

Reference #775732

13 June 2024

The Director Standards
Independent Regulatory Board for Auditors (IRBA)
PO Box 8237
Greenstone, 1616
South Africa

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

Dear Imran,

Comments on the Proposed South African Auditing Practice Statement (SAAPS) 7 Transparency Reports of Firms that Audit Financial Statements of Publicly Traded Entities

We appreciate the opportunity to provide comments on the proposed SAAPS 7.

To inform our submission, we established a task group consisting of members of our Assurance Guidance Committee and its related project groups.

The Assurance Guidance Committee has approved this submission.

Our comments are set out as follows:

- A. Overarching comments
- B. Request for specific comments
- C. Detailed comments on the proposed SAAPS

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

A. OVERARCHING COMMENTS

1. As explained in the Status and Authority that preambles the proposed SAAPS, South African Practice Statements are authoritative pronouncements of the Independent Regulatory Board for Auditors (IRBA). Auditors are therefore required to comply with Practice Statements in the conduct of their audits.
2. As further explained in the Status and Authority of the proposed SAAPS, although a Practice Statement is an authoritative pronouncement, it does not impose requirements beyond those contained in the standards or in regulatory requirements.
3. Wording such as “a firm may disclose” and “a firm considers disclosing” are therefore, understandably, used in the proposed SAAPS, as opposed to using “shall”.
4. The manner in which this drafting convention has been applied in the SAAPS, however, has made it difficult to distinguish between information that the IRBA is envisioning *should be* contained in a transparency report, and information that the IRBA would regard as being *at the option* of a firm to disclose in their transparency report.
5. Furthermore, certain paragraphs are introduced by “Where applicable”. See paragraphs 30 (Relevant Ethical Requirements), 31 (Acceptance and Continuance of Client Relationships and Specific Engagements), 32 (Engagement Performance), 33 (Resources - Technological resources), 34 (Information and Communication) and 39 (Other Disclosures in a Transparency Report) in the proposed SAAPS. It is not clear to us in which scenarios disclosure of the information discussed in these paragraphs would *not be* applicable.
6. It is not apparent whether the IRBA is envisioning that different firms’ transparency reports should be comparable. If *comparability* regarding transparency reports is important to the IRBA, this would underscore our comment regarding clarity regarding mandated vs optional disclosure in a transparency report.
7. From a drafting perspective, we propose the following:
 - Present tense statements (e.g. “the firm discloses in its transparency report”) should be used for all disclosure that the IRBA envisages should be contained in a transparency report.
 - Where disclosure is optional, “may” should be used in the SAAPS.
 - We propose that “the firm considers disclosing” should not be used in the SAAPS – it is not clear from the SAAPS what the audit firm would need to consider in determining whether or not to make these disclosures. Affected paragraphs should be redrafted either as “present tense statements” (where disclosure should be made in the transparency report) or by using “may” (where disclosure is optional).
 - “Where applicable” should only be used when disclosure is conditional on the occurrence or not of particular events.
 - “Which includes” and “among others” should not be used – the practice statement should be specific in the information that the audit firm should/may be disclosing.
8. We have provided a suggested new paragraph for inclusion in the SAAPS to address its drafting convention. Please refer to our comments in paragraph 19 of this submission.
9. Our overarching comment applies to the SAAPS in its entirety - we did not repeat this overarching comment in our detailed comments in section C of this submission.

B. PROPOSED DUE PROCESS POLICY (REVISED MARCH 2024): REQUEST FOR SPECIFIC COMMENTS

Question 1

Do you agree the proposed SAAPS includes sufficient information to support external parties' understanding of the firm's system of quality management? If no, please provide the additional aspects that the SAAPS should cover.

10. Our overarching comment on the differentiation between prescribed and optional disclosure refers.
11. On the presumption that the information in paragraphs 25 to 37 of the SAAPS is required to be disclosed in a transparency report, yes, we agree that the proposed SAAPS includes sufficient information to support external parties' understanding of the firm's SoQM. The proposed SAAPS however assumes that the recipient is knowledgeable on ISQM 1 – refer to our comments on Question 4.

Question 2

Do you agree with having this proposed SAAPS focus on the eight components of a system of quality management, as per ISQM 1 (and ISQM 2)? If no, please provide an alternative approach, or additional areas

12. Yes, we agree with the approach taken in the SAAPS to focus on the eight components of a SoQM. There is, however, certain information requested to be disclosed that does not appear to be automatically linked to a firm's SoQM. See paragraphs 49 and 55 of this submission.

Question 3

Do you agree with the proposed effective date of this proposed SAAPS?

13. Yes.

Question 4

Are there any other aspects that should be considered by CFAS in finalising this SAAPS?

14. The SAAPS is drafted on the assumption that the recipient is knowledgeable on ISQM 1. We suggest that the IRBA should conduct outreach to groups/forums representative of the intended recipients of a transparency report (e.g. existing and prospective clients, including their boards, audit committees and shareholders) to obtain their views on the proposals.
15. We acknowledge that the document has been drafted as an auditing practice statement because the extant IRBA's *Status and Authority of Auditing Pronouncements* does not contain a "South African Quality Management Practice Statement (SAQMPS)" category. We acknowledge that the categorisation of the final practice statement (as either a SAAPS or a SAQMPS) will be determined based on the finalisation date of the revised *Status and Authority of Auditing Pronouncements*, which includes a SAQMPS category.

C. DETAILED COMMENTS ON THE PROPOSED SAAPS

16. Paragraph 16 of the proposed SAAPS:

“16. 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;
- The process for determining its quality risks and responses to those risks; and
- Other relevant information that will assist external parties to understand a firm’s SoQM.”

17. We propose that “The” at the start of the second bullet be deleted.

18. The preamble of paragraph 16, read with the third bullet, reads “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 other relevant information that will assist external parties to understand a firm’s SoQM.” It is not clear what “other relevant information” the third bullet is asking for.

We propose that the third bullet be deleted.

19. We propose that the following paragraph should be included after extant paragraph 16:

17. This SAAPS sets out the minimum content of a firm’s transparency report in order to comply with IRBA Rule 2. Where this practice statement indicates that information “may” be provided, that information is optional for disclosure in the firm’s transparency report. Firms are permitted to include information that is not addressed in this practice statement in their transparency reports, provided that cognisance is given to paragraph 23 of this SAAPS.

20. Paragraphs 18 to 20 of the proposed SAAPS:

“18. A firm issues its transparency report as soon as possible after the date of concluding the abovementioned ISQM 1 evaluation, but no later than four months after the date covered by the evaluation, to ensure that the firm communicates relevant information to external parties.

19. When the date of concluding the ISQM 1 evaluation, coincides with the firm’s financial year-end, the aforementioned four months’ recommendation applies to the financial year-end.”

20. Where a firm subsequently becomes aware of events or conditions after completing the evaluation required by ISQM 1 but before the transparency report is issued, a firm discloses this event(s) or condition(s) in the transparency report, that had they been known at the time the evaluation of the SoQM was concluded, would have changed the conclusions reached.”

21. ISQM 1 paragraph 53 addresses the “evaluation” of the SoQM. The individual assigned ultimate responsibility for the SoQM is required in ISQM 1 paragraph 54 to reach a “conclusion” on the SoQM on behalf of the firm.

22. Paragraphs 18 to 20 of the proposed SAAPS refer to “concluding the evaluation” of the SoQM, thus merging the processes of the “evaluation” and the “conclusion” into one.

23. In practice, there may be a passage of time between the date of finalising the evaluation of the SoQM and the date of finalising the conclusion on the SoQM.

24. To avoid confusion, we suggest the following:

- Add ISQM 1 paragraph 54 after extant paragraph 17 in the SAAPS.
- Amend the wording in paragraphs 18 – 20 to refer to the *conclusion reached* on the SoQM:

18. A firm issues its transparency report as soon as possible after the date of ~~concluding the abovementioned ISQM 1 evaluation~~, 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, but no later than four months after the conclusion date covered by the evaluation, to ensure that the firm communicates relevant information to external parties.

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

20. ~~Where If a firm subsequently becomes aware of events or conditions after completing the evaluation reaching the conclusion on the SoQM required by ISQM 1 but before the transparency report is issued that, had they been known at the time the conclusion was reached, would have changed the conclusion reached, a firm discloses this these event(s) or condition(s) in the transparency report, that had they been known at the time the evaluation of the SoQM was concluded, would have changed the conclusions reached.~~

25. Paragraphs 25 and 26 of the proposed SAAPS:

"25. The individual(s) assigned the ultimate responsibility and accountability for the SoQM, in compliance with ISQM 1, may also take the ultimate responsibility and accountability for the transparency report.

26. Such responsibility and accountability for the transparency report may be evidenced through a statement to that effect in the report."

26. Paragraph 25 appears to indicate that the ultimate responsibility and accountability for the transparency report may be assigned to someone other than the individual(s) that were assigned ultimate responsibility and accountability for the SoQM. If this is the intention of the SAAPS, we suggest the following amendments to paragraph 26:

26. The transparency report indicates 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 is not required in the transparency report.

27. Paragraph 27 of the proposed SAAPS:

"27. The IRBA is not mandating independent external assurance on the transparency report. IRBA may however review the firm's transparency report as part of its regulatory work."

28. The first and second sentences in paragraph 27 of the proposed SAAPS deal with different concepts and we suggest that the second sentence be contained in a separate paragraph. Refer to our comment in paragraph 30 of this submission.

29. To be consistent with ISQM 1.A195, we suggest the following wording change to par 27:

27. The IRBA is ~~not~~ neither mandating independent external assurance on the transparency report nor precluding the firm from doing so.

30. We question whether the second sentence in extant paragraph 27 is necessary on consideration that the IRBA's mandate is legislated. Furthermore, the inclusion of this statement in the SAAPS may detract from the aim of a transparency report. A transparency report is not prepared with the primary aim of providing information for review by a regulator. We propose that the sentence be deleted.

31. Paragraph 29 of the proposed SAAPS:

“29. In respect of a firm’s governance and leadership, 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 leadership;
- A description of the financial resources in relation to the firm’s investment in maintaining and/or improving its system of quality management;
- Individuals responsible for quality and the SoQM;
- The firm’s reporting on performance against key performance indicators, for assessing the effectiveness of the system of quality management;
- Where a firm is a member of a network 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 the structure.”

32. Regarding the third bullet *A description of the financial resources in relation to the firm’s investment in maintaining and/or improving its system of quality management*: It is not clear what information should be disclosed regarding the description or content of the “financial resources”. For example: Consider whether this information goes as far as quantification of the investment in the SoQM and whether this includes the salaries of the individuals referred to in ISQM 1.20. It is also not clear if this disclosure about “resources” is referring to information that is different from the resources dealt with in paragraph 33 of the proposed SAAPS.

33. Regarding the fourth bullet *Individuals responsible for quality and the SoQM*: It is not clear what information should be disclosed in the transparency report. For example: Consider whether this information is aimed at the individuals referred to in ISQM 1.20 or whether this extends to all individuals to whom roles, procedures, tasks or actions have been assigned by the individuals referred to in ISQM 1.20 (refer to ISQM 1.A35). The wording of the bullet should be expanded to clarify its intention.

34. Regarding the last bullet *How the firm ensures a consistent approach to audit quality from all members within the structure*: We understand “the firm” to be referring to the South African audit firm. Where a South African firm is part of an international network firm, the South African firm may not have the responsibility of ensuring that “all members within the structure” have a consistent approach to quality. It is not clear if this bullet is asking for the South African firm’s transparency report to disclose how the network firm *at an international level* ensures a consistent approach to audit quality, or whether the bullet is asking for information on how the South African firm ensures a consistent approach to audit quality for the member firms for whom the South African firm takes responsibility from an audit quality perspective. The wording of the bullet should be reworked to clarify the intention.

35. Paragraph 30 of the proposed SAAPS:

“30. Where applicable, a firm considers disclosing the following information in respect of the relevant ethical component of its SoQM:

- The firm’s criteria to identify engagements with entities other than publicly traded entities, where it applies the elevated independence requirements as applicable to these entities;
- The firm’s policy concerning the rotation of key audit partners, engagement quality reviewers and, where relevant, other partners or staff;
- The firm’s independence practices, including the independence assessment process with respect to providing non-assurance services to publicly traded entities and/or audit clients;
- The firm’s audit fees (including as a percentage of the total audit fee) earned from publicly traded and/or audit clients, where such audit fees exceed 15% of the total audit fees ;

- Its internal whistleblowing mechanisms and statistics;
- How the firm and its personnel understand and fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject ;
- 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; and
- The firm's sponsorship and gifts policy."

36. Regarding the first bullet *The firm's criteria to identify engagements with entities other than publicly traded entities, where it applies the elevated independence requirements as applicable to these entities:* This paragraph is asking for the firm to disclose its criteria for identifying public interest entities (PIEs). The definition of PIE is contained in the IRBA Code of Professional Conduct for Professional Accountants (the IRBA Code). It is not clear what "criteria" is being asked for in this bullet. If the intention is for the audit firm to include a statement indicating that it applied the IRBA Code's definition in the identification of PIEs, the bullet should be redrafted to indicate as much.
37. Regarding the fourth bullet *The firm's audit fees (including as a percentage of the total audit fee) earned from publicly traded and/or audit clients, where such audit fees exceed 15% of the total audit fees:*
38. IRBA Code paragraphs R410.15 to 410.21 A1, R410.28 R410.30 and R410.31 have particular reference.
39. The reference to "publicly traded and/or audit clients" in the proposed SAAPS appears to indicate that this disclosure in the transparency report applies to **any** audit client where the audit fees exceed 15% of the firm's total audit fees. This appears to be contradictory to IRBA Code paragraph R410.15 (fee dependency on non-PIE clients) which refers to 30% for non-PIE clients. If this was not the intention, the articulation of the bullet should be amended.
40. IRBA Code paragraph R410.31:
- "After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:
- (a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total 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, and the year that this situation first arose."
41. The IRBA's Enhanced Auditor Reporting (EAR) Rule, applicable to the auditor's reports on PIEs, requires the following disclosure in the auditor's reports of PIEs:

“e. Where the disclosure has not been made by the preparer in the annual financial statements or the annual report, the following fee-related matters :

i. Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.

ii. Fees, other than those disclosed under (e)(i), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion.

iii. Any fees, other than those disclosed under (e)(i) and (ii), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows or has reason to believe that such fees are relevant to the evaluation of the firm’s independence.

iv. If applicable, the fact that the total 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, and the year that this situation first arose.”

42. We thus note that the public disclosure requirement of IRBA Code R410.31 is already addressed in the EAR Rule.

43. If the intention was for the transparency report to disclose the fee dependency information for audit clients that are publicly traded entities even though it is already disclosed in the auditor’s report on that particular client, we propose that the bullet in the SAAPS should be redrafted to align with the wording in the IRBA Code paragraph R410.31.

44. Regarding the seventh bullet *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:* We are of the view that one firm cannot be expected to provide a view on another firm’s understanding and fulfillment of ethical requirements. We propose that this bullet should be removed.

45. Paragraph 32 of the proposed SAAPS:

“32. Where applicable, 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 firm 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 process, including technical support; and
- The firm’s consultative or resolutions structures for internal differences of opinion.”

46. Regarding the second bullet *How the firm directs, supervises and reviews the work performed by the engagement teams:* The direction, supervision and review of work performed by engagement teams will be conducted by the engagement partner, rather than “the firm”. It is not clear from the articulation of this bullet if it is asking for firm *policy* regarding direction, supervision and review or for *procedure* for the direction, supervision and review of work.

47. Paragraph 33 of the proposed SAAPS:

“33. In its transparency report, the firm discloses its resources, which include human, intellectual and technological resources, among others, as highlighted below.

Human resources

- The firm’s selection, recruitment and retention and/or promotion criteria for staff, including the number of candidates on the IRBA’s Audit Development Programme;
- ...
- The firm’s 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.”

48. We propose that the introductory sentence should indicate that this disclosure relates to resources relevant to the SoQM.

49. The two bullets under Human resources quoted above may (appropriately) not automatically be quality risks for all audit firms. We suggest that this disclosure should be at the option of the audit firm as all audit firms might not have policies and procedures to respond to these specific quality risks.

50. Paragraph 33 of the proposed SAAPS:

“33. ...

Intellectual resources

- A description of the firm’s intellectual resources; 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.”

51. The level of granularity in which the information should be disclosed is not clear. For example: Consider whether a list would be sufficient, which resources should be stipulated on such a list, how much detail is required in explaining the items on the list and whether a description would be required of how global methodology is adapted for local use.

52. Paragraph 33 of the proposed SAAPS:

“33. ...

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.
- Where applicable, a disclosure of the firm’s established policies or procedures regarding the use of its technological and intellectual resources. Such policies or procedures may:
 - Require the use of certain IT applications or intellectual resources in the performance of engagements, or relating to other aspects of the engagement, such as in archiving the engagement file.
 - Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training. For example, the firm may specify the qualifications or expertise needed to use an IT application that analyses data, given that specialised skills may be needed to interpret the results.
 - Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources.
 - Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be

applied, and the availability of support or assistance in using the technological or intellectual resource.”

53. We regard the disclosure of policies and procedures regarding the use of technological and intellectual resources, referred to in the second bullet, as too granular to be mandated for inclusion in a transparency report and propose that it be deleted or redrafted to be at the option of the firm.

54. Paragraph 33 of the proposed SAAPS:

“33. ...

Other disclosures in respect of resources

- Whether a firm has adequate resources (particularly financial resources) to sustain its operations into the future; and
- A description of the firm’s service providers in relation to its human, technological and intellectual resources.”

55. Regarding the first bullet *Whether a firm has adequate resources (particularly financial resources) to sustain its operations into the future*: It appears that a confirmation of the firm’s ability to continue as a going concern is being asked in this bullet. Such statements are best placed in the financial statements of the audit firm. We propose that this bullet should be deleted as such disclosure made in a transparency report would be done without context of the firm’s financial statements and goes beyond providing information about the firm’s SoQM.

56. Regarding the second bullet *A description of the firm’s service providers in relation to its human, technological and intellectual resources*: The level of granularity in which the information should be disclosed is not clear. For example: Consider whether service providers are required to be named, or whether a statement that the firm uses service providers would be sufficient.

57. Paragraph 42 of the proposed SAAPS:

“42. A firm’s transparency report is available on the firm’s public website for at least five years from the day of its first publication.”

58. We propose that paragraph 42 should be articulated as an instruction.

42. 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.