



## MEMORANDUM

Reference: Audit Quality Indicators (AQIs)  
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## AUDIT QUALITY INDICATORS (AQIs) 2026

### 1. PURPOSE

This memorandum presents the final audit quality indicators (AQIs) that will be used during the approval of the appointment of auditors as per Sections 36(1) and (2) of the Medical Schemes Act (131 of 1998) (MSA).

The AQIs are designed to help audit committees in selecting and evaluating auditors, and to establish a standard for audit quality within the industry.

### 2. AUDIT QUALITY INDICATORS

#### A) Firm: Independence

Mature client acceptance and continuation processes

1. Does the firm have mature client acceptance and continuation processes which assess independence prior to engagement acceptance?
  - > Yes
  - > No
  - > Comment on information considered and the reason for the audit committee's assessment.

### *Description/purpose*

The audit firm needs to prove to an audit committee that policies and procedures exist at firm level that allow for the assessment of independence prior to the acceptance of an audit client.

Reference may be made to the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA CPC) Part 4A sections, with specific reference to paragraphs 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. The indicator seeks to confirm 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.

### *FAQ*

Audit committees may consider accepting a formal declaration signed off by the engagement partner that confirms that the audit firm satisfied the independence requirements as set out in the IRBA CPC.

Audit committees may also require auditors to share their firms' transparency reports.

Audit fee in relation to total firm fees (%)

2. What is the ratio of audit fees to total firm fees?
3. Is the audit fee to firm fee ratio low enough that it will not influence the auditor's objectivity/independence?
  - > Yes
  - > No
  - > Comment on reasons for the audit committee's assessment.

### *Description/purpose*

The audit committee needs to consider the proposed audit fee\* (VAT exclusive) expressed as a percentage of the previous year's revenue (as per the firm's statement of financial performance).

*\*The proposed audit fee is defined as the budgeted or expected audit cost for a single audit cycle. This includes the expected cost for budgeted billing hours, excluding VAT, subsistence and travel.*

### *How to interpret the AQI*

This is a measure that may indicate threats to independence. The indicator 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.

Non-audit fees (%)

4. Does the audit firm or network firm provide any non-audit services to the medical scheme?
- > Yes
    - What is the ratio of non-audit fees to audit fees?
    - Is the non-audit fees to audit fees ratio low enough that it may not influence the auditor's objectivity/independence?
      - > Yes
      - > No
      - > Comment on reasons for the audit committee's assessment
  - > No

### *Description/purpose*

The audit committee needs to consider the proposed non-audit fee\* expressed as a percentage of the proposed audit fee. These are services other than the engagement of the audit of medical schemes' Annual Financial Statements and Annual Statutory Returns.

*\*The proposed non-audit fee is defined as the budgeted or proposed cost for the provision of the non-audit service, excluding VAT.*

As per the *Revised Guide for Registered Auditors: Assurance Engagements on the Annual Financial Statements and Annual Statutory Returns of a Medical Scheme* (Guide) issued by the IRBA, the engagement on a medical scheme includes:

- ISA 700 (Revised) engagement – reporting on the financial statements,
- ISAE 3000 (Revised) engagement – reporting on compliance with Sections 36(5) and 36(8) of the Act,
- ISA 800 (Revised) engagement – reporting on Parts 4 to 6.1 and 6.3 to 10 of the annual statutory return; and ISRE 2410 engagement – reporting on Part 6.2 of the annual statutory return, and
- ISA 810 (Revised) engagement, if summary financial statements are required to be prepared by the Rules of a medical scheme.

### *How to interpret the AQI*

This is a measure that may indicate threats to independence. The indicator 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.

### *Additional considerations*

The CMS intends to prohibit the provision of non-audit services by the external assurance provider. Please [click here](#) to access the stakeholder engagement initiated in relation to the auditor independence and economic inclusion.

### *FAQ*

Audit committees may consider accepting a formal declaration signed off by the engagement partner that confirms that the audit firm satisfied the independence requirements as set out in the IRBA CPC.

Audit tenure: firm (years)

5. How many years has the firm audited the scheme?
  - > Comment on reasons for the audit committee's assessment of independence

*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.

*\*Familiarity risk is defined as 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.*

*This AQI must be interpreted together with engagement partner tenure.*

*Additional considerations*

The CMS intends to enforce mandatory audit firm rotation as per Section 36(2) of the Act. Please [click here](#) to access the stakeholder engagement initiated in relation to the auditor independence and economic inclusion.

B) Firm: Audit quality and technical competence

Prior experience in auditing medical schemes

6. Does the firm have prior experience in the auditing of medical schemes?
  - > Yes
    - Comment with the firm's number of years of experience in auditing medical schemes.
    - Comment on other factors that were considered (if less than 3 years).
  - > No
    - Is the firm planning on having a joint/shared audit with a firm with medical schemes audit experience?
      - > Yes
        - Comment on the details of the joint/shared audit firm and the number of years of experience in auditing medical schemes.
      - > No
        - Comment on the audit committee's assessment of the firm's ability to conduct the audit without medical schemes' experience.

### *How to interpret the AQI*

This is a measure that indicates industry-specific experience. Audit committees must assess whether the firm has extensive knowledge of the industry and adequate experience in the audit of medical schemes. The audit committee must consider the firm's experience in the context of the individual medical scheme's operations, for example:

- Type of scheme (open or restricted membership),
- Public Interest Entity (PIE) status,
- Scheme size, and
- Complexity such as benefit design, risk transfer arrangements, managed care arrangements, etc.

### *Additional considerations*

With reference to acceptance and continuance decisions, audit firms are required by the International Standard on Quality Management (ISQM) 1 to make judgments about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. This includes inter alia the availability of individuals with knowledge of the relevant industry (paragraph A72). In order to ensure the appropriate transfer of skills and knowledge, the Registrar urges bigger medical schemes to consider the appointment of joint or shared auditors. This request should, however, be considered in the context of the prudential management of scheme funds.

Please [click here](#) to access the stakeholder engagement initiated in relation to the auditor independence and economic inclusion.

### Internal quality reviews

7. Does the firm have policies and procedures that enable a process for conducting internal quality reviews?

> Yes

➤ What is the frequency of the reviews?

> 1-2 years

> 3-4 years

> 5 years and above

➤ What is the ratio of partners covered by the reviews to total partners?

➤ What is the ratio of satisfactory reviews as a percentage of total reviews?

➤ How does the firm monitor implementation of internal review recommendations?

➤ Comment on the audit committee's overall consideration of the firm's review process.

> No

### *Description/purpose*

The indicator refers to all engagements that were subject to a firm's internal review processes, and is not limited to medical scheme engagements.

Ratio of partners refers to the number of engagement partners reviewed as a percentage of the total number of engagement partners.

Ratio of satisfactory reviews refers to the number of engagements that achieved a satisfactory outcome to the total number of engagements subjected to internal reviews in a particular cycle.

### *How to interpret the AQI*

This is a measure that may indicate that the firm takes a proactive approach to, and gives 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 with which engagement partners are selected for review and by monitoring the results of the reviews over time.

Audit committees may require auditors to share their firms' transparency reports.

Technical accounting department/resource and use of other experts

8. Does the firm have a technical department/resource that can assist with complex/technical accounting developments and issues? This can be internal or through agreement with external technical experts.
- > Yes
    - Is this technical department/resource internal or external?
      - > Internal
      - > External
  - > No
  - > Comment on the audit committee's assessment of the technical resource/department

### *Description/purpose*

This is a department/resource dedicated to assisting the firm on technical issues, including IFRS interpretation and application, and audit methodology. Consideration should be given to whether these technical experts are familiar with the medical scheme/insurance industry pertinent issues.

### *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 highly complex environment, and as such, expert advice might be required to evaluate management judgments and estimations.

9. Does the firm have other experts, such as actuaries that will assist in the areas that may require expert opinion? This can be internal or through agreement with external experts.
- > Yes
    - Is this expert internally or externally sourced?
      - > Internal
      - > External
  - > No
  - > Comment on the audit committee's assessment of the experts

*Description/purpose*

This is a department/resource dedicated to assisting the firm on valuation and estimations, such as those envisaged by IFRS 17 *Insurance contracts*.

*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 highly complex environment, and as such, expert advice might be required to evaluate management judgments and estimations.

IT audit capability

10. Does the firm have an Information Technology (IT) audit department/resource that provides support in terms of assessing IT General and Application Controls and performing Automated Tools and Techniques (ATT)?
- > Yes
    - Is this Information Technology (IT) audit department/resource internal or external?
      - > Internal
      - > External
  - > No
  - > Comment on the audit committee's assessment of the Information Technology (IT) audit resource/department

*Description/purpose:*

Consideration should be given to how the firm plans on leveraging IT audit capacity to ensure audit efficiencies.

*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.

Firm: Reviews by IRBA

11. Was the firm subject to a review by IRBA in any of the previous years?

- > Yes
  - Were there any findings noted on the firm's leadership and ethics?
    - > Yes
      - Comment on the audit committees' consideration of the findings and remedial plan
    - > No
  - Were there any findings noted on the firm's audit quality and engagement performance?
    - > Yes
      - Comment on the audit committees' consideration of the findings and remedial plan
    - > No
  - Were there any findings noted on the firm's monitoring and review processes?
    - > Yes
      - Comment on the audit committees' consideration of the findings and remedial plan
    - > No
  - Was the firm referred to the IRBA investigations department?
    - > Yes
      - Comment on the audit committee's considerations of the reasons for the referral.
    - > No
- > No

### *Description/purpose*

Where the firm was subject to an external review, the audit committee must consider the following information provided by the audit firm:

- The latest inspection results (including related remedial action plan) of an inspection performed,
- New inspection result of an inspection performed between the date of appointment of the auditor and the date of signature of the audit report, and
- Remedial plan as required by paragraph 46 of International Standard on Quality Management 1 (ISQM 1).

### *FAQ*

The Auditing Professional Act paragraph 47(1)b requires an inspection or review of a registered auditor that audits a public company, as defined in Section 1 of the Companies Act 71 of 2008, at least once every three years.

The audit firm must communicate external review findings to the audit committees promptly and may exercise professional judgment in determining the appropriate level of detail to be shared during these communications. The audit committee must, however, assess whether the information provided is sufficient for decision-making purposes and may require the submission of additional information.

The audit committee may accept reports with the identity of affected entities redacted, provided that such redaction does not limit the understanding of their content.

12. Were there any other considerations adopted by the audit committee in the assessment of the firm?

- > Yes
  - Please provide details of other AQI considerations adopted by the audit committee in assessing the firm.
- > No

A) Engagement partner and audit team: Independence

Audit tenure: engagement partner (years)

1. How many years has the engagement partner been responsible for the audit engagement?
  - > Comment on the audit committee's assessment of the engagement partner's independence

*Description / purpose*

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 November 2024, section 540.5 to R540.21).

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 November 2024, section R540.3 A1 – A6 and R540.4):

- 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 November 2024: 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.

*\*Familiarity risk is defined as 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) Engagement partner and audit team: Audit quality and technical competence

Prior experience in auditing medical schemes

2. Does the engagement partner have prior experience in auditing medical schemes?
  - > Yes
    - Comment with the partner's number of years of experience in the audit of medical schemes
  - > No
    - Is there planned use of a concurrent review partner/engagement quality reviewer with medical scheme experience?
      - > Yes
        - Comment with the name of the concurrent review partner
        - Comment with the concurrent audit reviewer's number of years of experience in the audit of medical schemes.

- > No
  - Comment on the audit committee's assessment of the engagement partner's ability to lead the audit without the relevant medical schemes' experience/ support from a concurrent review partner.

### *Description/purpose*

The number of years of experience in the audit of medical schemes should be considered.

The metric includes the years in which the engagement partner served as an engagement quality reviewer (EQR) of medical scheme engagements (if he/she was not responsible for the audit of a medical scheme during that specific year).

In instances where the engagement partner does not have any prior experience, the audit committee must consider the additional measures taken by the audit firm to ensure the quality of the engagement. These measures could include the use of an engagement quality review partner with relevant industry experience. The audit committee must consider the number of years of medical schemes industry experience of the engagement quality review partner.

Audit committees should also consider the number of schemes the engagement partner was responsible for, with specific consideration of the size and complexity of those schemes relative to the proposed engagement, for example:

- Type of scheme (open or restricted membership),
- Public Interest Entity (PIE) status,
- Scheme size, and
- Complexity such as benefit design, risk transfer arrangements, managed care arrangements, etc.

### *How to interpret the AQI*

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

### *Additional considerations*

With reference to acceptance and continuance decisions, audit firms are required by the International Standard on Quality Management (ISQM) 1 to make judgments about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. This includes inter alia the availability of individuals with knowledge of the relevant industry (paragraph A72). In order to ensure the appropriate transfer of skills and knowledge, the Registrar urges bigger medical schemes to consider the appointment of joint or shared auditors. This request should, however, be considered in the context of the prudential management of scheme funds.

Please [click here](#) to access the stakeholder engagement initiated in relation to the auditor independence and economic inclusion.

## Internal quality reviews

3. Was the engagement partner subject to an internal quality review as per the firm's policy and procedures?
  - > Yes
    - What was the outcome of the inspection?
      - > Satisfactory
      - > Unsatisfactory
      - > Other
        - Comment by providing more details
      - > Comment on the audit committee's assessment of the inspection results
    - > No
      - Comment on the reasons why there was no review and the audit committee's consideration.

### *Description/purpose*

The indicator refers to all engagements and is not limited to medical scheme engagements.

The audit committee must consider the following, as submitted by the firm:

- The most recent engagement partner internal review results, and
- Any internal review results that come after the appointment of the auditor and before the issue of the audit report (applicable if the auditor is subject to review in the current cycle as per the firm's policy).

### *How to interpret the AQI*

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

## Knowledge of relevant legislation and industry guidelines

4. Have the engagement partner and engagement team received training on relevant medical scheme industry subject matter? This includes IFRS, audit methodology and applicable legislation?
  - > Yes
  - > No
  - > Comment on the information considered and the reason for the audit committee's assessment.

#### *Description/purpose*

The engagement partner and engagement team must receive regular training on medical scheme industry-relevant subject matter such as IFRS (with specific reference to IFRS 17 *Insurance contracts*), audit methodology and legislation (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, and Financial Intelligence Centre Act.

The engagement partner and engagement team must be 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 need to be adhered to.

### Adequate resource allocation

5. Is the engagement team adequately resourced in terms of the number of engagement team members and experience, and has it allocated adequate time for planning, execution and reporting phases of the audit?
  - > Yes
  - > No
  - > Comment on the information considered and the reason for the audit committee's assessment
  - > Provide the number of team members per band
    - Senior managers/managers
    - Assistant managers/audit seniors
    - Trainees

#### *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 levels of review at all stages. The hours assigned by the audit team should be aligned with expected volume, complexity and reporting timelines required.

## Engagement partner workload

6. What is the ratio of total partner hours assigned to the engagement as a percentage of total audit hours?
7. What is the number of concurrent engagements within the same reporting timeframe that are within the engagement partner's responsibility.
8. Comment on the audit committee's overall consideration of the partner's workload and engagement hours.

### *How to interpret the AQI*

More 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, more hours may indicate an understaffed or inexperienced engagement team, or other execution issues.

Similarly, the greater the number of engagements (which the engagement partner is responsible for) 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 the audit quality.

## Management supervision workload

9. What is the ratio of audit manager/senior audit manager hours as a percentage of total audit hours.
  - > Comment on the audit committee's assessment of the adequacy of the allocated hours

### *How to interpret the AQI*

Higher ratios indicate a greater involvement of the audit manager/senior audit manager; 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.

## Engagement partner and audit team: Reviews by IRBA

10. Was the engagement partner subject to a review by IRBA?
  - > Yes
    - Were there any findings noted by the review?
      - > Yes
        - Was the engagement partner referred to the IRBA investigations department?
          - > Yes
        - Comment on the audit committee's considerations of the reasons for the referral.
          - > No
      - Comment on the audit committees' consideration of the findings and remedial plan
    - > No

Where the engagement partner was subject to an external review, the audit committee must consider the following information provided:

- The latest inspection results (including related remedial action plan) of an inspection performed,
- New inspection result of an inspection performed between the date of appointment of the auditor and the date of signature of the audit report, and
- Remedial plan as required by paragraph 46 of International Standard on Quality Management 1 (ISQM 1).

### FAQ

The engagement partner must communicate external review findings to the audit committees promptly and may exercise professional judgment in determining the appropriate level of detail to be shared during these communications. The audit committee must however assess whether the information provided is sufficient for decision-making purposes and may require the submission of additional information.

11. Were there any other considerations adopted by the audit committee in the assessment of the engagement partner and audit team?

- > Yes
  - Please provide details of other AQL considerations adopted by the audit committee in assessing the engagement partner and audit team.
- > No