2022
SURVEY REPORT
AUDIT QUALITY INDICATORS

A journey to advance audit quality

IRBA

INTEGRITY I PUBLIC INTEREST I AUDIT QUALITY

DISCLAIMER

The content of this report is based on data that has been provided by selected audit firms. The Independent Regulatory Board for Auditors (IRBA) has not verified this data, and the report is for information purposes only. The IRBA does not accept any responsibility or liability for any claim of any nature, whatsoever, arising out of or relating to this report. Appendix 1 provides a description of the IRBA's methodology for collecting the data and observations about the quality of the data.

HOW TO USE THIS REPORT

Audit Quality Indicators (AQIs) provide insights; they are context specific. High or low ratios may mean different things to different users, and may be interpreted in various ways when correlated with other statistics. Some AQIs are quantitative, while others are qualitative. These indicators are also based on the data provided by firms; and are useful when compared to those of other firms. Better quality data may produce more accurate results. Users may consider how AQIs that firms present at an engagement level or firm level compare to the AQIs presented in this report. Such comparisons can lead to further discussions and enquiries with auditors, and can provide deeper insights into relevant factors that impact audit quality.

This report does not set out to establish benchmarks. Therefore, the context of the AQIs should be carefully considered at all times.

The AQIs discussed in this report are neither exhaustive nor the only indicators of audit quality that should be considered. However, these AQIs grow in relevance and value, as multi-year data is collected and presented.

The references to the *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)* (the IRBA Code)[1] are not exhaustive either.

The user of this report should also consider the full suite of the International Auditing and Assurance Standards Board's International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (International Standards), along with the IRBA Code and applicable legislation.

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[1]The IRBA Code of Professional Conduct for Registered Auditors is available on the IRBA website.

FOREWORD

As all practitioners and audit stakeholders are aware, achieving audit quality is not an event; rather, it is a journey. As we continue on this journey, strengthened by the imminent introduction of the new Quality Management (QM) standards, we encourage audit firms to enhance their monitoring resources to distinguish between good and mediocre quality management systems.

Audit quality should be at the top of firm leadership agendas and a priority in running their firms, so as to be able to attract and retain audit clients, as well as achieve the objective of protecting the interests of the investing public. Only through good systems of audit quality will firms remain trustworthy and be recognised as ethical agents in our society.

Good audit quality is related to the integrity of financial markets. It facilitates increased stakeholder confidence in financial statements and enhances the credibility of decision-making. While its importance cannot be understated, audit quality exists within a reporting and governance ecosystem that must also demonstrate exemplary commitment to quality.

It is against this backdrop that the Independent Regulatory Board for Auditors (IRBA) publishes its fourth annual Audit Quality Indicators (AQIs) report.

The IRBA has been at the forefront of the AQIs conversation and was among the first audit regulators in the world to agree and launch this crucial publication. Increasingly, more international audit regulators have initiated similar projects, recognising the value that AQIs present. Globally and in South Africa, some firms have also elected to voluntarily publish their AQIs to their stakeholders, either as standalone publications or as part of their transparency reporting initiatives.

AQIs represent a valuable tool for stakeholders in the financial reporting ecosystem. To that end, the report provides transparency, insights on the activities of the firms, how audit quality is supported and an opportunity for these stakeholders to use visible or quantifiable data, for meaningful and robust discussions.

Audit committees use AQIs to drive decisions around auditor appointment, as well as steer dialogue and initiate conversations with the market on matters that affect audit quality. With the imminent advent of Mandatory Audit Firm Rotation, many audit committees are still faced with the critical decision of changing auditors. The audit committees can, therefore, make use of these indicators to compare and benchmark their current audit service offerings with other firms, and also set meaningful and relevant milestones for discussions on quality with their auditors.

Audit firms can use AQIs to enable the identification of key insights around audit quality. These indicators can assist in decision-making about policies and help drive more effective allocation and management of the firm's resources. Also, audit firms can use these indicators with other tools, to identify and assess risks and remediate weaknesses within their own systems of quality management. Resources and the firm's risk assessment process form two critical components of the firm's system of quality management, in terms of the International Standard on Quality Management 1, which firms have to design and implement by 15 December 2022 and evaluate by 15 December 2023. When properly understood and utilised, AQIs can drive decision-making to enable the realisation of quality objectives, in terms of the new QM standards.

Management takes ultimate responsibility for the financial statements, and the directors remain ultimately accountable. Consequently, management and those charged with governance have an interest in good audit quality, as that provides assurance over the integrity of the financial statements. These AQIs, therefore, can be used by management and those charged with governance to provide further insights into the audit process and enable meaningful discussions on audit quality.

The IRBA relies on AQIs to gather business intelligence information and for its risk-based selections in its inspections process. These indicators also help to monitor the overall trend of relevant measures impacting audit quality in the profession. Other regulators use this important publication to understand and evaluate the work of auditors, in as far as it affects the execution of their various key responsibilities.

For the different key stakeholders to make the best use of this report, it is important to understand the indicators, their importance, what they mean to each stakeholder and the impact these AQIs may have on audit quality.

FOREWORD continued

As part of its own reflection on this report, the IRBA highlights the upward trajectory in various AQIs, including the:

- Percentage of engagement quality review partner hours charged to audit clients;
- Percentage of engagement partner hours charged to audit clients (lowest); and
- Training hours per person (average).

Care should always be taken, though, when interpreting AQIs, to understand their proper context. Having said that, these trends suggest that the allocation of more experienced resources to an audit, in combination with more hours spent on the development of existing resources, may result in the performance of more robust audits that are guided by increased professional judgement and scepticism.

The IRBA hopes that the various stakeholders impacted by this report can use it to perform similar trend analysis in a properly contextualised manner.

This report discloses AQIs that cover the following thematic areas: independence; tenure; internal firm quality review processes; workload of partners and audit managers; span of control; technical resources; training; and staff turnover. These themes are some of the foundational building blocks of high-quality audits and may collectively provide valuable insights into the firm's system of quality management.

While the report is compiled by the IRBA, the data belongs to the firms that provide it; and the true value of the report is to be extracted and understood by those charged with governance and the firms that provided the data.

Collating, analysing and presenting this data represents an extensive task, and would be impossible without the cooperation of firm leadership and personnel. We thank the firms that continue to work on enhancing their systems and data collection tools, while also recognising the value of this report.

Imre Nagy
Chief Executive Officer

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OVERVIEW OF AUDIT QUALITY INDICATOR (AQI) CATEGORIES

Independence
- Non-audit Fees
- Fee Recovery

Tenure
- Firm
- Partner Experience

Review
- EQ Review Partner and EQ Review Team Hours
- Firm Review Processes
- Internal Review Results
- Partner Coverage

Workload
- Engagement Partner Role
- Manager Supervision

Other
- Span of Control: Professional Staff
- Technical Resources: Partner
- Training
- Staff Turnover

BACKGROUND TO THE AQIs[2]

What are Audit Quality Indicators?

AQIs refer to a portfolio of quantitative and qualitative measures provided by an audit firm to a client, an audit committee or those charged with governance (TCWG) of their client or future client, or other interested stakeholders, for use in providing insights about audit quality. These measures could be used to enhance dialogue about, and sharpen the understanding of, auditors and their audits, including how to evaluate their audit quality. That way, users benefit from better information about key matters that may contribute to the quality of an audit (both at the audit firm and audit engagement levels). This could be to the benefit of TCWG in discharging their oversight responsibilities over financial and other reporting, including the appointment or reappointment of the external auditor.

Furthermore, embedding AQIs within the audit firm's system of quality management will provide more real-time, measurable insights that will enhance the firm's ability to monitor audit quality. AQIs are also an effective way to be transparent with key stakeholders about the firm's commitment to audit quality, and could be a prominent feature in transparency reports.

The IRBA considers AQIs as a source of information for business intelligence gathering and risk-based selections for its inspections process, and a tool to monitor the overall trends of audit quality in the profession.

What are the benefits of using AQIs?

- These indicators facilitate efficient and effective dialogue among management, TCWG and auditors, leading to improved oversight and project management of the audit.
- AQIs can help create a mutual understanding of the roles and responsibilities of each of the parties that have a stake in audit quality.
- They focus discussions on those areas and factors of the audit that impact quality the most.
- AQIs offer improved knowledge of the audit process as well as a more efficient measurement and an evaluation of audit quality, with a proactive focus on potential weaknesses.
- They help to identify risk and monitor the overall trend of audit quality in the profession.

What are the challenges of using AQIs?

- AQIs could be misinterpreted, if the context is not provided and/or considered.
- Determining the appropriate and relevant AQIs for the specific engagement and the firm.
- There can be difficulties with understanding unexpected AQI outcomes.
- The collection of AQI information is complex. The quality of the data needs to be considered. Refer to the observations about data quality in Appendix 1, and the need for further improvement.

What kinds of decisions can AQIs help users make?

- To ask the appropriate questions regarding potential weaknesses in the audit quality value chain.
- To request remedial adjustments to be made, e.g. to audit resourcing.
- Which auditors to appoint (tendering process – compare AQIs across firms).
- Whether the auditor should be reappointed.
- Whether any areas require a closer focus or remediation.

To make meaningful decisions that will promote high audit quality, the context of each AQI should be understood as it is interrogated.

[2] Refer to ***Appendix 1*** for details on our approach; data quality and systems limitations; understanding the graphs; limitations; definitions and parameters; as well as key observations and learnings.

AQI OBSERVATIONS

Independence: Non-audit Fees (%)

Description/purpose

Non-audit fees billed (rands invoiced) to the audit client as a percentage of the total audit fees billed (rands invoiced) to the audit client for completed audit engagements.

How to interpret the AQI

This is a measure that may indicate threats to independence. It is an indicator that measures the extent to which the firm is dependent on a particular client for audit versus non-audit fees. The indicator is presented as an average per firm.

A higher percentage indicates that the firm receives more fees for non-audit services, such as taxation and consulting, than what it receives for audit services. This may create the impression of diminished independence, and independence threats may jeopardise audit-related quality and decision-making.

A higher percentage may also indicate a higher demand (sanctioned by audit committees) from the firm's audit clients for non-audit services.

The King IV Report on Corporate Governance for South Africa, 2016, requires the audit committee to oversee the provision of non-audit services by the external auditor.

The Companies Act 71 of 2008 requires that the auditor must be acceptable to the company's audit committee as being independent of the company. Furthermore, the IRBA Code places the responsibility for the determination of independence on the auditor.

IRBA Code considerations

Section 410 of the IRBA Code addresses fee dependencies and their impact on independence for audit and review engagements.[3]

R411.4: A firm shall not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

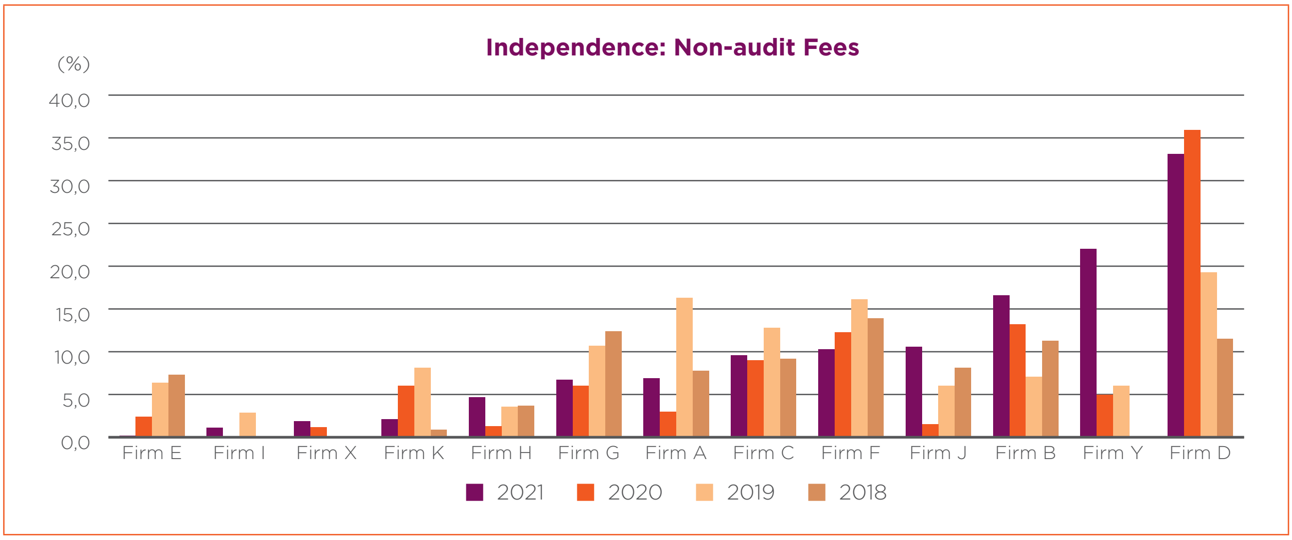
R600.4: Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall determine whether providing such a service might create a threat to independence.

600.5 A4: A firm or network firm might provide multiple non-assurance services to an audit client. In these circumstances, the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

[3]Substantive changes to the fee-related paragraphs in the IRBA Code will be effective for audits of financial statements for periods beginning on or after 15 December 2022. Click here for more details.

AQI OBSERVATIONS continued

Key Observations	2021	2020	2019	2018
Lowest	0%[4]	0%	3%	1%
Average	10%	7%	10%	9%
Highest	33%	36%	19%	14%



Statutory non-audit fees

Statutory non-audit fees describe engagements other than those that relate to International Standards on Auditing (ISAs) engagements, and are limited to those engagements required by law and/or regulation. An example would be the assurance work performed on regulatory returns for a bank audit. The Independence AQI includes the effect of statutory non-audit engagements and voluntary non-audit engagements.

Some firms are on the higher end of the 0% to 33% range, and this is due to a presence of such statutory engagements. In the current year, the following firms performed statutory non-audit engagements for audit clients in excess of 1% of the fees charged for the audit: Firm X (1.9%), Firm K (1.9%), Firm G (2.3%), Firm D (3.3%), Firm F (3.4%), Firm H (3.6%), Firm B (5.7%) and Firm C (6.9%).[4]

[4]In 2021, Firm E was the only one in the graph that resulted in an almost 0% AQI.

AQI OBSERVATIONS continued

Independence: Fee Recovery (%)

Description/purpose

Total audit fees billed (rands invoiced) to the audit client as a percentage of the total audit fees (rands) internally charged to the audit client for completed engagements.

How to interpret the AQI

A low percentage indicates that a firm has charged less for its actual services (time spent); therefore, fees have been "written off" and not recovered. This may indicate, among other reasons, inefficiencies in supervision and project management (time wasted on an audit) or lowballing (discounted fees or fee pressures).

A high percentage indicates that a firm has recovered more or most of the actual services (hours spent on the engagement) it has provided; therefore, fees have been recovered. This may indicate better efficiencies in supervision and project management. The firm may have budgeted more accurately, and the final average time spent on the engagement may have been more in line with the budget.

This AQI is presented as an average per firm.

IRBA Code considerations

300.6 A1 (a): Self-interest Threats (arise when):

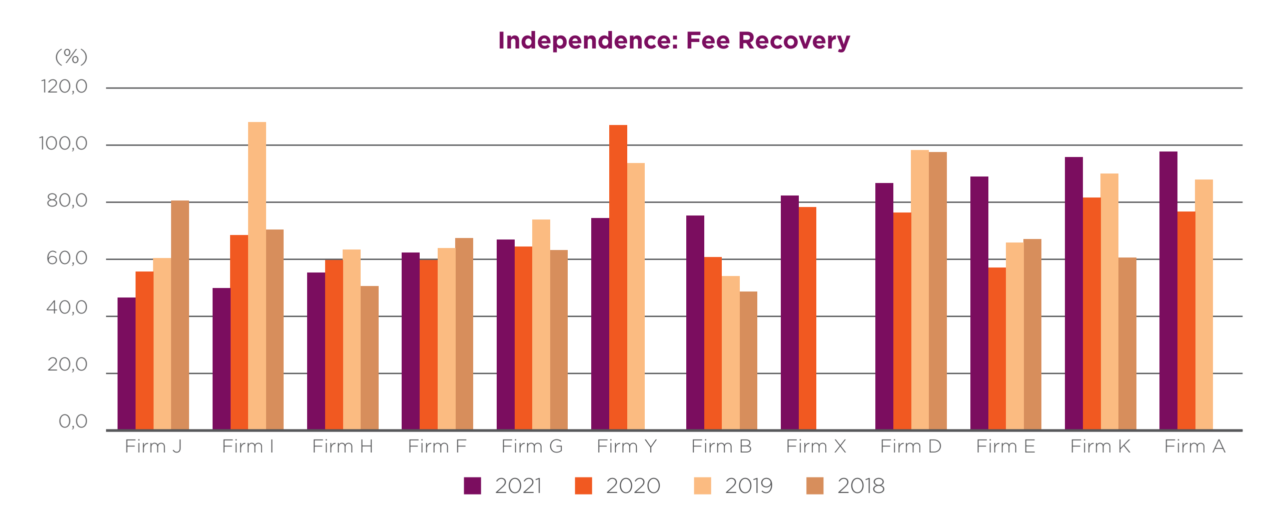
- A registered auditor quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.

330.3 A1: The level of fees quoted might impact a registered auditor's ability to perform professional services in accordance with professional standards.

330.3 A2: A registered auditor might quote whatever fee is considered appropriate. Quoting a fee lower than another registered auditor is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care, if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.

Key Observations	2021	2020	2019	2018
Lowest	47%	56%	54%	49%
Average	74%	71%	78%	67%
Highest	98%	107%	108%	98%

AQI OBSERVATIONS continued



Tenure: Firm (years)

Description/purpose

Average number of completed years as the audit firm for the audit client. This is an indicator of independence or a familiarity threat.

How to interpret the AQI

The longer the tenure, the greater the familiarity threat to independence. Alternatively, the shorter the tenure, the less the experience and knowledge of the business. This indicator is presented as an average per firm. This indicator should also be considered in conjunction with:

- The IRBA Rule relating to Mandatory Audit Firm Rotation[5]; and
- The IRBA Rule relating to Disclosure of Audit Firm Tenure on an Audit Client[6].

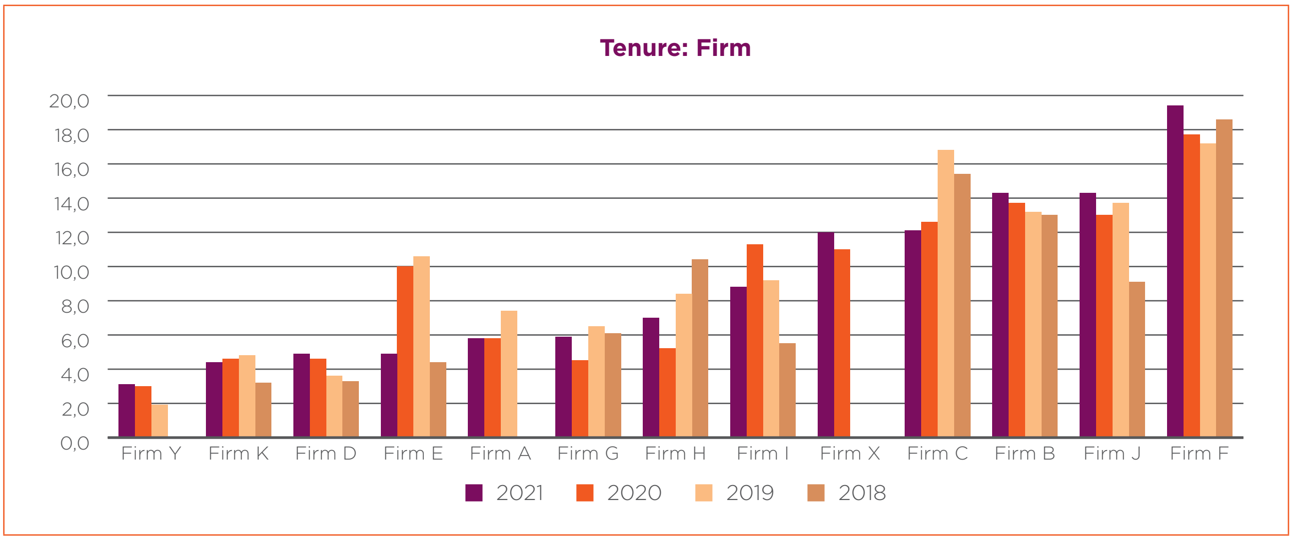
IRBA Code considerations

Familiarity threat – the threat that due to a long or close relationship with a client, a registered auditor will be too sympathetic to that client's interests or too accepting of their work.

Key Observations	2021	2020	2019	2018
Lowest	3.1	3.0	1.9	3.2
Average	9.0	9.0	9.4	8.9
Highest	19.4	17.7	17.2	18.6

[5]Available on the IRBA website by clicking here.
[6]Available on the IRBA website by clicking here.

AQI OBSERVATIONS continued



Important Notice

The MAFR rule becomes effective for financial years commencing on or after 1 April 2023. Therefore, if the audit firm has served as the appointed auditor of a public interest entity (PIE) for 10 or more consecutive financial years before the financial year commencing on or after 1 April 2023, then the audit firm shall not be eligible for re-appointment. As such, entities that leave rotation until the last minute face the risk of being unable to appoint a preferred audit firm, due to possible ineligibility as a result of potential conflicts and the availability of resources.

Tenure: Partner Experience (years)

Description/purpose

An average tenure as an engagement partner (in years). This is an indicator of years of experience as an engagement partner. Information is included for all registered auditors in the firm who work on audit clients and not just public interest entities. This may include, for example, technical partners and Chief Executive Officers, where their time is not directly booked to audit clients.

How to interpret the AQI

The greater the number of years, the more experience the engagement partner is likely to have obtained. In understanding this AQI, considerations could be given to whether the engagement partner has kept up to date with Continuing Professional Development (CPD) requirements and the type of experience gained as an engagement partner.

This AQI is presented as an average per firm.

AQI OBSERVATIONS continued

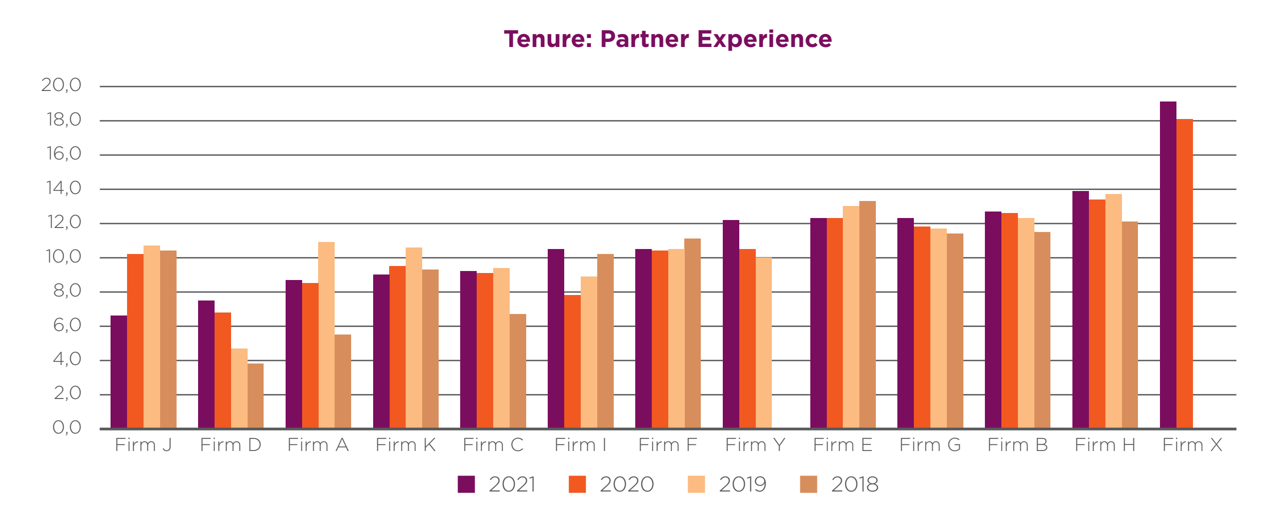
IRBA Code considerations

R113.1 A registered auditor shall comply with the principle of professional competence and due care, which requires a registered auditor to:

(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

Key Observations	2021	2020	2019	2018
Lowest	6.6	6.8	4.7	3.8
Average	11.1	10.9	10.5	9.6
Highest	19.1	18.1	13.7	13.3



Review: EQ Review Partner Hours and EQ Review Team Hours (%)

Description/purpose

The engagement quality (EQ) review partner hours and the EQ team hours charged to the audit client by the EQ review partner and the EQ team as a percentage of the total audit hours charged to the audit client for completed engagements.

How to interpret the AQI

This provides a measure of the extent of pre-issuance EQ reviews, measured by time spent. Higher ratios indicate a greater involvement of the EQ review partner and, potentially, a greater number of areas of significant judgement covered in an audit file. Higher ratios may also be indicative of overreliance on the EQ reviewer to resolve issues that should have been identified and addressed by the engagement partner. Alternatively, lower ratios may indicate that the EQ review partner spent insufficient time or areas of significant judgement were not adequately addressed.

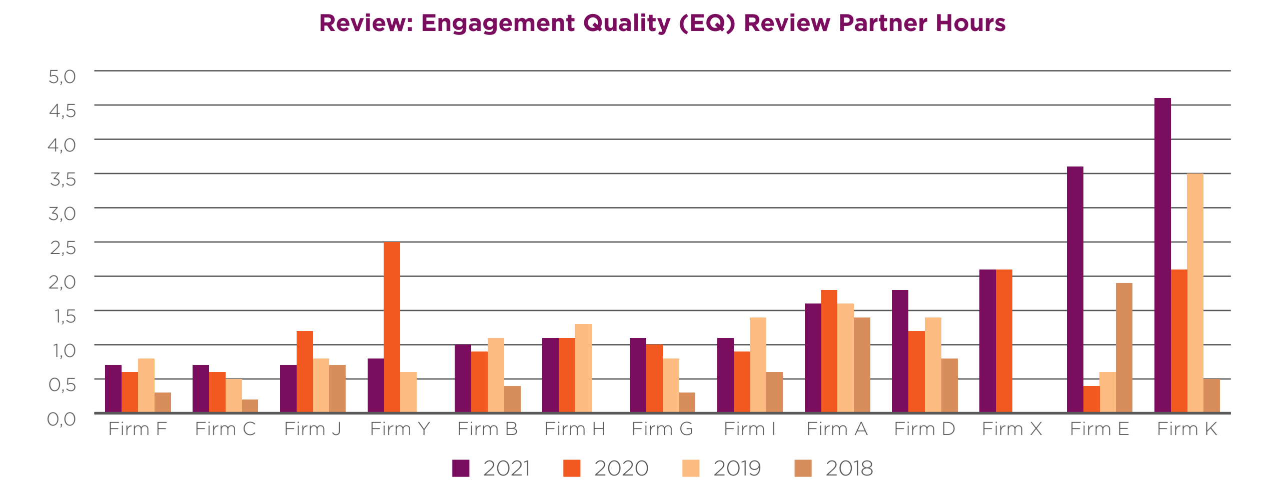
AQI OBSERVATIONS continued

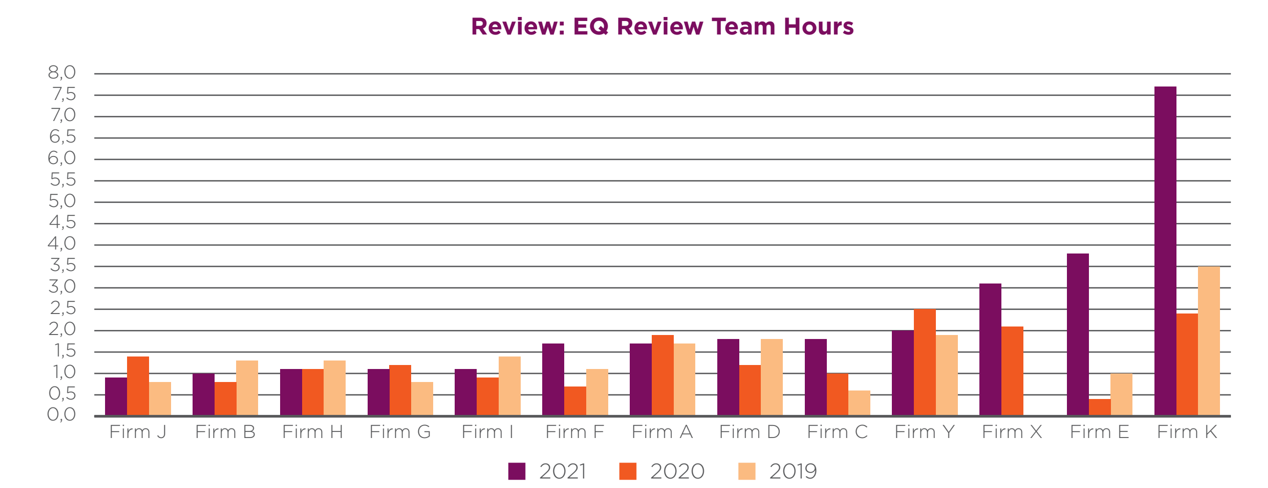
This measure is not an indicator of the eligibility and objectivity of the EQ reviewer.

This AQI is presented as an average per firm.

Key Observations – EQ Partner	2021	2020	2019	2018
Lowest	0.7%	0.4%	0.5%	0.2%
Average	1.6%	1.3%	1.2%	0.7%
Highest	4.6%	2.5%	3.5%	1.9%

Key Observations – EQ Team	2021	2020	2019
Lowest	0.9%	0.4%	0.6%
Average	2.2%	1.4%	1.4%
Highest	7.7%	2.5%	3.5%





AQI OBSERVATIONS continued

Review: Firm Review Processes

Description/purpose

A description of and conclusions on engagement-related reviews performed by the firm (by personnel outside the engagement team), including the nature of reviews, how many partners were covered and the frequency of reviews. Compared to the previous year, most of this summary has remained consistent.

How to interpret the AQI

This can be used to assess the firm's internal quality management processes (e.g. internal monitoring systems) as well as the quality of engagement performances (the outcome/findings of the internal monitoring systems). Satisfactory results could be an indication that the quality of the engagements is adequate. These internal quality management results can also be compared to the external inspection results (obtainable from the firm).

Key Observations

Common features of the majority of firms' internal monitoring systems

- Evidence of the application of International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements; and ISA 220, Quality Control for an Audit of Financial Statements.*
- **Selection of partners** to be reviewed:
  - A review of engagement partners takes place at least every three (3) years.
  - There is a potential for a partner to be reviewed multiple times within a given cycle, based on risk factors.
  - Firms with only a few partners, in some cases, review all the engagement partners every year.
  - Several firms described how they select partners to review for a specific year. Factors included:
    - New partners (whether promoted or newly employed).
    - Partners with high-risk clients, such as large, complex, multi-locational, initial, joint and/or regulated industries engagements.
    - Partners with unsatisfactory internal or external review results, including the IRBA inspection results.
  - Several firms mentioned that the selection of partners to be reviewed is done by an independent party (independent of the office, partner and engagement); and the review is also performed by an independent party. Reviewers may include members from the global team.
- Firms provided the following examples of the **scope** of the review (but not all of the areas listed below are included in each firm's reviews):
  - Acceptance and continuance considerations.
  - Independence and ethical considerations.
  - Planning and completion considerations (all or parts thereof).
  - Risk assessment procedures.
  - Communication with management and those charged with governance.
  - Audit/assurance evidence obtained for all material amounts, high-risk or significant-risk areas.
  - Consultations, if any.
  - Corrected and uncorrected misstatements.
  - Overall conclusions.
  - Matters that led to reportable irregularities.
  - Audit report, especially, where opinions were qualified or modified.

  - Annual financial statements.
  - Full engagement review for a partner's first review.
  - Re-reviews (prior-year unsatisfactory results) may be the full scope of the engagement or focus area.

Review results and implications

- All firms have a rating process, generally from 1 to 3 (with some variations). A rating of 1 would be for satisfactory results, 2 for some low-risk findings and 3 for unsatisfactory results. Most firms perform re-reviews of partners, if reviews showed unsatisfactory results within a year.
- Where a firm is part of a global network, the global policies and procedures are used and adapted for the South African firm. Monitoring of the process occurs at a global level. Reporting on results is at local, regional and global levels.
- To decide on results, some firms use panels, quality management teams or moderators that are independent member firms.
- Several firms mentioned that they consider unsatisfactory results in their remuneration and promotion decisions.
- Most firms provided information on plans to address significant or common findings through firm-level improvement plans and remediation actions.
- Several firms provided information on communication with staff, and this included emails, training and additional guidance.

Less common features of firms' internal monitoring systems

- Several firms include an element of surprise (random selection) in selecting file reviews. For example, one firm selects partners to be reviewed based on the above listed factors. In addition, it performs a few random reviews every year, without any prior notification of the selected partner.
- One firm reviews all partners on listed engagements every year.
- One firm has appointed an independent external consultant to perform the reviews.
- One firm mentioned that it performs a root cause analysis (RCA) of findings, and positive elements are also included in the RCA. Positive elements are then communicated to audit teams and may also be built into the quality management system.

In-flight reviews

These are reviews that are completed during the performance of an audit engagement; and they are not to be confused with the engagement quality control reviews. They are similar in nature to the post-issuance monitoring reviews, but are performed during the audit engagement, before the audit opinion is signed.

- Firms were asked about whether their systems of quality control included an element of in-flight review, in addition to the engagement quality control review required by ISQC 1.
- A few firms noted that such reviews were included within their systems currently.
- Key features of such reviews include the following:
  - Reviews are only conducted once a specific section is considered complete by the engagement team;
  - Such reviews prioritise a quality and coaching approach, as opposed to a punitive approach;
  - Files are selected for review on a risk basis, as determined by the quality control team;
  - The engagement partner is ultimately responsible for ensuring that the review findings are addressed; and
  - Significant findings may be escalated, if the reviewer feels that these are not appropriately addressed.

AQI OBSERVATIONS continued

- One firm's policy included having the EQ reviewer within the engagement team. Another firm, though, specifically excluded the EQ reviewer from the engagement team that was subject to these types of review.
- One firm indicated that such reviews do not result in rated outcomes. Therefore, quantitative results were not provided.

Review: Internal Review Results (%)

Description/purpose

An average percentage of all results ratings of engagement partners, subject to internal reviews during the calendar year.

How to interpret the AQI

All firms have a rating process, generally from 1 to 3 (with some variations). A rating of 1 is for satisfactory results, 2 for some low-risk findings and 3 for unsatisfactory results. The ratings have been standardised for the purpose of the graphs below. For example, where a firm has a rating system of 1 to 4, ratings 3 and 4 have been included in this standardised rating of 1 to 3.

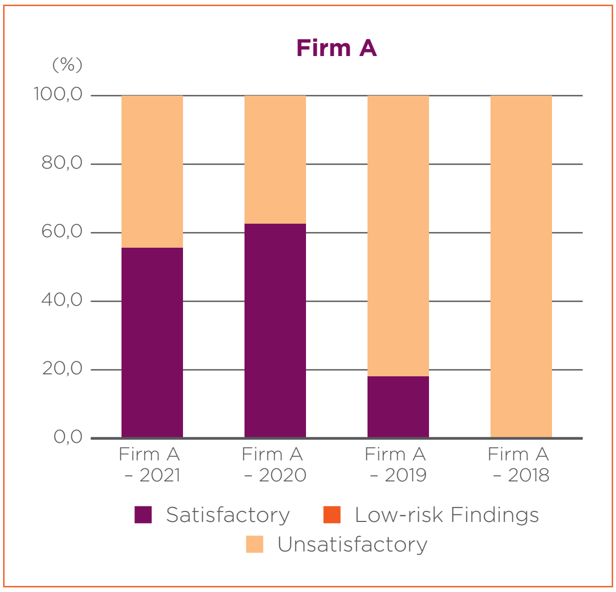
Results have been depicted as a percentage of review results. For example, 35% of a firm's engagement partners received a satisfactory review rating of 1; 45% received a low-risk finding review rating of 2; and 20% received an unsatisfactory review rating of 3.

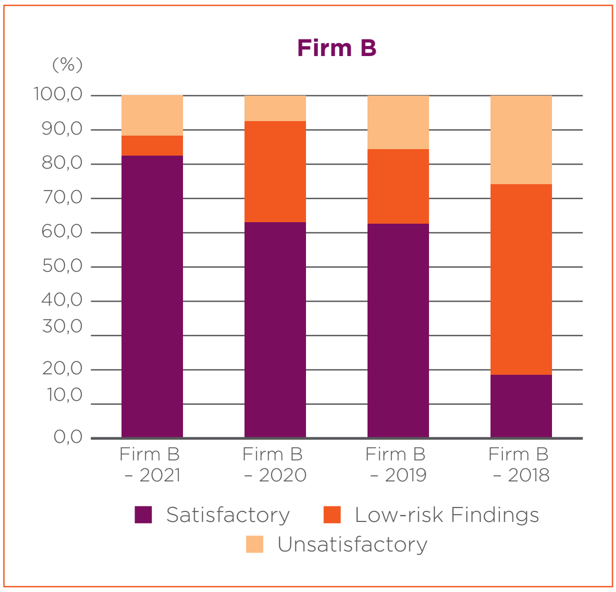
The internal review process is an important risk identification tool. A high percentage of unsatisfactory ratings may indicate a robust internal monitoring process or a lack of audit quality on the engagements reviewed. On the other hand, a low percentage of unsatisfactory ratings may indicate a weak internal quality process for the firm or a series of high-quality engagements.

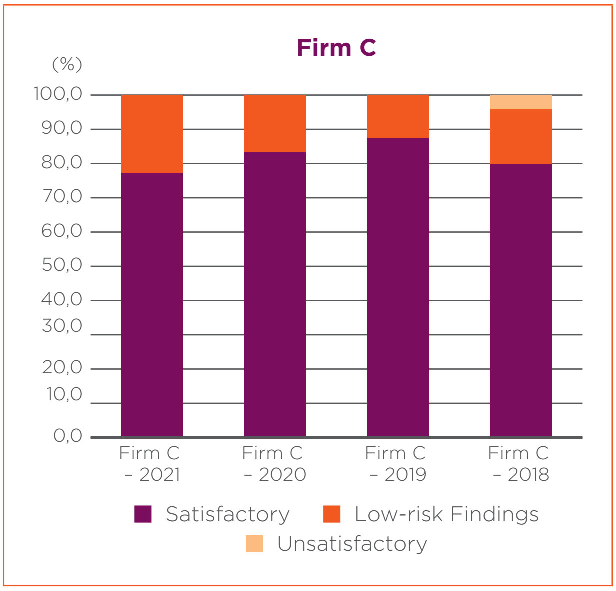
The correlation of a firm's internal review results with the firm's IRBA (external) inspection results (obtainable from the firm) may indicate the effectiveness of the firm's internal monitoring process.

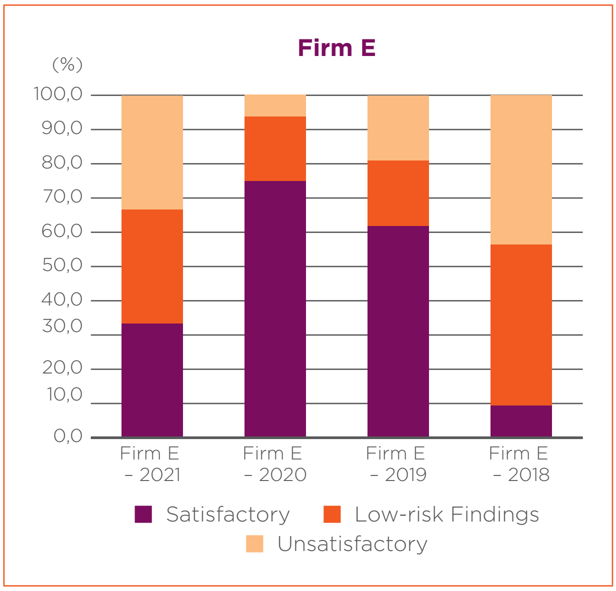
Key Observations	2021	2020	2019	2018
Highest percentage of rating 1 – satisfactory	93%	83%	90%	93%
Highest percentage of rating 2 – low-risk findings	69%	33%	56%	100%
Highest percentage of rating 3 – unsatisfactory	100%	100%	82%	100%

AQI OBSERVATIONS continued

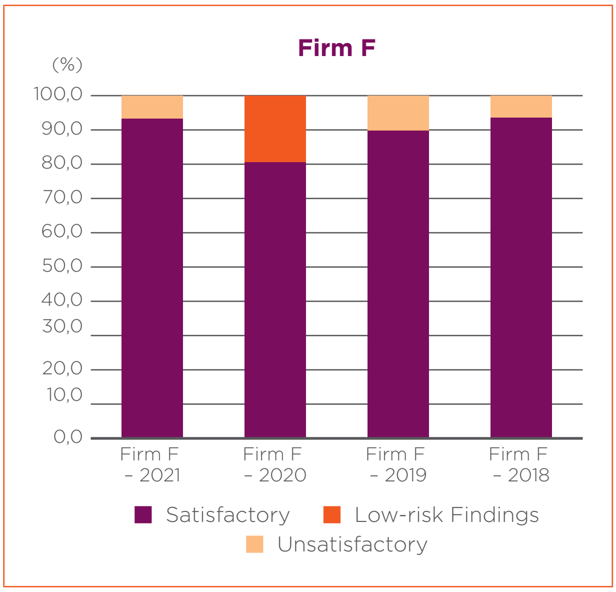


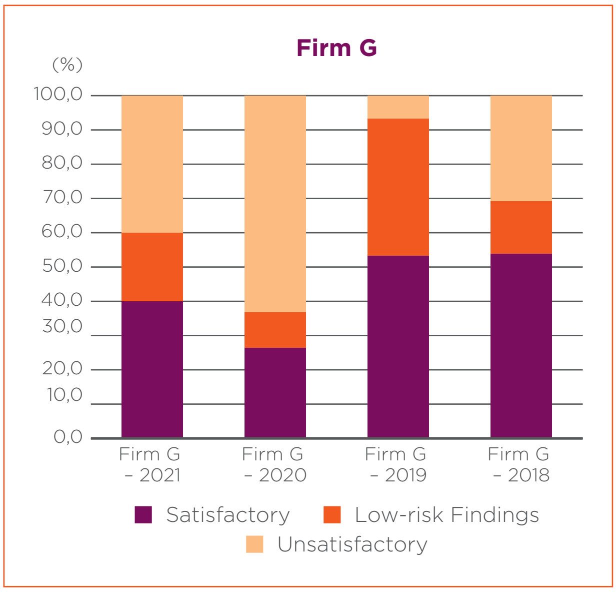


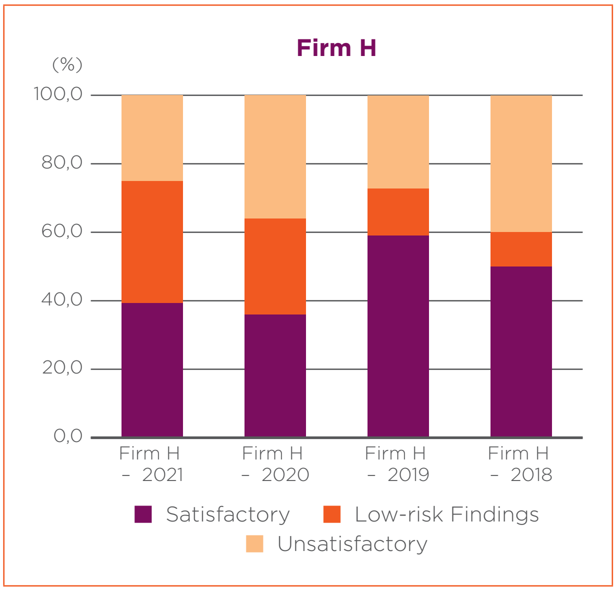




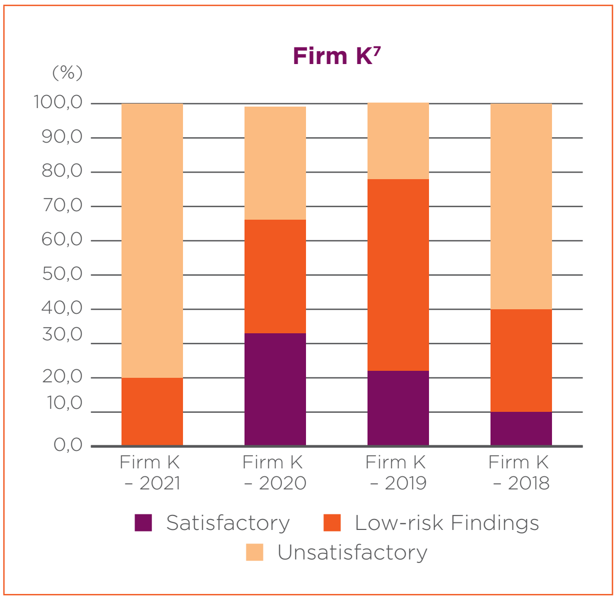
AQI OBSERVATIONS continued

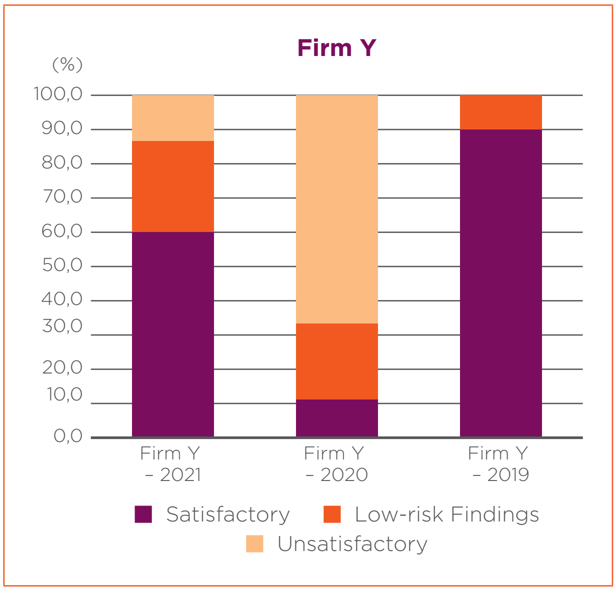






AQI OBSERVATIONS continued





7

[7]Updated comparative information is based on confirmation of the grading criteria with the firm.

AQI OBSERVATIONS continued

Review: Partner Coverage (%)

Description/purpose

A percentage of engagement partners subject to internal reviews during the calendar year. This is the internal monitoring coverage.

How to interpret the AQI

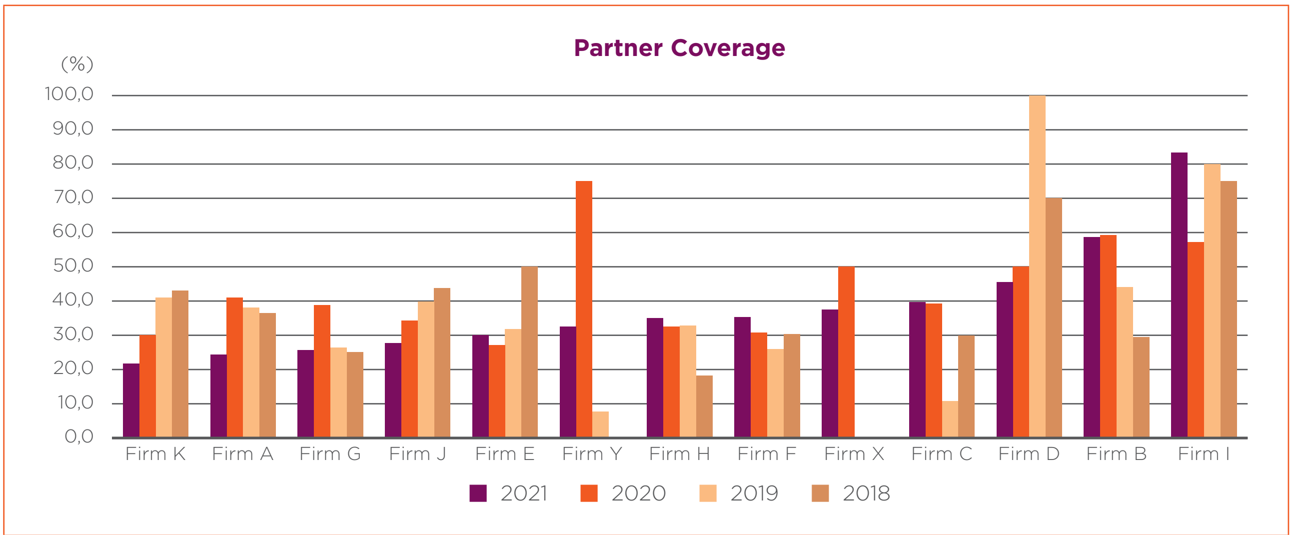
The higher the percentage, the greater the proportion of engagement partners subjected to a firm's internal quality reviews during the period. Therefore, the firm is making a larger investment in monitoring, and the likelihood of detecting shortcomings in audit quality may be higher. This, though, does not indicate the quality of the audit engagements (consider the "internal review results" AQI), or the effectiveness of the internal review.

IRBA Code considerations

400.4: ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethics requirements. ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of this part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A firm is required to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances. Firms therefore assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, an individual registered auditor remains responsible for compliance with any provisions that apply to that registered auditor's activities, interests or relationships.

Key Observations	2021	2020	2019	2018
Lowest	22%	27%	8%	18%
Average	38%	44%	40%	41%
Highest	83%	75%	100%	75%

AQI OBSERVATIONS continued



Workload: Engagement Partner Role (%)

Description/purpose

Engagement partner (excl. EQ review partner) hours charged to the audit client as a percentage of total audit hours charged to the audit client for completed engagements. This provides a measure of the level of involvement by the engagement partner.

How to interpret the AQI

Higher ratios indicate a greater involvement of the engagement partner and may be indicative of a higher quality audit file, or an audit with more areas of significant judgement. Alternatively, high ratios may indicate an understaffed or inexperienced engagement team, or other execution issues. This indicator is presented as an average per firm.

This ratio can be compared to the workload: manager supervision (%) ratio and the EQ review partner hours (%) ratio.

IRBA Code considerations

"Professional Competence and Due Care" is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and

(ii) Act diligently and in accordance with applicable technical and professional standards.

Section 320, Client and Engagement Acceptance, acknowledges that there might be a self-interest threat when accepting a new engagement, due to complexity, experience, technical knowledge, etc. Paragraph 320.3 A5 includes the following examples of safeguards that address competencies and time on the engagement:

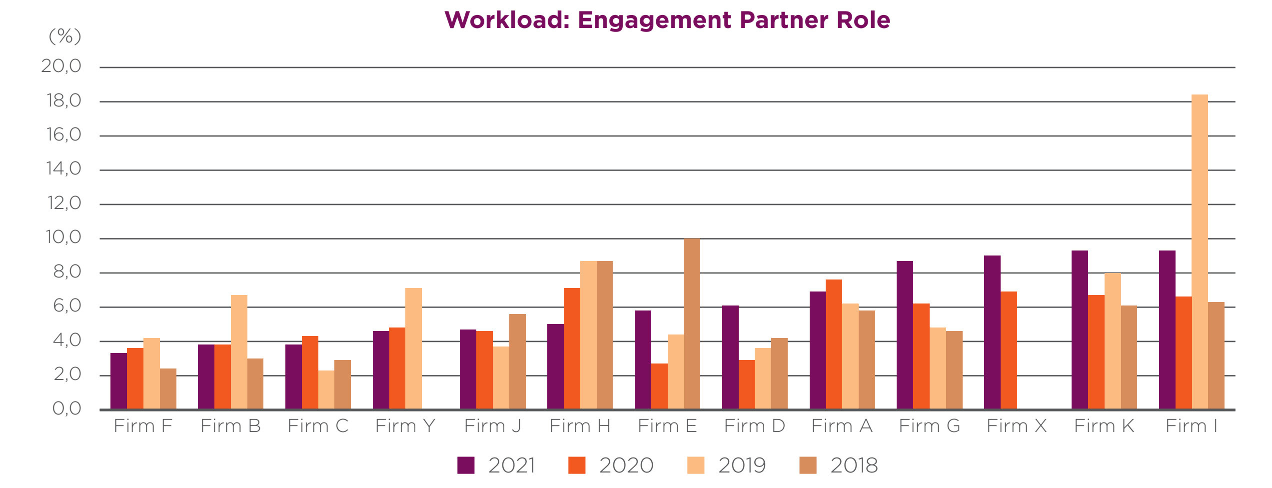
- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic timeframe for the performance of the engagement.

AQI OBSERVATIONS continued

In paragraph 300.8 A2, where safeguards to self-interest threats are discussed, the following action that in certain circumstances might be a safeguard to address threats is mentioned:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.

Key Observations	2021	2020	2019	2018
Lowest	3.3%	2.7%	2.3%	2.4%
Average	6.2%	5.2%	6.5%	5.4%
Highest	9.3%	7.6%	18.4%	10.0%



Workload: Manager Supervision (%)

Description/purpose

Total audit manager hours charged to the audit client as a percentage of total audit hours charged to the audit client for completed engagements.

How to interpret the AQI

Higher ratios indicate a greater involvement of the audit manager/s; and there may be many reasons for such involvement. Alternatively, high ratios may indicate a lack of review and involvement by the engagement partner and/or an understaffed engagement team. In understanding this AQI, the firm's model and nature of engagements would need to be considered.

AQI OBSERVATIONS continued

IRBA Code considerations

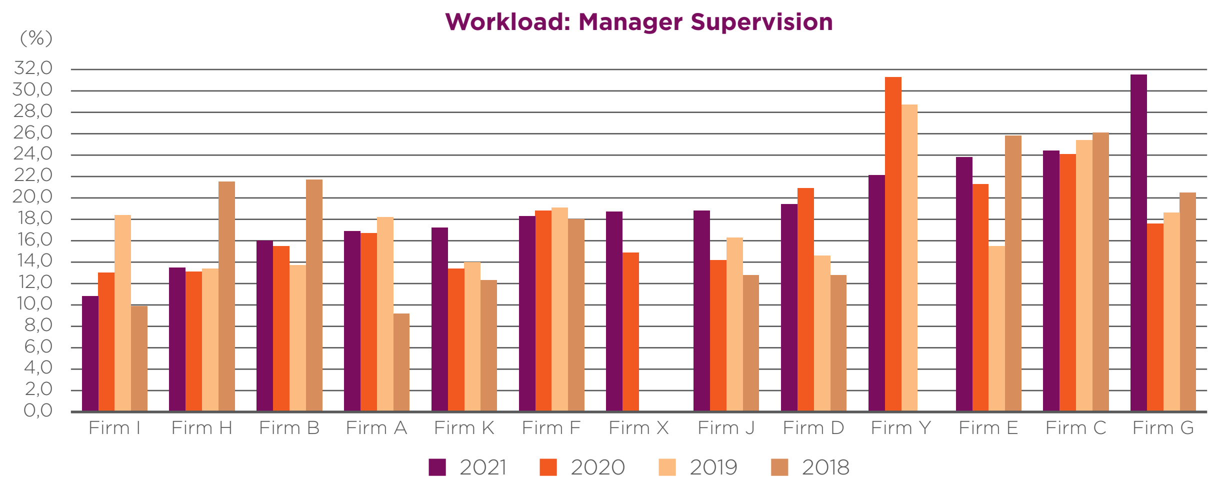
“Professional Competence and Due Care” is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and

(ii) Act diligently and in accordance with applicable technical and professional standards.

Key Observations	2021	2020	2019	2018
Lowest	10.8%	13.0%	13.4%	9.2%
Average	19.3%	18.1%	18.0%	17.3%
Highest	31.5%	31.3%	28.7%	26.1%



Span of Control: Professional Staff (ratio)

Description/purpose

Audit professional staff headcount (accounting, audit and risk) as a ratio to partners in the audit firm. This indicates the capacity of partners to supervise junior audit team members in the audit firm, and the level of professional staff support for audit partners.

How to interpret the AQI

Higher ratios may indicate that a partner has more responsibilities. That may also indicate possible related time pressure, as more people need to be managed, which may distract the partner from giving appropriate attention to a particular audit engagement. Higher ratios may also indicate either relatively few partners or a firm that is better resourced with professional staff to support partners. In addition, higher ratios may indicate that the partners manage their professional staff better, or their professional staff are more skilled and require less supervision.

AQI OBSERVATIONS continued

IRBA Code considerations

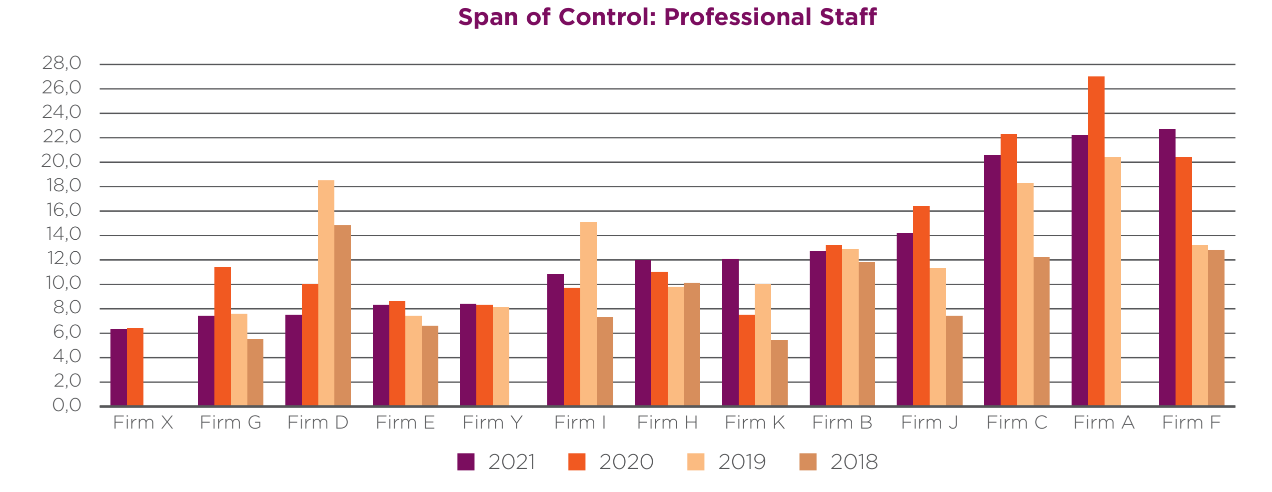
"Professional Competence and Due Care" is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and

(ii) Act diligently and in accordance with applicable technical and professional standards.

Key Observations	2021	2020	2019	2018
Lowest	6	6	7	5
Average	13	13	13	9
Highest	23	27	20	15



Technical Resources: Partner (ratio)

Description/purpose

Engagement partner to technical partner ratio.

How to interpret the AQI

The higher the ratio, the more engagement partners a technical partner serves. Therefore, a high ratio may mean that an engagement partner does not have as much access to a technical partner resource as would be the case for an engagement partner in a firm with a lower ratio. In understanding this ratio, the nature of the firm as well as the nature and scope of engagements are also relevant.

AQI OBSERVATIONS continued

IRBA Code considerations

"Professional Competence and Due Care" is one of the Fundamental Principles in the IRBA Code.

110.1 A1: Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and

(ii) Act diligently and in accordance with applicable technical and professional standards.

The IRBA Code highlights the importance of technical support by including in the definition of Audit Team:

(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement.

The need to obtain technical expertise is also applicable when exercising professional judgement as follows:

120.5 A3: In exercising professional judgement to obtain this understanding, the registered auditor might consider, among other matters, whether:

- There is a need to consult with others with relevant expertise or experience.

In paragraph 300.6 A1 of the IRBA Code, under the discussion on threats to compliance with the fundamental principles, the following is mentioned as an example of a fact and circumstance that might create an intimidation threat:

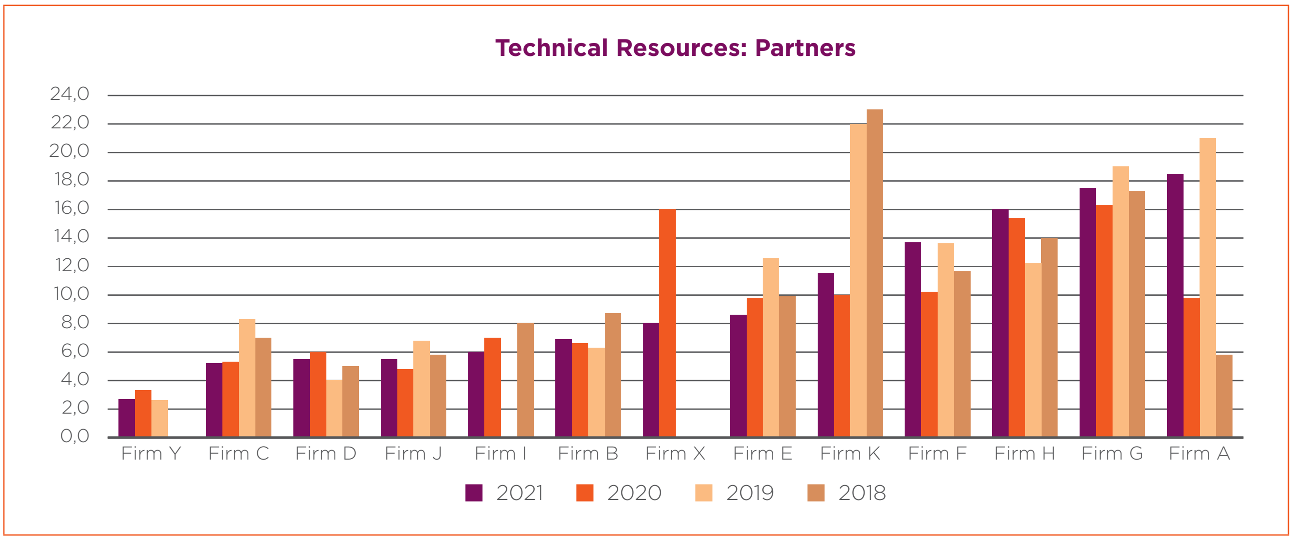
- A registered auditor feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.

Additionally, paragraph 400.53 A3 elaborates on "professional resources" under the Network Firm discussion, and includes the following:

- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.

Key Observations	2021	2020	2019	2018
Lowest	3	3	3	5
Average	10	9	12	11
Highest	19	16	22	23

AQI OBSERVATIONS continued



Training (hours per person)

Description/purpose

Total hours of structured training delivered for audit professional staff for the previous calendar year as a ratio to average (monthly) audit professional staff for the previous calendar year.

How to interpret the AQI

The level of investment in formal training is one indicator of the firm's investment to improve audit quality and maintain professional knowledge. In understanding this AQI, the type, quality and relevance of the training should be considered, as well as whether it is input- or output-based (attendance versus the demonstration of knowledge gained).

IRBA Code considerations

R113.2: In complying with the principle of professional competence and due care, a registered auditor shall take reasonable steps to ensure that those working in a professional capacity under the registered auditor's authority have appropriate training and supervision.

Exercise of Professional Judgement

120.5 A1: Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgement is required when the registered auditor applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

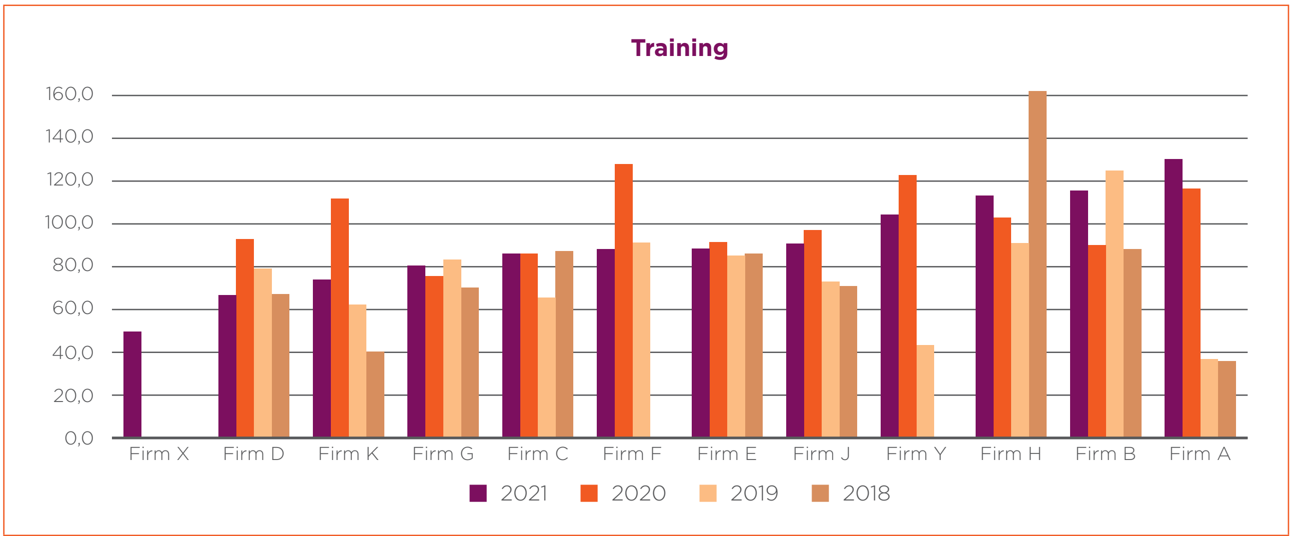
When discussing the firm and its operating environment, paragraph 300.7 A5 of the IRBA Code considers the following as an example of a factor the registered auditor will consider when evaluating a threat to the fundamental principle:

AQI OBSERVATIONS continued

300.7 A5: A registered auditor's evaluation of the level of a threat might be impacted by the work environment within the registered auditor's firm and its operating environment. For example:

- Educational, training and experience requirements.

Key Observations	2021	2020	2019	2018
Lowest	50[8]	75.6	37	36
Average	91	115	81	78
Highest	130	266	140	162



Staff Turnover (%)

Description/purpose

The percentage of staff who have left the firm, excluding staff whose training contracts have ended, in the categories of engagement partners, audit managers and audit supervisors, based on the opening number of staff in each of the three categories. Promotions between ranks are not to be considered as staff turnover. Staff turnover is calculated as the total number of leavers divided by the average number of staff for the year (that is, the monthly average over the calendar year).

How to interpret the AQI

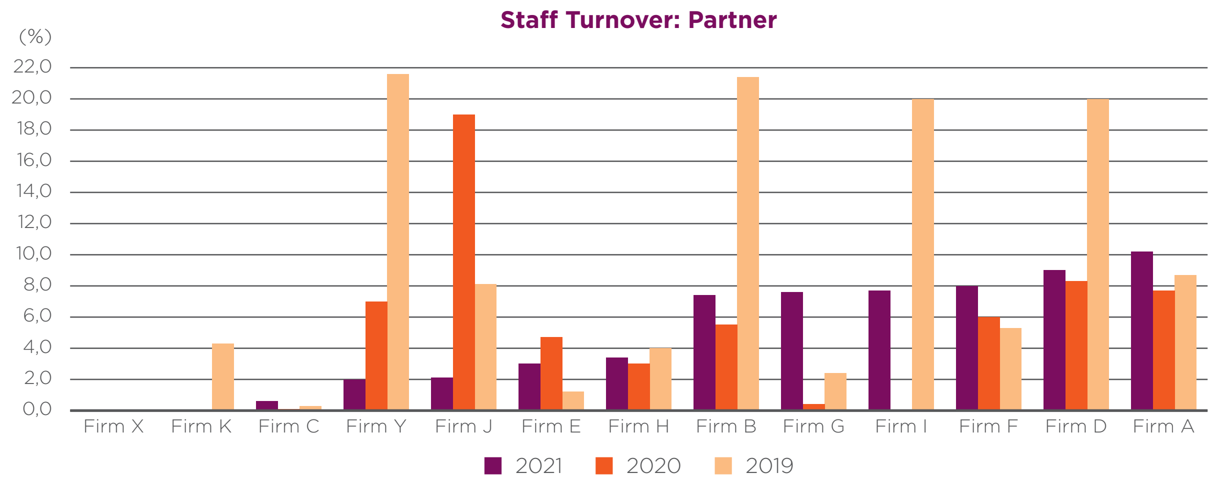
The level of turnover of staff is an indication of the consistency of the firm's engagement teams. Consistent teams may help with sustainability or improving audit quality and maintaining professional knowledge within the firm. Firms may want to maintain a balance between retaining staff and adding new staff to promote new and fresh ideas, to ultimately improve and maintain high audit quality.

[8]Firm X has been included in this AQI for the first time. Previous submissions were not published and that was due to concerns with either data accuracy or the firm not meeting the minimum threshold for the number of PIEs within its client portfolio.

AQI OBSERVATIONS continued

Firms that experienced close to zero turnover have been shown separately below, to avoid distortions that may be caused when interpreting the results. Firm C identified an error in its 2019 submission for the audit supervisor turnover. This has been restated to reflect the correct percentage. Firm F had indicated that the turnover for supervisors was not applicable, as the firm does not provide for such a level of staff. The turnover percentage for supervisors provided in the previous year incorrectly included trainees; therefore, it has been removed from the graph below.

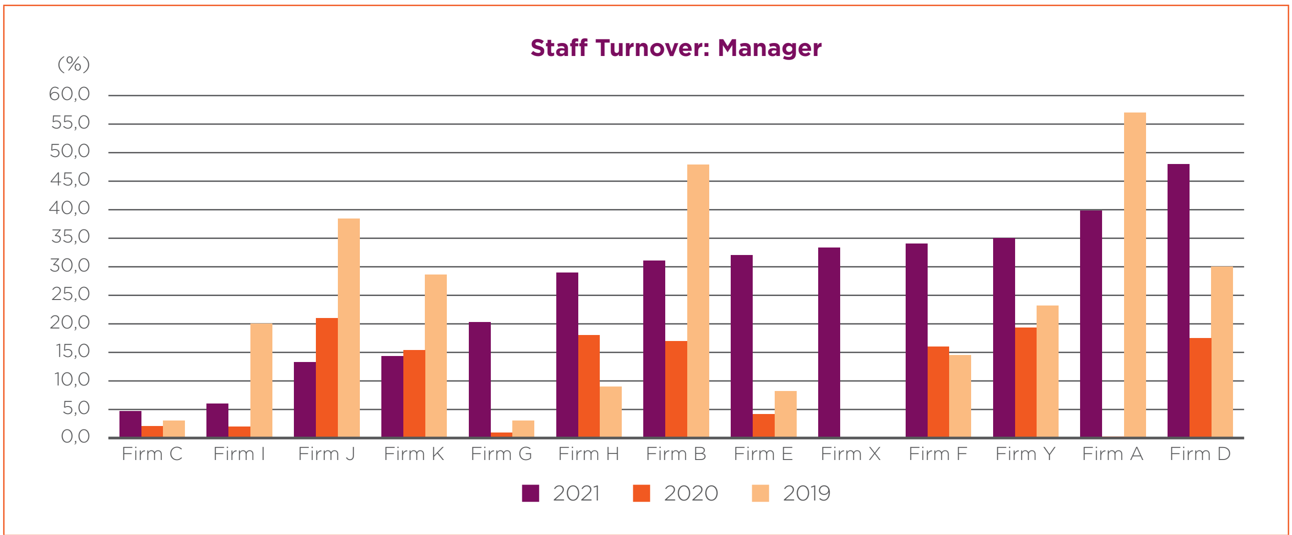
Key Observations	2021	2020	2019
Highest – Audit Partner	10.2%	19.0%	21.6%
Highest – Audit Manager	48.0%	21.0%	57%
Highest – Audit Supervisor	71.0%	40.7%	36.2%



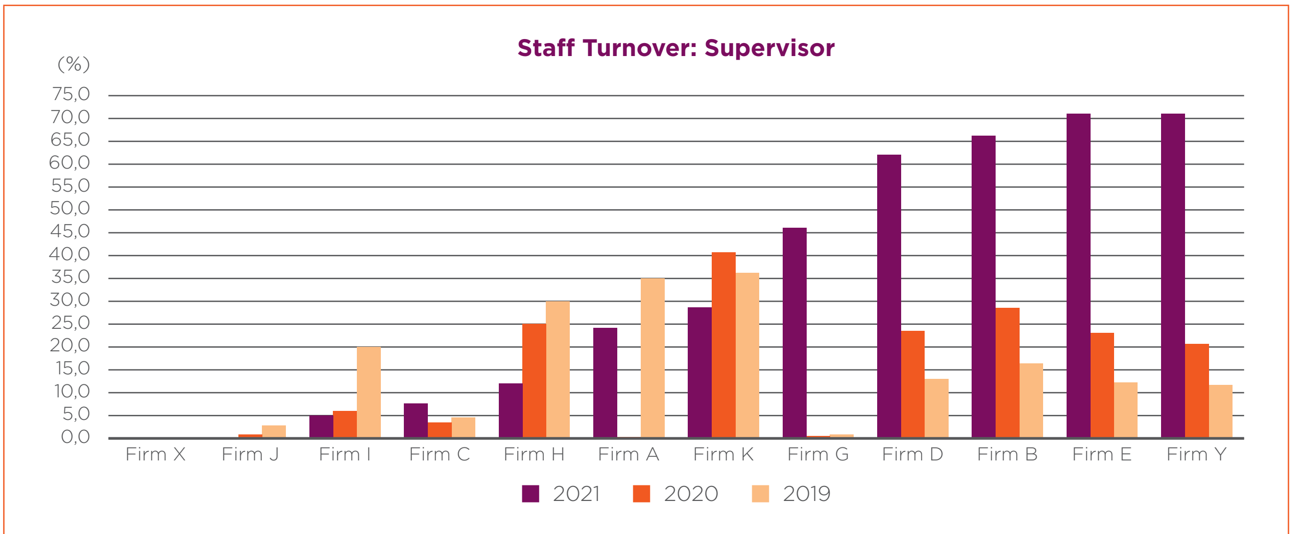
Due to inconsistent calculations identified in the current year, Firm H's comparatives have been restated from 0.0% to 3.0% for 2020 and from 0.4% to 4.0% for 2019.

Firms with zero audit partner turnover	2021	2020	2019
Firm X	0.0%	0.0%	N/A
Firm K	0.0%	0.0%	4.35%

AQI OBSERVATIONS continued



Due to inconsistent calculations identified in the current year, Firm H's comparatives have been restated from 1.0% to 18% for 2020 and from 1.3% to 9.0% for 2019. Firm I's comparatives have been restated from 15.0% to 2.0% for 2020.



Due to inconsistent calculations identified in the current year, Firm H's comparatives have been restated from 0.2% to 25% for 2020 and from 0.0% to 30.0% for 2019. Firm I's comparatives have been restated from 35.0% to 6.0% for 2020.

Firms with zero audit supervisor turnover	2021	2020	2019
Firm J	0.0%	0.8%	2.8%
Firm X	0.0%	0.0%	N/A

WAY FORWARD

As at the date of this report, the IRBA plans to request AQI information again from audit firms for 2022, but only from JSE-accredited firms, for the same category of clients (public interest entities). Where there were interpretation issues for definitions and guidelines, these will be clarified.

Firms will still be requested to provide evidence of a quality review of the data submitted, with authorisation (sign off) by a suitable senior firm representative. Firms are expected to provide the IRBA with complete and accurate information.

Selected information received will be cross-checked against other sources. This may entail checking the tenure to audit reports, as well as cross-checking the number of partners against the IRBA's Registry department database and the list of JSE-accredited firms against the JSE Limited records.

Firms are encouraged to embed the AQI system in their procedures, as this is an ongoing process.

In addition, we note the following changes that are expected to impact AQI data collection and measurement going forward:

1. IRBA Adoption of the Suite of IAASB Quality Management Standards that includes:
   - The replacement of ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,* with ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements;*
   - The introduction of the new ISQM 2, *Engagement Quality Reviews;* and
   - Significant revisions to ISA 220 (Revised), *Quality Management for an Audit of Financial Statements.*

Systems of quality management in compliance with ISQM 1 are required to be designed and implemented by 15 December 2022. These three QM standards may be downloaded from the IRBA website.

For any questions or suggestions regarding this report, please email us at standards@irba.co.za.

FURTHER RESOURCES

- The Transparency Reporting and Audit Quality Indicators page provides examples of transparency reports, guidance or other information currently available regarding transparency reports and AQIs.
- The 2021 Public Inspections Report on Audit Quality that was released on 8 February 2022.

APPENDIX 1: OUR APPROACH

The Independent Regulatory Board for Auditors (IRBA) requested information that is related to Audit Quality Indicators (AQIs) for audits of *Public Interest Entities (PIEs*[9]*)* only, specifically, from *firms that are accredited with the Johannesburg Stock Exchange (JSE) Limited.* This category of firms was chosen because it has the generally larger and medium-sized firms that have more sophisticated systems in place, from which to extract the relevant information; and these firms usually audit the higher-risk clients and clients with a high public interest. Such firms are the only ones that are accredited with the JSE Limited to perform audits of listed companies.

Number of audit firms accredited with the JSE Limited, from which information was requested and received: 19[10] (2020: 17)

Of these, the number of firms that were analysed in this report: 13[11] (2020: 12)

Approximate total number of PIEs (including groups or corporate structures) where audits were completed: 500 (2020: 512)

Average number of PIEs (and related entities) audited by the four biggest firms: About 74 (2020: 83)

Average number of PIEs (and related entities) audited by the other firms: About 19 (2020: 23)

Further, the IRBA consulted extensively with various stakeholders while researching global developments on AQIs. The AQIs selected were developed based on those that were raised frequently by other regulators and certain parties we consulted; and they were also based on the local environment. These selected AQIs will provide valuable information to the IRBA and other stakeholders, to better identify some indicators of ethics/independence and audit quality, and to help make better informed assessments of risks. We also considered the practicality, for firms, of collecting and collating the information.

Data Quality and Systems Limitations

The IRBA understands that there are system maturity and data quality concerns in relation to the information submitted to us. In our consultations with several firms, a number of them had committed to improve the quality of the information requested.

The implication is that data quality could be regarded as not mature; and as the AQIs are interrogated and used by decision-makers, the data quality could be expected to improve over time.

It is also understood that some data was identified or summarised differently between firms. For example, internal cost accounting may differ between firms (i.e. charge-out rates differ, some firms use standard costing, others use fully absorbed costing, while some may have different charge-out rates for different divisions or offices). This is a practical reality of a data collection exercise, and this feedback has also featured in responses to requests for comments from other regulators around the world.

Comparatives

The AQIs published have been limited to those firms that performed audits on more than two PIEs. This parameter is consistent with the prior years.

Furthermore, data quality issues prevented the publication of some of the AQIs in the previous year. As such, the current year report only includes comparative information where these were part of the previously published reports.

[9]Refer to **Appendix 2** for the definition of Public Interest Entities.

[10]Firms accredited with the JSE Limited, including network firms.

[11]Six firms were removed from the analysis, as they had completed the audits of either only 0, 1 or 2 PIEs in the specified period.

APPENDIX 1: OUR APPROACH continued

Definitions and Parameters

The definitions and parameters used in the data submitted by the firms are listed in ***Appendix 3.*** The overarching parameters were:

- JSE-accredited audit firms only.
- Regarding client data, information for PIEs only (and related entities).
- Regarding registered auditor data, information for engagement (signing) partners only.
- Information for audit engagements only, unless otherwise stated (e.g. non-audit fees).
- Information for engagements completed (opinions signed off) during the calendar year only (1 January 2021 to 31 December 2021).

Key Observations and Learnings

Results

The purpose of this report is to provide the results of and observations on the data submitted. The data has undergone a desktop-based data cleansing exercise. The results and observations have been depicted in graphical formats, with some notes on statistics such as the highest or lowest measure.

A section has been dedicated to each of the AQIs identified as being of the most use in the context of audit firms and audit committees in South Africa. Each section provides a description and purpose of the AQI, an explanation on how to interpret the AQI, key observations (highest, lowest and average results), and a graph comparing the results across the firms. The appendices provide further context to the data collection and analysis exercises.

In addition, the IRBA Code considerations have been included and explained, with certain paragraph references where relevant.

Results are anonymous, as firms have not been identified.

Survey data quality

All sizes of firms reported that obtaining the data was, in many cases, difficult; and the information often had to be manually extracted from existing systems. Consequently, our analysis indicates where data quality challenges were encountered. Despite the limitations of the data described elsewhere in this report, we were encouraged that the data submitted by firms remained sufficiently usable to generate this fourth version of this report.

The lack of a quality check on the data submitted was evident in some of the submissions. In summary, the IRBA performed three rounds of data quality checks:

1. An analysis of firm-specific data.
2. A comparison of data across the various firms.
3. A comparison of data against the previous year's submissions.

After each round of quality checks, certain outliers and anomalies identified were queried directly with the respective firms. Responses from the firms at each stage resulted in confirmations of data accuracy, minor corrections being made or complete re-submissions.

As a result, our review of the data finally submitted indicates some improvement in accuracy and consistency across most of the firms, when compared to the previous year's submissions. However, there is room for further improvement.

Examples of data quality and consistency issues identified included the following:

- The AQIs published by the IRBA are calculated on a simple average basis, where possible. This is to prevent the dilution of outliers, should a weighted average approach be adopted. When querying the accuracy of AQI yearly movements, it was identified that some firms employed a weighted average approach to calculate these indicators, and that is considered inappropriate for the purposes of discussing audit quality at a firm (averaged) level.

APPENDIX 1: OUR APPROACH continued

- Data provided revealed errors in the prior year numbers submitted. However, it should be noted that the occurrences of such instances have dropped over the years, and it appears that the maturity of data collection systems at the firms has improved.
- Incomplete information: Sometimes this was explained; in other cases, the data was not provided and there was no explanation for that. Explanations are required and no cell should be left blank without any clarification.
- Inconsistent data formats: For example, use of "nil", "0", "-", "not required", "N/A" and blank cells. Such inconsistency may materially impact AQI calculations. For example, EQ reviews are not required for all engagements in a firm's client portfolio. The use of "nil" instead of "N/A" for such engagements may give the impression that the EQ hours indicator was inappropriately too low.
- Inconsistent data: Internal monitoring processes mentioned without review results.
- Inconsistent data: Most firms included an element of non-signing partners in the calculation of registered auditors, if such partners had worked on the audit engagements. These partners include technical partners and CEOs. A few firms only included signing partner tenures in their submissions.

APPENDIX 2: DEFINITION OF PUBLIC INTEREST ENTITIES

The IRBA Code is based on Parts 1, 3, 4A and 4B of the Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board of Accountants (the IESBA Code) published by the International Federation of Accountants (IFAC) in April 2018 and used with the permission of IFAC. South African amendments to the IESBA Code are underlined and in italics in the Code.

"Public Interest Entity" is defined in the IRBA Code as:

(a) A listed entity; or

(b) An entity:

- (i) Defined by regulation or legislation as a public interest entity; or
- (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

(c) *Other entities as set out in paragraphs R400.8a SA and R400.8b SA.*

R400.8a SA: *Firms shall determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:*

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks, insurance companies and pension funds.
- *Number of equity or debt holders.*
- Size.
- Number of employees.

R400.8b SA: *A registered auditor shall regard the following entities as generally satisfying the conditions in paragraph R400.8a SA as having a large number and wide range of stakeholders, and thus are likely to be considered as Public Interest Entities:*

- *Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.*
- *Banks as defined in the Banks Act, 1990 (Act No. 94 of 1990), and Mutual Banks as defined in the Mutual Banks Act 1993, (Act No. 124 of 1993).*
- *Market infrastructures as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012).*[12]
- *Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998), and the Short-term Insurance Act, 1998 (Act No. 53. of 1998), excluding micro lenders.*
- *Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), that hold assets in excess of R15 billion.*
- *Funds as defined in the Pension Funds Act, 1956 (Act No. 24 of 1956), that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.*
- *Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act, 1956 (Act No. 24 of 1956)) with total assets under administration in excess of R20 billion.*
- *Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), with assets under management in excess of R50 billion.*
- *Medical Schemes as defined in the Medical Schemes Act, 1998 (Act No. 131 of 1998), that are open to the public (commonly referred to as "open medical schemes") or are restricted schemes with a large number of members.*
- *Authorised users of an exchange as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012), who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.*
- *Other issuers of debt and equity instruments to the public.*[13]

[12] *Market Infrastructure is defined in the Financial Markets Act No. 19 of 2012 as:*
(a) A licensed central securities depository;
(b) A licensed clearing house;
(c) A licensed exchange; and
(d) A licensed trade repository.

[13] *For the purposes of this section, "the public" shall mean the public in general or large sectors of the public, such as participants in Broad-Based Black Economic Empowerment schemes or participants in offers to large industry sectors that result in the debt or equity instruments being owned by a large number and wide range of stakeholders.*

APPENDIX 3: DEFINITIONS AND PARAMETERS REGARDING THE DATA SUBMITTED

The following definitions and parameters apply:

- **Audit** – financial statement audit only (those engagements that require the application of International Standards on Auditing (ISAs)). Non-audit, therefore, refers to non-ISA engagements.
- **Audit manager** – anyone designated as an audit manager (or equivalent) in the firm, network or firm in a network, who was part of the engagement team.
- **Audit professional staff** – audit managers, supervisors and trainees only, including staff in technical roles related to audit quality (International Financial Reporting Standards (IFRS), ISAs, Risk).
- **Billed and/or invoiced (rands)** – excludes disbursements, expenses and taxes.
- **Calendar year** – previous calendar year ending on 31 December.
- **Client** – an individual statutory entity or group for which an audit report has been issued.
- **Engagement** – audit engagements only.
- **Engagement partner** – as defined in the International Auditing and Assurance Standards Board (IAASB) Handbook. Engagement partners should be interpreted as signing partners, meaning this should also include, for example, associate directors who sign off audit reports. Information requested for engagement partners includes all such partners within the firm and is not limited to those partners who have engaged with public interest entities.
- **Engagement team** – as defined in the IAASB Handbook.
- **Engagement quality (EQ) review hours** – include all EQ review hours charged by the EQ review partner; NOT hours related to the cyclical inspection of files, in-process reviews or other forms of engagement monitoring. This also includes EQ review hours charged by an external EQ review partner (an external service provider).
- **EQ review partner** – the partner performing the engagement quality reviews; the individual, whether from the network firm, in the network or an external service provider, who is responsible for the review.
- **EQ review team** – the team performing the engagement quality reviews (including the individual, whether from the network firm, in the network or an external service provider) that is responsible for assisting the EQ review partner in performing the review.
- **Firm tenure** – calculated as per the guidance in the IRBA communique dated 4 December 2015 and Section 90 of the Companies Act.
- **Hours charged** – this includes hours recorded on the firm's time-keeping system, and these may be more or less than the hours billed.
- **Industry** – a particular form or branch of economic or commercial activity. A predefined list of industries has been provided. Where a group operates within multiple industries, a single industry should be selected, based on the size and significance of the operations within that industry and in relation to the group's activities as a whole.
- **In-flight reviews** – reviews completed during the performance of an audit engagement. These types of reviews are not to be confused with the engagement quality control reviews. They are similar in nature to the post-issuance monitoring reviews, but are performed during the audit engagement, before the audit opinion is signed.
- **Internally charged (fees)** – refers to the fees based on the actual time spent by the firm on the specific engagement; the amount that best represents the actual cost of an audit. The amount may differ from the amount invoiced/billed to the client. For example, some firms may charge time to a "work-in-progress" billing schedule, which would provide a view of the actual time and cost spent.
- **Job description of the registered auditor** – high level title, e.g. engagement partner, technical partner, risk advisory partner, etc.
- **Monthly average of the audit professional staff for the calendar year** – an average should be calculated for the calendar year, taking into consideration the month-end staff during the year.

APPENDIX 3: DEFINITIONS AND PARAMETERS REGARDING THE DATA SUBMITTED continued

- **Nature of the engagement** – this should always be for the year-end audit of the financial statements, but it may include an explanation that it is a joint audit or a subcontracted part of the audit. Also, indicate who the other party is in the engagement.
- **Non-audit fees** – relate to fees of engagements other than those that relate to ISA engagements.
- **Partner** – the common term meaning, in the auditing profession, and this includes the individuals who, legally, are directors of firms that are incorporated companies. It is also applicable to partners in leadership and in technical roles in audit practice, and partners included in the engagement team (as defined in the IAASB Handbook).
- **Partner hours** – include partner hours from the network and the firms in the network.
- **Public interest entities** – definition as per the IRBA Code of Professional Conduct (Revised November 2018).
- **Reviews** – formal internal firm reviews, as defined in the firm's policies.
- **Staff turnover** – a percentage measure that should be based on the formal grade of the staff. Where staff fall between grades, e.g. assistant manager, these individuals should be grouped into the lower grade, for reporting purposes. This excludes promoted staff, as they are still considered to be part of the firm and resources that are available to perform audits. Training contracts that have been completed should be excluded as well.
- **Statutory non-audit fees** – relate to fees of engagements other than those that relate to ISA engagements, but are limited to those required by law and/or regulation.
- **Technical partner** – partners designated as firm IFRS specialists, partners dedicated to the firm's technical department and partners responsible for firm risk and independence matters that are part of the audit firm and the network firm (excluding external service providers). For partners with mixed roles, then determine full-time equivalents.
- **Time period** – unless otherwise stated, information should be provided for completed engagements during the previous calendar year. For example, for the April 2023 AQI submission, the time period refers to engagements completed during 2022. For information regarding non-audit engagements, the period used should match the one used for the completed audit engagement.
- **Total audit hours** – the hours charged by all engagement team members (as defined in the IAASB Handbook).
- **Training** – total hours of structured training. This includes formal training events provided by the firm and recorded for attendance and time. Training events exclude academic courses for trainees, such as the South African Institute of Chartered Accountants (SAICA) board courses. The type of structured training activities included should follow SAICA's Continuing Professional Development requirements, and primarily comprise the following focus areas that are perceived to have the most significant impact on audit quality: audit, accounting, ethics and others (report writing, leadership, etc.). Training includes both internal and external training, i.e. training provided by external service providers.

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