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## AUDIT COMMITTEE OBLIGATIONS IN TERMS OF PARAGRAPH 3.84(G) OF JSE LISTINGS REQUIREMENTS

### Background

#### Introduction

The purpose of this letter is to provide direction to the Audit Committee (the “**AC**”) in respect of information to be considered in fulfilling their obligations as prescribed by paragraph 3.84(g)(iii) of the JSE Listings Requirements (the “**Requirements**”) and paragraph 7.10(b) of the JSE Debt Listings Requirements (“**the AC obligation**”).

#### Applicable Requirements

The AC obligation places a responsibility on the AC to request from (and if necessary consult with) the audit firm on the information detailed in paragraph 22.15(h) of the Requirements. Paragraph 22.15(h) of the Requirements sets out the *minimum* information that the audit firm must provide to AC of the Issuer (“**the AC packs**”).

The aim of these Requirements are to ensure that the AC receives and gives careful and detailed consideration to all aspects that may influence the quality of the audit performed.

Executive Directors: Dr L Fourie (Group CEO), A Takoordeen (CFO)

Non-Executive Directors: N Nyembezi (Chairman), ZBM Bassa, MS Cleary, VN Fakude, Dr SP Kana, FN Khanyile, BJ Kruger, Dr MA Matookane

Group Company Secretary: GA Brookes

### Guidance to audit firms

In the first half of 2018, the JSE reviewed of sample AC packs, which culminated in the issue of a guidance letter dated 25 July 2018, for the use by both audit firms and issuers. The guidance dealt with both the format and completeness of the AC packs. It highlighted both the need for more robust discussion of internal monitoring procedures and additional information (not prescribed by the Requirements) which may be beneficial to the AC in their assessment of the audit firm.

### Existing guidance available to AC members

In June 2020, the Audit Committee Forum, in collaboration with the JSE, issued guidance to AC members (“**the June AC letter**”) which addressed the following key matters:

- An analysis of the relevant Requirements, the objectives thereof and the nature and content of the information to be considered;
- Some of the experiences of Audit Committee members in respect of their interactions with audit firms highlighting both good and bad examples of compliance with the Requirements; and
- Guidance to members in respect of the accuracy and completeness information to be requested and considered.

The IRBA have also created a repository on their website of various publications from both local and international bodies (including audit firms), which provide a significant amount of guidance and direction to AC members in respect of their responsibilities. This repository can be located on the IRBA website at <https://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/transparency-reporting-and-audit-quality-indicators-aqis>.

### **The JSE guidance to AC members**

As the Requirements prescribe the minimum information for the AC pack, the focus of this letter is to direct the AC’s attention to resources which could be beneficial in interpreting the AC pack. Point 3 also deals with additional information that the AC could consider requesting in fulfilling the AC obligations.

### 1) IRBA inspections strategy and process

As the IRBA inspection report forms the core of AC pack, it is important for the AC to understand the IRBA's approach to inspections. The IRBA performs inspections in terms of Section 47 of the Auditing Profession Act (APA), 2005 (Act 26 of 2005), as amended, with the objective of protecting the financial interests of the South African public and international investors in South Africa.

The IRBA has communicated its inspections strategy and process in its seventh cycle inspections strategy and process document ("**the strategy document**"). The strategy document is available at: <https://www.irba.co.za/upload/IRBA%20Inspections%20Process%20Cycle%207%202018.pdf>.

In the strategy document The IRBA explains that the *purpose* of reportable findings

“... is to formally alert the firm/engagement partner of any identified deficiency of a significant or systemic nature that require prompt remediation or corrective action to be implemented ... in order to promote consistent, sustainable high audit quality on all audits within the firm.”

It is important for AC members to familiarise themselves with the strategy document as it provides both valuable context to the review process and an understanding of the inspection reports that will be included in the AC pack. Upon receipt of the AC pack, AC members should:

- carefully scrutinise the reportable findings; and
- engage in meaningful dialogue with the audit firm.

That engagement should look to understand the (i) cause, (ii) relevance of findings on a different audit client to the issuer in question and (iii) remedial action implemented.

The IRBA applies the following definitions to reportable findings:

- *At a firm level* these include any significant or systemic deficiency related to the firm's conduct or system of quality control that may have an impact on audit quality by creating a risk of inappropriate auditor's reports being issued by the firm, including failure to implement remedial/corrective action on all assurance engagements performed by the firm, resulting in recurring deficiencies reported by inspections;
- *At an engagement level*, these include any significant deficiency whereby the firm has failed to perform sufficient and appropriate audit procedures and/or has failed to obtain or document

sufficient and appropriate audit evidence to support its auditor's report. This includes a failure to identify or address a material or potential material financial reporting/accounting related deficiency; or any non-compliance with applicable standards, codes of conduct and legislation, including a departure from the firm's adopted policies, procedures or methodology.

The IRBA Inspections team provides feedback on the inspection outcomes each year in a public inspections report ("**the annual report**"). The annual report provides valuable insights into the background and focus of the regulator, the inspection outcomes for the year, key inspection themes, the remedial action process and the outlook in respect of inspections. The IRBA explains in the 2019 annual report, that an executive summary report is compiled and issued to leadership of the firm. This summary provides an easy-to-read overview of the themes and gives the AC a high-level overview of the deficiency themes reported to the specific firm. The IRBA 2019 public inspections report is available at:

<https://www.irba.co.za/upload/IRBA%20Inspections%20Process%20Cycle%207%202018.pdf>.

## 2) Regulatory and other bodies outside South Africa

Regulators such as the UK Financial Reporting Council and the USA Public Accounting Oversight Board provide feedback on their oversight and inspection activities. The International Forum of Independent Audit Regulators also publishes an annual survey of inspection findings, which provides key insights into firm-wide and engagement level inspection findings and other significant data on inspection results.

AC members are encouraged to visit the websites of the bodies mentioned above to obtain an understanding of the inspection findings and remedial action plans of firms incorporated in these jurisdictions. This provides insight into how inspection findings in these jurisdictions compare to the local environment. Furthermore, the AC may identify trends in a particular firm operating both locally and internationally. For ease of reference, we list the websites of the bodies mentioned above:

<https://www.frc.org.uk/>

<https://pcaobus.org/>

<https://www.ifiar.org/>

### 3) Audit Quality Indicators (“AQIs”)

On 3 December 2019, the IRBA issued their AQIs feedback report on 3 December 2019 (“**the AQI report**”). The IRBA states that it believes that the AQI and agreed formulae for determining the AQI’s will assist the AC in comparing audit quality scores of their auditors against others in the market. The AQI report is particularly relevant to AC members in the listed environment as only JSE accredited audit firms submitted AQI-related information for all of their public interest entity clients. The AQI report is available at:  
<https://www.irba.co.za/upload/IRBA%20AQI%20Feedback%20report%20-%202019.pdf>.

The AQI report provides feedback on a set of measures that audit firms reported to the IRBA, as well as insights relevant to the AC for the appointment, performance, independence and reappointment of the auditor. The AQIs covered the following thematic areas:

- independence;
- tenure;
- internal firm quality review processes;
- workload of partners and audit managers;
- span of control;
- technical resources; and
- training.

AC members are encouraged to solicit the AQI information (under the abovementioned categories) directly from their current and prospective audit firm and audit partner to assist in their understanding and assessment of the audit firm/s. Furthermore, the provisions of AQIs may assist the AC and audit firms to have open conversations about audit quality and the measures that could be put in place to satisfy the AC that the firm they engage can meet their expectations.

AC members can request additional AQI information from audit firms as they see relevant to their assessment of the firm. An example of such additional AQI is the percentage fees earned from the audit engagement versus total fees earned by the firm on all other services provided to the engagement client. This may provide insight into the independence of the firm.

Whilst the AQI report was the first of its kind for South Africa, transparency reporting by audit firms, including AQI reporting is a common feature in various other markets. One such publication, which provides useful guidance on the principles for developing appropriate AQIs and provides an example of firm-level AQI's and other qualitative information is the Audit Quality Disclosure Framework issued on 8 January 2019 by the Center for Audit Quality which is available at:

([https://www.thecaq.org/wp-content/uploads/2019/03/caq\\_audit\\_quality\\_disclosure\\_framework\\_2019-01.pdf](https://www.thecaq.org/wp-content/uploads/2019/03/caq_audit_quality_disclosure_framework_2019-01.pdf)).

Furthermore, we refer to the IRBA repository discussed earlier in this letter for a source of information on AQI initiatives and proposals in other jurisdictions.

Conclusion:

As highlighted above, there is a wealth of information available to AC members to assist them in appropriately understanding and fulfilling the AC responsibilities. If an AC notes that the AC pack does not comply with the Requirements, they:

- Should discuss their concerns with the appropriate level of leadership of the audit firm, preferably the CEO, with the intention of reaching an appropriate resolution timeously;
- May engage with the JSE, Issuer Regulation Division to inform the JSE of potential non-compliance; and
- May report firms that submit false or misleading information to the IRBA- this behaviour may constitute ethical misconduct.

They may also bring matters to the attention of the Audit Committee Forum for them to consider the need for appropriate guidance. The JSE Issuer Regulation Division may be contacted at [Auditorsadmin@jse.co.za](mailto:Auditorsadmin@jse.co.za) or 011 520 7667/7067.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A F Visser', written over a large, stylized circular flourish.

**A F VISSER: DIRECTOR  
ISSUER REGULATION**