



Reference: AQI 2023 Responses
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Circular 32 of 2024: Analysis of industry responses to the AQI publication

The Council for Medical Schemes (CMS) issued [Circular 10 of 2023](#) which invited medical schemes, audit committees and auditors to comment on the proposed CMS Audit Quality Indicators.

The purpose of this circular is to summarise and provide an analysis of the feedback received from the industry regarding the use of audit quality indicators (AQIs) as a replacement of the current CMS auditor accreditation model.

Feedback was received from the following entities:

- IRBA
- Discovery Health Medical Scheme
- Libcare Medical Scheme
- PricewaterhouseCoopers Inc
- BDO Inc

1. SUMMARY OF RESULTS AND PROPOSED RESPONSES

The tables below summarise the responses by entity and CMS' response:

A) Independent Regulatory Board for Auditors (IRBA)

	Heading	Comment	Response
1	Audit Committee capabilities	1.1. IRBA suggested that the CMS recommend or prescribe guidelines as to who can sit on an audit committee (Professionals, Institute of Directors etc.), and that they attend training on assessing auditors.	Section 36 of the Medical Schemes Act 131 of 1998 (MSA) prescribes the constitution of the audit committee. The South African Institute of Chartered Accountants (SAICA) has issued a Guide to the Audit Committees of Medical Scheme. CMS has approached the SAICA Medical Schemes Project Group to update the Guide in order to facilitate the IRBA's comment.
		1.2. CMS to engage with relevant professional bodies to develop training programs that may include auditor responsibilities, how to analyse auditor proposals, IRBAs role, interpreting IRBA inspection reports etc.	SAICA has indicated their willingness to include this subject in their annual medical schemes workshop. CMS' Education and Training department will also incorporate this in their training plans in future.
2	AQI Selection	2.1 IRBAs AQI report only covered firms that are accredited by the JSE. The list of firms that audit medical scheme may not be accredited and may have limited in providing relevant AQI information.	We believe our AQIs are not overly complex and have simplified the definition of the indicators in such a way that is applicable to any firm. CMS will arrange further stakeholder engagement sessions to: <ul style="list-style-type: none"> • Agree upon a final set of indicators; • Further define the indicators (where necessary); and • Agree upon a phased approach (if necessary).
		2.2 IRBA notes some of our AQIs are not on their lists. They suggest that we take stakeholders into account and ensure what we require is practical.	We tried to simplify our AQIs and define them in a manner that is easy to understand and implement. The AQIs will also be implemented in phases for practicality purposes and to ensure they are not overwhelming to the stakeholders during the initial phase of implementation. CMS will commence with stakeholder consultations during the next phase of the project.
3	AQI interpretation	3.1 IRBA notes that AQI information is dependent on data quality and will naturally be poor initially and improve over time. Each firm will provide information based on their own interpretation.	Agreed. The process is new and will only improve over time. Our process will be reactive to the data and results we receive.
		3.2. IRBA recommends that we maintain our existing process and to run AQIs in parallel until such time the process is mature.	The use of parallel systems would be ideal, but the current system is ineffective due to IT system-related issues. As a result, a few AQIs will be selected for initial implementation, to ensure they are practical and easy to implement.
4	Joint report	IRBA recommends creation and publication of AQI reports over time, whilst maintaining confidentiality.	Agreed – however, this can only be done over a number of years.
5	Timing	Will AQI information be required annually, or only when an audit firm changes?	Annually.

B) Discovery Health Medical Scheme

	Heading	Comment	Response
1	Support	Overall supports this approach whereby audit committees are more empowered.	Noted.
2	Approach	Prefers a phased in approach, and proportional approach (some AQIs first, rest later). Practicality can therefore be established as we obtain the data and assess.	Agreed, the AQIs will be implemented in phases. Parallel implementation of current and AQI system would not be ideal due to ineffectiveness of the current system owing to IT system related issues.
3	Tenure / Mandatory Audit Firm Rotation (MAFR)	Consider MAFR rules to ensure balance between establishing experience and over familiarity.	Mandatory Audit Firm Rotation has subsequently been suspended. The CMS' intention is to measure overall medical scheme experience and have therefore included indicators to address the balance on experience and over familiarity. (i.e. firm experience, partner experience and need for partner rotation).
4	Application	Suggests that the CMS uses AQIs in registering audit firms as a first layer of checking, and that audit committees then apply themselves as second layer.	The intention with the establishment of the AQIs considerations is to empower audit committees. CMS seeks to empower the committee by providing them with indicators that will assist them in evaluating auditors' suitability for the engagement. CMS will still be responsible for the approval of the appointment as envisaged by Section 36(2) of the MSA.

C) Libcare Medical Scheme

	Heading	Comment	Response
1	Overall agree	Overall agree with the approach and thought its very comprehensive. Only wished to highlight Auditor Restatements.	Auditors are going to have to be forthcoming on the number of times they retracted an audit opinion.

D) PricewaterhouseCoopers Inc.

	Heading	Comment	Response
1	Overall agree	Overall agree with approach.	Noted.
2	MSA Requirements S 36(2)	PWC is of the opinion that approving an auditor still rests with the CMS.	Section 36(2) of the MSA requires the Registrar to approve the appointment of auditors. The proposed AQI evaluation empower audit committees to ensure the appointment of the most appropriate auditor. CMS will then assess the audit committees' evaluation processes during the Section 36 approval process.
3	IRBA transparency report on AQIs	PWC requests that the CMS engage with IRBA to increase the scope of the participation in the AQI transparency report to include medical scheme auditors. Currently only applies to JSE accredited firms.	Noted. CMS will consult with the IRBA.
4	PWC Transparency Report	PWC mentioned that information relevant to AQIs around quality management, client acceptance, ethics, technology etc. are contained in the transparency reports.	Noted. It is also observed that not all audit firms publish transparency reports.
5	JSE requirements	JSE accredited auditors are required to create a report on audit quality to assist audit committees in assessing auditor suitability. This includes results of inspections for both firm and individuals, quality management, and legal or disciplinary matters.	CMS will consider examples of such reports from various firms.
6	JSE accreditation model	JSE issued a consultation paper in May 2022 seeking feedback on whether the JSE accreditation model should be removed. PWC suggests a similar approach.	CMS' decision to adopt AQIs was based on recommendations from IRBA.
7	Confidentiality	PWC is concerned that some of the information requested is confidential and not appropriate (e.g. Total firm revenues).	"Audit fee in relation to total firm fees (%)" – the indicator had been refined to clarify that firms only need to provide the percentage and not the detailed values that make up the percentage.

E) BDO Inc.

	Heading	Comment	Response
1	Mature client acceptance and continuation processes	<p>- How would this be measured?</p> <p>- What is considered a "mature client acceptance and continuation processes"?</p> <p>- Possible answer - more than one level of acceptance or tools utilised in the process?</p>	<p>"Mature client acceptance" would be judged based on the existence of policies and procedures that dictate client acceptance and continuance. Firms must also demonstrate the existence of policies and procedures at firm level which allows for the assessment of independence prior to acceptance of an audit client.</p> <p>CMS has identified the need for increased stakeholder engagement on the make-up of each AQI.</p>
2	Audit fee in relation to total firm fees (%)	<p>Audit fees billed (rands invoiced) to the audit client as a percentage of the total audit fees billed by the firm (rands invoiced) to all their audit clients for completed engagements.</p> <p>- Clarification of if the audit fee relates to the last years fee billed or the proposed fee for the following year?</p>	<p>The AQI refers to the prior year's fee billed and the prior year's actual total firm audit revenue.</p>
3	Internal quality review	<p>The firm has a robust process for conducting internal quality reviews and acts upon recommendations for improvement.</p> <p>'- Any guidance provided as to what a good % is and a robust process?</p>	<p>The firm must demonstrate the existence of policies and procedures at firm level which addresses internal quality reviews. A high-level confidential report can be requested.</p> <p>CMS has identified the need for increased stakeholder engagement on the make-up of each AQI.</p>
		<p>The number of engagements selected as a percentage of total number of engagements signed off.</p> <p>- Define indicators, such as "engagements" and "no. of partners"</p>	<p>"Engagements" refers to external audit engagements.</p> <p>"Partners" refers to external audit partners.</p>
4	Technical accounting department and use of other expert	<p>The firm has a dedicated technical department to assist with complex accounting issues. Are these experts familiar with medical scheme / insurance industry pertinent issues? If no internal dedicated department exists, has the firm any agreement with external technical experts?</p> <p>'- Define dedicated technical department</p>	<p>This is an internal department dedicated to providing assistance to the firm on technical issues including IFRS interpretation and application, and audit procedure guidance.</p>
5	IT audit capability	<p>The firm has the required Information Technology (IT) audit capability with regards to assessing IT General Controls, IT controls and performing Computer Assisted Audit Techniques.</p> <p>'- Define what is required IT audit capability, how do you measure capability.</p>	<p>We have amended the AQI to remove the term capacity, however the AQI seeks to confirm whether the firm has a Technology (IT) audit department available to support audit engagement teams with regards to assessing IT General and Application Controls and performing Computer Assisted Audit Techniques (CAATs).</p> <p>CAATS are considered necessary given the complexity of the medical schemes' environment.</p>

6	Regular training	The firm's staff attend regular training with regards to IFRS and audit methodology. '- Define regular training - should the training be specific to medical schemes? - Or does it relate to the number of hours of training attended on an annual basis?	The firm should have a policy and training plan with regards to IFRS and Auditing, which covers all levels of audit staff. These are trainings meant to develop audit engagement teams, promote audit quality and efficiency, and maintain professional knowledge.
7	Firm's leadership and ethics	The IRBA noted findings on the firm's leadership and ethics. Consider the audit firms response in their remedial action plans, where necessary. '- Insert the word "Where applicable that the" before the requirement.	The amendment was made.
8	Audit quality and engagement performance	The IRBA noted findings on the firm's audit quality and engagement performance. Consider the audit firms response in their remedial action plans, where necessary. '- Insert the word "Where applicable that the" before the requirement.	The amendment was made.
9	Monitoring and review processes	The IRBA noted findings on the firm's monitoring and review processes. Consider the audit firms response in their remedial action plans, where necessary. '- Insert the word "Where applicable that the" before the requirement.	The amendment was made.
10	Referral to Investigation Department	The IRBA has referred the firm to its Investigation Department. '- Insert the word "Where applicable that the" before the requirement. - What is the timeframe and does this relate to the last inspection? - Enquiry left very open without much clarification.	The amendment was made. "Timeframe" - no time limit was provided as CMS considers issues of transgression with professional codes of importance.
11	Knowledge of relevant legislation and industry guidelines	The engagement partner and engagement team are familiar with relevant legislation applicable to the medical scheme industry i.e., the MS Act, NCA, CPA, POPIA, TPCA, FAIS Act, FIC Act. '- Define the word "familiar", how do you measure this.	"Familiar" implies that the engagement partner and engagement team must understand the relevant legislation applicable to the medical scheme industry. CMS has identified the need for increased stakeholder engagement on the make-up of each AQI.
		The engagement partner and engagement team are familiar with the SAICA Medical Scheme Accounting Guide, and IRBA Medical Scheme Auditing Guide. '- Define the word "familiar", how do you measure this. - does this mean that the SAICA Medical Scheme Accounting Guide has been read?	"Familiar" implies that the engagement partner and engagement team not only be aware that there are Guides published to aid understanding and application of accounting and auditing standards in the medical schemes' environment, but at a minimum have read through these documents. Membership and participation on the applicable SAICA and IRBA committees would be an added bonus.
12	Adequate resource allocation	The firm has assigned adequate staff and engagement partner hours to the planning, execution, and completion phases of the audit. '- How would you measure "adequate" and against what would the measurement be ? % of fee, set % per level.	Consideration will be given to the engagement team resource plan, including details on team allocation (i.e. number of professional staff allocated), audit engagement experience (i.e. experience in years per engagement team member) and budgeted/planned allocation hours.

13	Engagement partner workload	<p>The engagement partner has adequate workload capacity and assigned sufficient hours to the engagement:</p> <ul style="list-style-type: none"> - Total partner hours assigned - Number of concurrent engagements within same timeframe <p>'- Does this only relate to medical schemes or a full director's audit engagement portfolio?</p>	<p>This AQI evaluates the audit partner's workload in relation to all allocated audit engagements (audit engagement portfolio) the partner is responsible for during the audit timeframe (thus not limited to the audits of medical schemes).</p>
		<p>Adequate engagement partner review time (% of total hours) has been assigned to the engagement at all stages of the audit:</p> <p>'- Don't believe this to be a valuable point, as is just an estimate of time.</p>	<p>This will be a calculation similar to the previous points addressed above. CMS has identified the need for increased stakeholder engagement on the make-up of each AQI.</p>
14	Management supervision workload (%)	<p>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.</p> <p>'- Please provide an indication of "ratio", what is a good ration? Does it relate to "Actual last year vs budgeted hours"?</p>	<p>The audit committee will consider the ratio and the reasons thereof (i.e. engagement risk, seniority of the engagement team etc.) on a case-by case- basis.</p> <p>The hours relate to planned manager hours as a % of total planned audit hours.</p>
15	Retraction of audit opinion	<p>Has the engagement partner ever had to retract an audit opinion?</p> <p>'- Provide timeframe for the question - does this cover a lifetime?</p>	<p>This AQI is over a lifetime. The audit committee will consider the reasons for such retraction. Based on these reasons, some might result in disqualification of auditor (i.e. serious breach of professional code).</p>
16	IRBA Reviews	<p>The IRBA has performed a recent review on the engagement partner, and the auditor has provided this to the audit committee for assessment.</p> <p>'- Define the word "recent"</p> <p>- Insert the word "Where applicable that the" before the requirement.</p>	<p>"Recent" is considered to be within the previous 5 years.</p> <p>Amendments were made to the document to provide clarity and to add the phrase "where applicable"</p>
17	Referral to Investigation Department	<p>Has the engagement partner been referred to IRBA's investigation department in the past?</p> <p>'- Define the word "past", how long into the past. Most recent review or ever at the firm or lifetime</p>	<p>The AQI refers to lifetime. The audit committee will consider the reasons for such referral and the outcome thereof.</p>
18	Results of individual IRBA reviews and inspections	<p>Has the engagement partner provided the results of their individual IRBA reviews and inspections and provided remedial action plans where necessary?</p> <p>'- Provide clarity with regards to the question - To whom would the results be provided and for what timeframe? Does this referral relate to all review outcomes or the most recent? On an annual basis?</p>	<p>The AQI document has been amended to provide clarity that the information is to be provided to the audit committee and to further clarify that "Recent" refers to a period of 5 years.</p>

2. THE WAY FORWARD

CMS will arrange further stakeholder engagement sessions to:

- Agree upon a final set of indicators;
- Further define the indicators (where necessary); and
- Agree upon a phased approach (if necessary).

SAICA has issued a Guide to the Audit Committees of Medical Schemes. CMS has approached the SAICA Medical Schemes Project Group to update this Guideline to facilitate the IRBA's comments on the committee's composition and guidance on how to evaluate the AQIs.

SAICA has indicated their willingness to include a training session on how to assess auditors based on AQIs in their annual medical schemes workshop. CMS' Education and Training department will also incorporate this in their training plans in future.

PwC has mentioned that JSE-accredited auditors are required to create a report on audit quality to assist audit committees in assessing auditor suitability. This includes results of inspections for both firm and individuals, quality management, and legal or disciplinary matters. Examples of such reports will be evaluated as part of our considerations.

Your cooperation in this regard will be highly appreciated.

Yours sincerely,



Mr Mfana Maswanganyi
Executive: Regulation
Council for Medical Schemes



MEMORANDUM

Subject **AUDIT QUALITY INDICATORS PROJECT**

1. PURPOSE

The purpose of this memorandum is to provide for amendments implemented after stakeholder consultations which invited medical schemes, audit committees and auditors to comment on the proposed CMS Audit Quality Indicators. The comments received from stakeholders were considered in this memorandum.

2. BACKGROUND

Section 36(2) requires the Registrar to approve the appointment of the auditor by a medical scheme on an annual basis: "The appointment of an auditor shall not take effect unless it has been approved by the Registrar, subject to such conditions as he or she may deem fit."

There has been recent developments in the auditing profession, both globally and locally, whereby the various auditing regulators seek to shift more responsibility around the selection and evaluation of auditors and audit quality to the audit committees of entities. The proposed mechanism to achieve this is through the use of Audit Quality Indicators, or AQI's as abbreviated.

Audit Quality Indicators (AQIs) refer to a portfolio of qualitative and quantitative measures provided by an audit firm to an audit committee of their client, or future client, for use in transparency reports and for regulatory purposes. These measures could be used to enhance dialogue about, and an understanding of, auditors and their audits as well as ways to evaluate their audit quality. That way, users can be better informed about key matters that may contribute to the quality of an audit (both at audit firm level and audit engagement level). This could be to the benefit of audit committees in discharging their oversight responsibilities regarding the external audit process, including the appointment or reappointment of the external auditor.

The Independent Regulatory Board for Auditors (IRBA) has published five reports on AQIs, covering the calendar years 2019 - 2023. The report compared the AQIs of selected audit firms (on an anonymous basis). This report provides feedback on a set of measures that audit firms reported on to IRBA, as well as provides audit committees with insights relevant to the appointment, performance, independence and appointment of the auditor.

IRBA has consulted extensively with various stakeholders while researching global developments on AQIs. As such, the AQIs selected were developed based on those that were raised most frequently by the stakeholders consulted. Firms use AQIs to help benchmark and manage audit quality internally, while audit committees and others use them when overseeing and assessing the quality of external auditors. The IRBA, on the other hand, relies on AQIs as a source of information for business intelligence gathering and risk-based selections, as part of

Audit Quality Indicators

its inspections process, and to monitor the overall trend of relevant measures impacting audit quality in the profession.

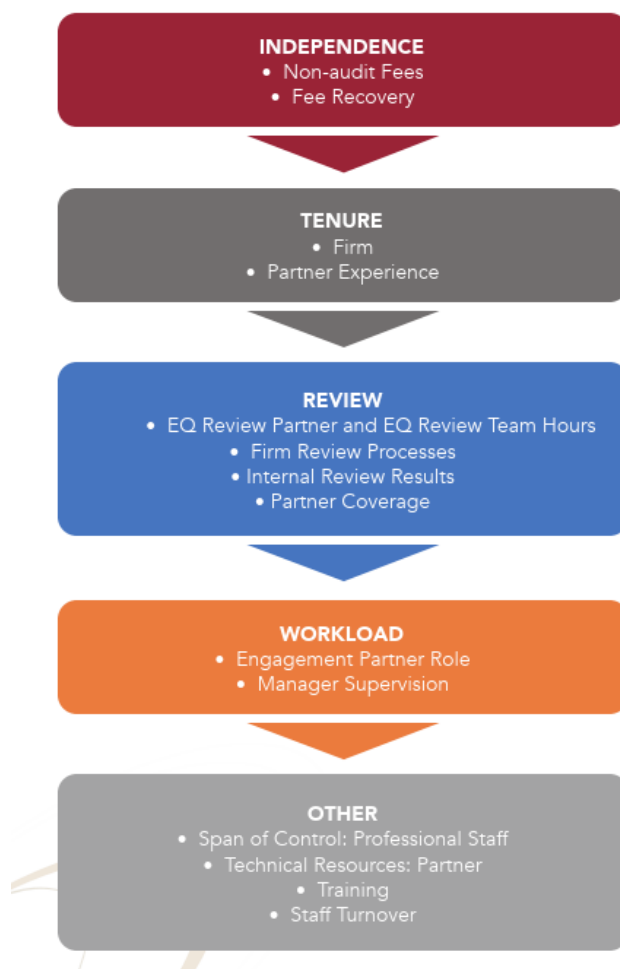
Most audit firms issue transparency reports on an annual basis which contains information relating to audit quality. The following auditors of medical schemes have issued transparency reports:

- BDO South Africa Incorporated
- Deloitte & Touche South Africa
- EY South Africa
- KPMG Incorporated
- PricewaterhouseCoopers Inc

In respect of the 2023 financial year audits, 59 (or 83.1%) of the 71 medical schemes' auditors issued transparency reports. These transparency reports can be used in the evaluation and assessment of medical schemes in terms of the AQI.

The following diagram illustrates the thematic areas covered by the IRBA report:

OVERVIEW OF AQI CATEGORIES



*Extract from IRBA AQI Report 2021

Audit Quality Indicators

CMS was engaged by IRBA during 2021 as part of a survey for our input on AQIs that would be relevant to the medical schemes' environment, and we agreed with those areas highlighted in the diagram above. CMS also identified the following additional AQIs that might be relevant in the medical schemes industry (it is in essence an elaboration of the above indicators tailored for medical schemes experience):

- Tenure firm (years) in specific industry (industry knowledge)
- Tenure: partner experience (years) in specific industry (industry knowledge)
- Tenure: EQ* review partner experience (years) in specific industry (industry knowledge)
- Tenure: experts used such as actuaries (years) in specific industry (industry knowledge)
- Tenure: firm (years) – specific entity (client knowledge and rotation)
- Tenure: partner experience (years) – specific entity (client knowledge and rotation)
- Tenure: audit manager experience (years) – specific entity (client knowledge)
- Workload: Engagement partner - nr of entities in specific industry with the same year-end (resource planning)
- Workload: Manager - nr of entities in specific industry with the same year-end (resource planning)
- Provision of an audit plan when the audit partner is responsible for several audits occurring simultaneously (resource planning)
- Technical Resources: availability of CAATS and experts such as actuaries
- Training (hours per person) – IFRS expert in specific industry matter
- IRBA inspection results (firm and engagement partner)
- RI reports issued in respect of specific entity (legislated requirement)
- Reason for termination of appointment (legislated requirement)

*EQ refers to Engagement Quality

The benefit of utilising AQI's are as follows:

- These indicators facilitate efficient and effective dialogue between management, audit committees 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 related to audit quality.
- They focus discussions on those areas, and factors, of the audit that impact audit 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.
- AQIs can help audit committees to ask the appropriate questions regarding potential weaknesses in the audit quality value chain, and requesting remedial adjustments to be made, e.g., to audit resourcing.

3. SOURCES

CMS considered AQIs developed by international regulators (and IRBA locally) as part of our research on AQIs. CMS' own experience specific to the medical scheme industry was also considered. CMS also considered the

Audit Quality Indicators

[IRBA Code of Professional Conduct for Registered Auditors \(Revised April 2023: Revisions to the Definitions of Listed Entity and Public Interest Entity\) \(IRBA CPC\)](#).

Kindly refer to the link below for a summary of AQI's from various international regulators:

[Accountancy Europe – Audit Quality Indicators – A Global Overview of Initiatives.](#)

Of particular interest, were the results of the following regulators (please click on the links for the detailed documents):

- Canada - Canadian Public Accountability Board ([CPAB](#))
- Germany – Institute of Public Auditors ([IDW](#))
- UK – Public Company Accounting Oversight Board ([PCAOB](#))
- South Africa – Independent Regulatory Board for Auditors ([IRBA](#))
- Comments received from stakeholder engagements ([Circular 10 of 2023](#)).

4. RESEARCH RESULTS

Extracts from the Accountancy Europe document is summarised below:

INSTITUTE OF PUBLIC AUDITORS (IDW), GERMANY

In its [position paper](#) (December 2021), the IDW explains what constitutes audit quality from the profession's point of view, and how it can be measured and evaluated. The position paper shows which criteria can be relevant when selecting AQIs to assess the audit quality. In addition, it presents various aspects to be considered when interpreting AQIs.

Finally, it proposes a set of AQIs under the components listed below. The indicators are classified as either firm-related or engagement-related for each component.

Component	AQIs
Quality culture	<ul style="list-style-type: none">▪ governance▪ leadership▪ professional scepticism & independence
Workforce quality	<ul style="list-style-type: none">▪ expertise▪ industry understanding & experience
Process quality	<ul style="list-style-type: none">▪ availability of human and technical resources▪ involvement▪ IT systems & audit tools▪ fit of the audit process▪ quality management process
Communications	<ul style="list-style-type: none">▪ communication with the supervisory body▪ communication with the management
Cross-divisional AQIs	

Audit Quality Indicators

CANADIAN PUBLIC ACCOUNTABILITY BOARD (CPAB), CANADA

In 2016, the CPAB launched an exploratory AQI pilot project to get feedback on AQIs' usefulness and support broader national and international discussions. The results of the initiative were summarised in [the final report](#) published in 2018. The report provides the following set of AQIs as an example:

Type	AQIs
Engagement team indicators	<ul style="list-style-type: none"> ▪ experience of engagement team* ▪ training and professional development ▪ turnover of the engagement team ▪ partner/manager involvement ▪ partner workload
Audit execution indicators	<ul style="list-style-type: none"> ▪ audit hours by areas of significant risk* ▪ timing of audit execution* ▪ audit progress milestones ▪ technology in the audit ▪ specialist engagement* ▪ service delivery centres
Management indicators	<ul style="list-style-type: none"> ▪ management deliverables* ▪ remediation of control deficiencies ▪ reliance on controls
Firm-level indicators	<ul style="list-style-type: none"> ▪ results of inspections ▪ independence ▪ reputation ▪ tone at the top
Client service indicators	<ul style="list-style-type: none"> ▪ communication with the audit committee ▪ sharing of insights

INDEPENDENT REGULATORY BOARD FOR AUDITORS (IRBA), SOUTH AFRICA

The IRBA published a [survey report](#) in 2021 on AQIs. Firms auditing listed companies were requested to submit AQI-related information and the report describes the results of the information submitted, under the five broad thematic categories:

Category	AQIs
Independence	<ul style="list-style-type: none"> ▪ non-audit fees (%) - as a percentage of the total audit fees billed to audit clients ▪ fee recovery (%) - audit fees billed as a percentage of the total audit fees internally charged
Tenure	<ul style="list-style-type: none"> ▪ firm (years) - average number of completed years as the audit firm for the audit client ▪ partner experience (years) - average tenure as an engagement partner
Internal firm quality review processes	<ul style="list-style-type: none"> ▪ engagement quality review partner hours and engagement quality review team hours (%) ▪ firm review processes ▪ internal review results (%) ▪ partner coverage (%)
Workload of partners and audit managers	<ul style="list-style-type: none"> ▪ engagement partner role (%) ▪ manager supervision (%)
Other	<ul style="list-style-type: none"> ▪ span of control: professional staff (ratio) ▪ technical resources: partner (ratio) ▪ training (hours per person) ▪ staff turnover (%)

Audit Quality Indicators

Below is an extract from the PCAOB document:



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The 28 potential indicators are:²⁰

AUDIT PROFESSIONALS	Availability	1. Staffing Leverage 2. Partner Workload 3. Manager and Staff Workload 4. Technical Accounting and Auditing Resources 5. Persons with Specialized Skill and Knowledge
	Competence	6. Experience of Audit Personnel 7. Industry Expertise of Audit Personnel 8. Turnover of Audit Personnel 9. Amount of Audit Work Centralized at Service Centers 10. Training Hours per Audit Professional
	Focus	11. Audit Hours and Risk Areas 12. Allocation of Audit Hours to Phases of the Audit
AUDIT PROCESS	Tone at the Top and Leadership	13. Results of Independent Survey of Firm Personnel
	Incentives	14. Quality Ratings and Compensation 15. Audit Fees, Effort, and Client Risk
	Independence	16. Compliance with Independence Requirements
	Infrastructure	17. Investment in Infrastructure Supporting Quality Auditing
	Monitoring and Remediation	18. Audit Firms' Internal Quality Review Results 19. PCAOB Inspection Results 20. Technical Competency Testing
AUDIT RESULTS	Financial Statements	21. Frequency and Impact of Financial Statement Restatements for Errors 22. Fraud and other Financial Reporting Misconduct 23. Inferring Audit Quality from Measures of Financial Reporting Quality
	Internal Control	24. Timely Reporting of Internal Control Weaknesses
	Going Concern	25. Timely Reporting of Going Concern Issues
	Communications between Auditors and Audit Committee	26. Results of Independent Surveys of Audit Committee Members
	Enforcement and Litigation	27. Trends in PCAOB and SEC Enforcement Proceedings 28. Trends in Private Litigation

Audit Quality Indicators

5. SELECTED AQI's

FSU are proposing the following list of 24 AQIs across key areas for consideration by the medical schemes industry:

A) Firm: Independence		Sources and Comment
The firm is independent with no conflicts of interest.		IRBA, PCAOB
i.	Mature client acceptance and continuation processes	General
ii.	Audit fee in relation to total firm fees (%)	IRBA
iii.	Non-audit fees (%)	IRBA
iv.	Audit tenure: firm (years)	IRBA
B) Firm: Audit quality and technical competence		Sources and Comment
i.	Prior experience in auditing medical schemes	PCAOB, IRBA, GERMANY
ii.	Internal quality reviews	IRBA, GERMANY, PCAOB
iii.	Technical accounting department and use of other experts	GERMANY, CANADA, PCAOB
iv.	IT audit capability	GERMANY, CANADA, PCAOB
v.	Regular training	GERMANY, CANADA, IRBA, PCAOB
C) Firm: External reviews by Regulators (IRBA and CMS)		Sources and Comment
The IRBA has performed a recent firm wide review, and the auditor has provided this to the audit committee for assessment		CANADA
i.	Firm's leadership and ethics	CMS
ii.	Audit quality and engagement performance	CMS
iii.	Monitoring and review processes	CMS
iv.	Referred to Investigation Department	CMS
v.	CMS findings	CMS
D) Engagement partner and audit team: Independence		Sources and Comment
The engagement partner and engagement team are independent of the Medical Scheme.		IRBA, PCAOB, CANADA
i.	Audit tenure: engagement partner (years)	IRBA
E) Engagement partner and audit team: Audit quality and technical competence		Sources and Comment
i.	Prior experience in auditing medical schemes.	PCAOB, CANADA GERMANY
ii.	Knowledge of relevant legislation and industry guidelines	PCAOB, CANADA GERMANY
iii.	Adequate resource allocation	GERMANY, CANADA, PCAOB
iv.	Engagement partner workload	IRBA, PCAOB, CANADA
v.	Management supervision workload (%)	IRBA, CANADA
vi.	Retraction of audit opinion	CMS
F) Engagement partner and audit team: External reviews by Regulators (IRBA and CMS)		Sources and Comment

Audit Quality Indicators

The IRBA has performed a recent review on the engagement partner, and the auditor has provided this to the audit committee for assessment		CANADA
i.	Referral to Investigation Department	CMS
ii.	IRBA findings	CMS
iii.	CMS findings	CMS

6. AQI OBSERVATIONS

A) Firm: Independence

The audit firm is independent from the Medical Scheme with no conflicts of interest.

i. Mature client acceptance and continuation processes

Description / purpose

Firm has a mature client acceptance and continuation processes which assess independence prior to engagement acceptance.

The audit firm needs to prove to an audit committee of their client, or future client, that policies and procedures exist at firm level which allows for the assessment of independence prior to the acceptance of an audit client.

Reference may be made to the IRBA CPC Part 4A sections; R400.20.A1 - A4, R400.21 and R400.25 - R400.26 which provide considerations into the independence for audit engagements.

How to interpret the AQI

This is a measure that may indicate threats to independence. It is an indicator that measures whether the audit firm has consistent and thorough processes and frameworks in place to identify, assess and respond to independence threats prior to accepting audit clients.

ii. Audit fee in relation to total firm fees (%)

Description / purpose

Audit fees billed (rands invoiced) to the audit client expressed as a percentage of the total audit fees billed by the firm (rands invoiced) to all their audit client for completed 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 fees.

The AQI reference the percentage rather than detail workings making up the percentage (which might be considered confidential).

A higher percentage indicates how a firm's revenue is reliant on the fee from the audit client. This may create the impression of diminished independence, and independence threats may jeopardise audit-related quality and decision-making.

Audit Quality Indicators

iii. Non-audit fees (%)

Description / purpose

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

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

Firms providing audit engagements to an audit client should not provide non-audit related services.

Audit tenure: firm (years)

Description / purpose

The audit tenure (i.e., number of years) the firm had been responsible for the audit engagement.

How to interpret the AQI

This is a measure that may indicate a familiarity risk. The longer the tenure, the greater the familiarity threat to independence. Alternatively, the shorter the tenure, the greater the risk of lack of experience and knowledge of the business of the medical scheme.

This AQI must be interpreted together with audit partner tenure.

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.

B) Firm: Audit quality and technical competence

i. Prior experience in auditing medical schemes

Description / purpose

The firm has prior experience in auditing medical schemes. Consider the number of years' experience by active engagement partners, and the number of medical schemes audited.

If no prior experience, has the firm considered proposing a joint audit arrangement with a firm that has medical scheme experience?

How to interpret the AQI

This is a measure that indicates industry-specific experience. Audit committees can assess whether the firm has extensive knowledge of the industry and adequate experience in the audit of medical schemes.

ii. Internal quality reviews

Description / purpose

The firm has policies and procedures that enable a robust process for conducting internal quality reviews. This AQI addresses reviews by personnel outside the engagement team.

Consideration should be given to the following:

Audit Quality Indicators

- The nature and frequency of the reviews
- The number of reviews concluded in the prior year
- How many partners were covered
- Implementation of recommendations.

Consider the number of satisfactory reviews as a percentage of total reviews.

How to interpret the AQI

This is a measure that may indicate that the firm takes a proactive approach to, and give priority to, audit quality. Compared to external regulatory inspections, internal quality reviews should be more frequent and of higher coverage. This can be assessed by the frequency that audit partners are selected for review and by monitoring the results of the reviews over time.

iii. Technical accounting department and use of other experts

Description / purpose

The firm has a dedicated technical department to assist with complex accounting issues. This is an internal department dedicated to providing assistance to the firm on technical issues including IFRS interpretation and application, and audit procedure guidance. Consideration should be given to whether these technical experts are familiar with medical scheme / insurance industry pertinent issues. If no internal dedicated department exists, does the firm have any agreement with external technical experts?

Does the firm have access to other experts such as actuaries?

How to interpret the AQI

This is a measure that may provide insight into the technical capabilities of the firm. The medical scheme industry is considered to be a complex environment, and as such expert advice might be required to evaluate management judgements and estimations.

iv. IT audit capability

Description / purpose

The firm has a dedicated Information Technology (IT) audit department available to support audit engagement teams with regards to assessing IT General and Application Controls and performing Computer Assisted Audit Techniques (CAATs).

How to interpret the AQI

Many core processes of medical schemes require the use of automation, data analytics, IT controls and the integration of various internal and external IT systems. This measure provides insight into not only the technical capabilities of the audit firm, but also how it relates to audit efficiency.

v. Regular training

Description / purpose

The firm's staff attend regular training with regards to IFRS and audit methodology. These are trainings meant to develop audit engagement teams, promote audit quality and efficiency, and maintain professional knowledge.

Consideration should be given to the existence of policies and training plans.

Audit Quality Indicators

How to interpret the AQI

This is a measure that may provide insight into the overall professionalism, technical competency and audit quality delivered by the firm.

C) Firm: External reviews by Regulators (IRBA and CMS)

The IRBA has performed a recent firm wide review, and the auditor has provided this to the audit committee for assessment.

If applicable: The AQIs below are not relevant to all audit firms but are rather highlighted as a possible area of concern due to the findings noted by IRBA and requires further engagement by the audit committees of medical schemes.

i. Firm's leadership and ethics

Description / purpose

The IRBA noted findings on the firm's leadership and ethics. The firm's response in their remedial plan should be considered.

How to interpret the AQI

This is a measure that provides insight into the overall level of professionalism and ethical standards applied by the firm.

ii. Audit quality and engagement performance

Description / purpose

The IRBA noted findings on the firm's audit quality and engagement performance. The firm's response in their remedial plan should be considered.

How to interpret the AQI

This is a measure that may provide insight into the firm's commitment to the overall audit quality delivered by engagement teams, as assessed through the eyes of an independent regulator.

iii. Monitoring and review processes

Description / purpose

The IRBA noted findings on the firm's monitoring and review processes. The firm's response in their remedial plan should be considered.

How to interpret the AQI

This is a measure that may provide insight into the ability of the audit firm in identifying and improving upon areas of weakness in audit quality.

iv. Referral to Investigation Department

Description / purpose

The IRBA has referred the firm to its Investigation Department. The firm's response should be considered.

How to interpret the AQI

This is a measure that may provide insight into the overall attitude of the firm's leadership and how it translates to audit quality.

v.CMS findings

Description / purpose

Was the audit firm rejected or sanctions imposed on it by the CMS in the past? The reasons for the rejection/sanction and the firm's remedial actions since rejection/imposition of the sanction needs to be considered.

How to interpret the AQI

This is a measure that may provide insight into the firm's technical capabilities and audit quality delivered as assessed by an independent regulator operating in the medical scheme industry's specialised environment.

D) Engagement partner and audit team: Independence

The engagement partner and engagement team are independent of the medical scheme.

i.Audit tenure: engagement partner (years)

Description / purpose

The audit tenure (i.e., number of years) the engagement partner had been responsible for the audit engagement.

In respect of an audit of a public interest entity (PIE), an individual shall not act in the capacity of engagement partner for the same audit engagement for a period of more than seven (7) cumulative years (*refer to IRBA CPC revised April 2023, section 540.5*).

For audit engagements other than public interest entities, the firm needs to provide safeguards that will be implemented to reduce the threat of familiarity to an acceptable level which may include (*refer to IRBA CPC revised April 2023, section 540.3 A5 and A6*):

- Rotation of the engagement partner,
- Having an appropriate reviewer who was not an audit team member review the work of the engagement partner, or
- Performing regular independent internal or external quality reviews of the engagement.

The IRBA CPC (Revised April 2023: Revisions to the Definitions of Listed Entity and Public Interest Entity) paragraph R400.23 (SA) (I) states that a "Public interest entity schemes refer to Medical Schemes, as defined in the Medical Schemes Act No. 131 of 1998, with a membership in excess of 89 000 beneficiaries as at financial year-end."

How to interpret the AQI

This is a measure that may indicate a familiarity risk. The longer the tenure, the greater the familiarity threat to independence. Alternatively, the shorter the tenure, the greater the risk of lack of experience and knowledge of the business of the medical scheme.

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.

E) Engagement partner and audit team: Audit quality and technical competence

i. Prior experience in auditing medical schemes

Description / purpose

The engagement partner has prior experience in auditing medical schemes. Consider the number of years' experience, and the number of medical schemes audited.

If no prior experience, the engagement partner allowed for oversight and guidance using an engagement quality review partner with medical scheme experience.

How to interpret the AQI

This is a measure that indicates industry-specific experience. Audit committees can assess whether the individual auditor has extensive knowledge of the industry and adequate experience in the audit of medical schemes.

ii. Knowledge of relevant legislation and industry guidelines

Description / purpose

The engagement partner and engagement team must understand the relevant legislation applicable to the medical scheme industry as required by International Standard on Auditing (ISA) 315 paragraphs 19(a)(ii) and A70. The list of applicable legislation includes: the Medical Schemes Act, National Credit Act, Consumer Protection Act, Protection of Personal Information Act, Trust Property Control Act, Financial Advisory and Intermediary Services Act, Financial Intelligence Centre Act.

The engagement partner and engagement team are familiar with the SAICA Medical Scheme Accounting Guide, and IRBA Medical Scheme Auditing Guide.

How to interpret the AQI

This is a measure that may provide insight into the professional competence and due care of the engagement partner and engagement team. The medical scheme industry is a highly complex environment and has specific accounting and auditing requirements that needs be adhered to.

iii. Adequate resource allocation

Description / purpose

The firm has assigned adequate staff and engagement partner hours to the planning, execution and completion phases of the audit.

Consideration should be given to the engagement team resource plan, including details on team allocation (i.e., number of professional staff allocated), audit engagement experience (i.e., experience in years per engagement team member) and budgeted/planned allocation hours.

How to interpret the AQI

This is a measure that may indicate that the audit team has assigned adequate resources to successfully deliver a quality audit within specified timeframes with adequate level of review at all stages. The hours assigned by the audit team should be aligned with expected volume, complexity and reporting timelines required.

iv. Engagement partner workload

Description / purpose

The engagement partner has adequate workload capacity and assigned sufficient hours to the engagement:

Audit Quality Indicators

- Total partner hours assigned to the engagement,
- Number of concurrent engagements within same reporting timeframe that are within the audit partner's responsibility.

How to interpret the AQI

Higher hours 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, higher hours may indicate an understaffed or inexperienced engagement team, or other execution issues.

Similarly, the greater the number of engagements the engagement partner is responsible that are running at concurrent reporting timelines, the greater the risk that the engagement partner might not have adequate time to spend on each engagement and the greater the risk to audit quality.

v. Management supervision workload (%)

Description / purpose

Total audit manager hours as a percentage of total audit hours.

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.

vi. Retraction of audit opinion

Description / purpose

Has the engagement partner ever had to retract an audit opinion?

How to interpret the AQI

This is a measure that may provide insight into the due care and professionalism applied by the engagement partner.

F) Engagement partner and audit team: External reviews by Regulators (IRBA and CMS)

The IRBA has performed a recent (within the previous 5 years) review on the engagement partner, and the auditor has provided this to the audit committee for assessment.

If applicable: The AQIs below are not relevant to all engagement partners but are rather highlighted as a possible area of concern due to the findings noted by IRBA and requires further engagement by the audit committees of medical schemes.

i. Referral to Investigation Department

Description / purpose

Has the engagement partner been referred to IRBA's investigation department?

How to interpret the AQI

This is a measure that may provide insight into the overall attitude of the engagement partner with regards to leadership, professionalism and ethics. It also provides insight into the overall audit quality delivered by the engagement partner, as assessed through the eyes of an independent regulator.

ii. IRBA Findings

Description / purpose

Has the engagement partner been found guilty of an offence by the IRBA?

How to interpret the AQI

This is a measure that may provide insight into the overall attitude of the engagement partner with regards to leadership, professionalism and ethics. It also provides insight into the overall audit quality delivered by the engagement partner. Audit committees should evaluate the nature and materiality of the offence.

iii. CMS findings

Description / purpose

Has the engagement partner's authorisation / approval been rejected by the CMS in the past?

How to interpret the AQI

This is a measure that may provide insight into the engagement partner's technical capabilities and audit quality delivered as assessed by an independent regulator operating in the medical scheme industry's specialised environment.

7. ADOPTION BY AUDIT COMMITTEES

It is important to note that regular communication on AQIs during the audit cycle is more effective than an annual engagement.

CMS will require audit committees to submit their AQI information through a separate report as part of their Section 36(2) submissions. This report must contain details on the specific AQIs considered, the conversations held in respect of these indicators, and the evaluation thereof.