

31 July 2025

Council for Medical Schemes
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Dear Sir/Madam

SAICA SUBMISSION ON CIRCULAR 22 OF 2025 – AUDIT QUALITY INDICATORS

In response to your request for comments on Circular 22 of 2025: Audit Quality Indicators, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Medical Schemes Project Group (MSPG), which comprises members from medical schemes, medical schemes' administrators and auditors of medical schemes.

We thank you for the opportunity to provide comments on this Circular.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Shaun Osner
Chairperson: MSPG

Kedibone Sono
Head: Financial Reporting

Our members broadly support the introduction of the Audit Quality Indicators (AQIs) as a logical and structured framework that effectively advances the Council for Medical Schemes' (CMS) objective of enhancing audit quality and oversight within the medical schemes industry.

The indicators are seen as well-aligned with international best practices and provide a valuable basis for informed decision-making by audit committees. However, members raised practical concerns regarding the operationalisation of the AQIs, particularly in terms of the consistency of interpretation, the administrative burden of implementation, and the availability of supporting evidence.

Further clarity was also sought on how the CMS intends to utilise the information collected—specifically, whether it will inform regulatory decisions such as restrictions on concurrent audit partners or first-time signatories, or whether such determinations will remain at the discretion of audit committees. Additionally, members recommended that the AQIs be benchmarked against those developed by the Independent Regulatory Board for Auditors (IRBA) for public interest entities, to ensure alignment, comparability and ease of application for firms operating across multiple regulated sectors.

Our detailed comments and recommendations are set out under the headings below:

Independence

Client acceptance and continuation processes

The requirement for audit firms to maintain a robust client acceptance and continuation process that includes an assessment of independence prior to engagement acceptance is acknowledged. Audit firms are expected to demonstrate to the audit committee that appropriate firm-level policies and procedures are in place to assess independence before accepting an audit engagement.

Members noted that this requirement is closely aligned with the principles of the International Standard on Quality Management (ISQM), which governs the system of quality management within audit firms. Accordingly, compliance with this requirement would typically be evaluated as part of the firm's annual ISQM monitoring process.

We recommend that further guidance be issued on the nature and extent of evidence that audit firms are expected to present to audit committees in support of their independence assessments. This is particularly important given that such policies and procedures are often confidential and not routinely shared with clients.

To support consistent and practical implementation, we suggest guidance of acceptable evidence be provided—such as signed independence declarations, summaries of internal independence checks, or references and reliance to the IRBA and CMS registration status. This would help clarify what level of documentation is considered sufficient by the CMS and provide a practical framework for audit committees to discharge their oversight responsibilities effectively. Additionally, it will ensure consistency across the industry in how this requirement is interpreted and applied.

Non-audit fees

The requirement for audit committees to assess the ratio of non-audit fees to audit fees is acknowledged. However, members indicated that, by its nature, an audit engagement would typically exclude non-audit services.

As such, the current phrasing of the question may lead to ambiguity or misinterpretation. To enhance clarity and ensure alignment with the actual structure of audit engagements, we recommend rephrasing the question as follows:

Current wording:

4. *Does the audit engagement include the provision of non-audit services?*

Proposed revision:

4. Does the audit firm provide any non-audit services to the medical scheme?

This adjustment would more accurately reflect the intent of the indicator

Experience in auditing medical schemes

The requirement for the audit committee to assess whether the audit firm has prior experience in auditing medical schemes is noted.

We recommend that audit committees should be guided in assessing the nature, scope, and complexity of the firm's prior engagements. Specifically, ensuring that the assessment considers:

- Type of scheme audited: Distinguishing between open and closed schemes, as these may present different operational and regulatory complexities.
- Public Interest Entity (PIE) status: Recognizing that PIEs are subject to heightened regulatory scrutiny and governance expectations.
- Complexity of prior engagements: Including factors such as scheme size, benefit design, risk pooling arrangements and the presence of managed care structures.

By incorporating these dimensions, audit committees will be better positioned to evaluate whether the firm's experience is sufficiently aligned with the specific characteristics and risks of the scheme under consideration. This approach will also promote greater consistency and comparability in how audit quality is assessed across the medical schemes industry.

The abovementioned considerations can be applied to engagement partner, ensuring that not only the number of years auditing medical schemes is considered but also the qualitative measures of the complexity of any such schemes.

External reviews by Regulators (IRBA and CMS)

The audit committee is required to consider whether the firm has been subject to an external review by the IRBA and whether it has been rejected or sanctioned by the CMS in the past.

Members have raised questions regarding the appropriate historical scope of such assessments. There is a need for clear guidance on how far back the audit committee should look when evaluating the firm and engagement partner regulatory history, including IRBA reviews and CMS actions.

Additionally, members have sought clarity on the accessibility of this information—particularly whether such records are publicly available through platforms like the CMS website. Ensuring that this information is easily accessible will enable audit committees to make informed, timely decisions and respond appropriately to any regulatory concerns.

Ethics and Governance AQIs

The Audit Quality Indicators (AQIs) proposed by the CMS already embed key ethics and governance considerations throughout their structure and intent. As such, we do not propose additional standalone indicators in this area. Ethical principles—particularly independence, professional competence, and due care—are implicitly addressed through indicators such as client acceptance and continuation processes, audit fee concentration, non-audit service ratios, and audit tenure. Governance is further reinforced through the evaluation of prior experience in auditing medical schemes, knowledge of applicable legislation and industry guidelines, and the use of technical and IT experts. Additionally, firm-level and partner-level internal reviews reflect a commitment to ethical behaviour, accountability, and continuous improvement. These embedded elements collectively ensure that ethics and governance are not treated as peripheral, but rather as integral to the assessment of audit quality.