQM

31. The considerations set out in paragraphs 32 to 41 are aimed at assisting firms that audit financial statements of publicly traded entities to achieve compliance with paragraphs 33(d)(ii) and A114 of ISQM 1 as well as IRBA Rule 2. These considerations are not exhaustive, and the firm applies professional judgement in the application thereof.

The Firm's Risk Assessment Process

32. A firm considers disclosing its approach to designing and implementing its risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address quality risks, including the frequency of its review of the appropriateness of the identified quality risks.

Governance and Leadership

33. In respect of a firm's governance and leadership component of its SoQM, the firm considers disclosing the following in its transparency report:
    - Its legal arrangements/structure (including licensing arrangements with regulatory bodies);
    - Governance structures, their authorities and relationships within the firm;
    - The process and/or requirements to appoint the firm's leadership;
    - A description of the firm's investment in maintaining and/or improving its SoQM;
    - Individuals responsible for quality and the firm's SoQM;
    - The firm's processes for reporting on its performance against its key performance indicators, and assessing the effectiveness of its SoQM;
    - Where a firm is a member of a network[4] and/or associations, a description of the network as well as the legal and structural arrangements of the network; and
    - How the firm ensures a consistent approach to audit quality from all members within its structure.

Relevant Ethical Requirements

34. A firm considers disclosing the following information in respect of the relevant ethical component of its SoQM:
    - The firm's policies in respect of the rotation of key audit partners[5], engagement quality reviewers[6] and, where relevant, other partners or staff;
    - The firm's independence practices, including its process for assessing independence with respect to providing non-assurance services[7] to public interest entities;

[4] As defined in ISQM 1 and the IRBA Code.

[5] As defined in the IRBA Code.

[6] Also refer to Section 325.8 A3 of the IRBA Code.

[7] Also refer to Section R600.16 of the IRBA Code.

- The firm's audit fees (including as a percentage of the total audit fee) earned from public interest entities, where such audit fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years[8];
- Its internal whistleblowing mechanisms and statistics;
- How the firm and its personnel understand and fulfil their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject[9];
- How others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject, understand and fulfil their responsibilities in relation to the relevant ethical requirements that apply to them[10]; and
- The firm's sponsorship and gifts policy.

Acceptance and Continuance of Client Relationships and Specific Engagements

35. A firm considers disclosing its approach to accepting and continuing of client relationships and specific engagements, as well as how the related risks are addressed. To this end, the firm may consider whether the firm's ability to perform engagements in accordance with professional standards and applicable legal and regulatory requirements may be affected by:
    - The workload and availability of appropriate resources to perform the engagement;
    - Having access to information to perform the engagement, or to the persons who provide such information; and
    - Whether the firm and the engagement team are able to fulfil their responsibilities in relation to the relevant ethical requirements.

Engagement Performance

36. A firm considers disclosing the following engagement performance-related information:
    - The firm's formation of audit engagement teams, including specialists, i.e. what factors are considered when assigning staff to an audit team;
    - How the engagement partner directs, supervises and reviews the work performed by the engagement teams;
    - How the engagement teams exercise appropriate professional judgement and, when applicable to the type of engagement, professional scepticism;
    - How the firm allocates engagement quality reviewers to engagements;
    - The firm's consultation processes, including technical support; and
    - The firm's consultative or resolutions structures for internal differences of opinion.

Resources

8 Also refer to Section R410.31(d) of the IRBA Code.

9 ISQM 1, paragraph 29(a).

10 ISQM 1, paragraph 29(b).

37. The firm considers disclosing its resources relevant to the SoQM, which include human, intellectual and technological resources, as highlighted below.

Human resources

- The firm's selection, recruitment and retention and/or promotion criteria for staff;
- The firm's approach to training and goals for Continuing Professional Development; and
- The firm's basis for the incentives and the remuneration of partners and/or directors, including in relation to key performance indicators.

Intellectual resources

- A description of the firm's intellectual resources and their use thereof; for example, written policies or procedures; the audit and assurance methodologies applied; industry or subject matter-specific guides; accounting guides; standardised documentation; or access to information sources.

Technological resources

- A description of the firm's technological resources; for example, information technology (IT) applications, including their impact on audit, and aspects pertaining to cybersecurity and disclosure of the firm's use of its technological resources.

Information and Communication

38. A firm considers disclosing how relevant and reliable information is exchanged throughout the firm and with engagement teams, including:

- How information is communicated to personnel and engagement teams, as well as the nature, timing and extent of the information is sufficient, to enable them to understand and carry out their responsibilities relating to performing activities within the SoQM or engagements; and
- How personnel and engagement teams communicate information to the firm when performing activities within its SoQM or engagements.[11]

The Monitoring and Remediation Process

39. In respect of its monitoring and remediation process, a firm considers disclosing the following aspects in its transparency report in respect of audits or reviews of financial statements, or other assurance or related services engagements:

- A description of the firm's monitoring and remediation process in respect of its SoQM;
- An overview of the firm's external inspection and monitoring results;
- An overview of its internal monitoring results;
- The outcome of the firm's root cause analysis process, to address findings arising from internal and external monitoring; and
- A description of its remedial actions, to address deficiencies or findings.

[11] ISQM 1, paragraph 33(c).

40. In its transparency report, a firm considers disclosing the outcome of its evaluation of its SoQM per ISQM 1, including how it achieved its outcome(s).

41. In instances other than where the SoQM provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved, a firm discloses in its transparency report the reasons for such instances (refer to ISQM 1, paragraph 54(b) and (c)).

GENERAL DISCLOSURE CONSIDERATIONS

42. Where economic events and situations have affected the firm in respect of its SoQM over the period under consideration, a firm considers disclosing in its transparency report the impact of such events and situations, and how it responded thereto.

43. Where applicable, firms may also use trends and comparatives in respect of the disclosure considerations in this SAAPS. Further, firms may cross-reference to other reports, where relevant. For example, a firm may decide to cross-reference to its network's international or global transparency report.

ADDITIONAL INFORMATION THAT MAY BE CONSIDERED FOR DISCLOSURE IN A TRANSPARENCY REPORT

44. The firm considers disclosing in its transparency report information pertaining to transformation policies and statistics, including its Broad-based Black Economic Empowerment scorecard; the policy on partner promotions; the number of female partners and/or directors, as a percentage of the firm's total partners and/or directors; and the number of African, Coloured and Indian partners and/or directors, as a percentage of the firm's total partners and/or directors.

45. The firm may also consider including the number of candidates on the IRBA's Audit Development Programme in its transparency report.

FIRMS MERGING OR SEPARATING BEFORE A PERIODIC TRANSPARENCY REPORT IS ISSUED

46. In the event that firms separate or merge before the publication of an annual transparency report, such an event is considered for disclosure in the report(s) of the firm(s) to which IRBA Rule 2 of the IRBA Rules Arising from the International Standards on Quality Management applies.

PUBLICATION OF THE TRANSPARENCY REPORT

47. It is recommended that a firm publishes its transparency report on its website in a manner that enables easy access and ensures that the report is not obscured. The firm may also publicise/distribute its report to external parties.

48. It is recommended that a firm's transparency report is made available on the firm's public website for at least five years from the day of its first publication.

49. If a firm withdraws and reissues a transparency report, the firm considers specifying the reason for this and identifies the modified publication as a revised version.

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