



Public Accountants' and Auditors' Board

Quality Assurance Methodology

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1. Introduction

The Public Accountants and Auditors Board (“PAAB”) of Namibia is the regulatory body for accountants and auditors in Namibia. In terms of Section 21 (h) of the Public Accountants’ and Auditors’ Act 51 of 1951 (as amended), the Board has the power to *take any steps which it may consider expedient for the maintenance of the integrity, the enhancement of the status and the improvement of the standards of professional qualifications of accountants and auditors and to encourage research in connection with problems relating to any matter affecting the accounting profession.*

This document sets out all the necessary details in this regard.

2. Review objectives and scope

The objective of engagement reviews is to monitor practitioners’ compliance with the relevant professional standards in the performance of the attest function. The objective of a firm reviews is to interrogate the design, implementation, and operation of an audit firm’s system of quality management in terms of the International Standards on Quality Management (“ISQM”) 1 and 2 and International Standard on Auditing 220 (Revised): Quality Management for an Audit of Financial Statements.

Engagements subject to Quality Assurance Review (“QAR”) are audits of annual financial statements. For firm QAR’s the quality management system components are the firm’s risk assessment process, governance and leadership, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, engagement performance, engagement quality reviews, resources, information and communication and the monitoring and remediation process.

3. Annual documentation to be submitted to PAAB

All engagement partners are required to submit annual declarations of assurance services and any additional information required by PAAB, as follows:

- Split between Public Interest Entities (“PIE”) and non-PIE.
- Identification of monitoring reviews and Engagement Quality Reviews (“EQRs”) performed.
- Annual declaration of assurance fees billed.
- Firms with Independent Internal Reviews (“IIRs”) will be required to submit those annual declarations and confirmations as specified. These firms may be subject to a re-performance of the IIR on a sample basis by independent QARs based on the evaluation of the results of the IIR and declarations/confirmations.
- Annual declarations that they comply with the ISQM 1 and 2 and ISA 220 (Revised), as per the prescribed form.

- Annual declarations that the firms, engagement partners and engagement teams have adhered to professional standards and regulatory and legal requirements in performing audits of financial statements.
- Confirmations that the practitioners have complied with the PAAB CPD requirements and provide evidence for each practitioner indicating the CPD requirements achieved within the immediately preceding three-year rolling cycle.

4. Notice period before review

The firms will receive a 12-week notice prior to the performance of the review. The firm will be officially notified through email from PAAB of their review dates. Engagement letters will be issued to the firms before the scheduled review dates. As far as possible, the engagement partner reviewed should be available for the review period.

The engagement partner shall be available on the first day of the review to discuss the review process and then during the close-out meeting for discussion of the findings.

5. Review cycle

The review cycle is three years, and firms, and engagement partners will be subjected to a review at least once in any three-year rolling cycle.

6. Types of reviews

The reviews will consist of firm and audit engagement file reviews.

7. Review categories

The review methodology will apply to all firms and practitioners equally, as they can potentially perform audits of PIEs and non-PIEs.

8. Review methodology

The review process is based on and adapted from the Independent Regulatory Board for Auditors (“IRBA”) review process.

The Quality Assurance Review Reviewer (“QARR”) may select any file for which the engagement partner was responsible for.

The QARR may select any high-risk audit engagement file that was performed and signed by the engagement partner in a specific period before the review. The selection may be limited to the ISA 700 (Revised) series and ISA 800 (Revised) reports issued by the engagement partner.

High risk entities are defined as:

- Listed entities, and subsidiaries of listed entities.
- State owned entities.
- Banks.
- Insurance companies.
- Collective investment schemes.
- Pensions funds, retirement funds and provident funds.
- Medical aid schemes.
- Audits of co-operatives.
- Audits of tertiary education institutions.

The methodology reviews the documentation and considerations on file evaluates whether sufficient/appropriate evidence was documented to support the audit opinion. This includes evidence of compliance with the relevant ISAs and the applicable financial reporting frameworks disclosure which will form part of the review process.

The QARR will document all relevant information on the working papers and compile a draft report for discussion with the engagement partner. A final discussion should be held with the firm leadership or managing partner for firm reviews and engagement partner for engagement file reviews before the end of the site visits.

9. Re-review

9.1 File review

The QARR will base the review on documentation of compliance with Accounting and Auditing standards, IFAC codes and applicable regulations and legislation.

Any one of the following may result in a re-review based on the applicable risk assessment level:

Inadequate documentation and/or insufficient/inappropriate audit evidence to support the following:

- Verification of opening balances on initial engagements.
- Understanding of the accounting and internal control systems for all material balances and classes of transactions.
- Tests of controls where reliance is placed on controls or where reliance should have been placed on controls because substantive procedures alone would not provide sufficient appropriate audit evidence.
- Assessment of risks at the assertion level for material classes of transactions, account balances and presentation and disclosures, and appropriate response thereto.
- Fraud considerations.

- Procedures performed when relying on experts/another auditor/internal auditors/service organisations.
- Evaluation of unadjusted audit differences.
- Subsequent event procedures.
- Going concern considerations.
- Audit report.
- Compliance with relevant accounting framework, statutory and regulatory requirements.
- Material Irregularity requirements.
- Independence and ethics requirements.
- Verification of material financial statement items.
- Verification of material journal entries.

Risk assessment for individual findings is performed at the following levels:

Level 1 - Inherent low risk matter or not material and risk of material misstatement remote.

Level 2 - Significant audit area and inherent risk low, as identified by the QARR, or material and risk of material misstatement low.

Level 3 - Significant audit area or material and risk of material misstatement not low, or inappropriate audit report probable.

Level 4 - Inappropriate audit report.

Findings rated 3 or 4 will result in a re-review.

Excessive number of findings rated 1 or 2 might also result in a re-review as recommended by the QARR and confirmed by the Quality Assurance Committee ("QAC").

9.2 Re-performance of re-review

The engagement partner will be notified of the re-review in the same manner as the first review. The QARR will consider the high-risk findings as reported in the previous review and may select the same or a similar file and will perform a review on planning, completion, and the material balances which were reported and additionally will perform a review on the significant risk areas identified by the engagement partner on the file and standard significant risk stipulated in the ISAs unless the rebuttal of the significant risk is appropriate.

9.3 Firm review

A firm re-review will result when there is high risk or ongoing non-compliance with ISQM 1 and 2 or the applicable standards, codes, or applicable legislation with regards to:

- Risk assessment.
- Ethical compliance.
- Engagement performance.
- Engagement quality reviews.
- Monitoring and remediation.

Risk assessment for individual findings is performed at the following levels:

Level 1 - Low risk matter or non-compliance with a remote possibility of causing a failure of the firm's Quality Management system.

Level 2 - Significant principle and low risk of occurrence of ethical compliance that may lead to reputational damage to the firm. Evidence of non-compliance of documentation and no instance where there is a risk of actual contraventions in quality.

Level 3 - Significant area of risk assessment, ethical compliance, engagement performance, engagement quality reviews or monitoring and remediation not documented or no evidence of implementation thereof, or inappropriate audit report probable.

Level 4 - Significant area of risk assessment, ethical compliance, engagement performance, engagement quality reviews or monitoring and remediation not documented or no evidence of implementation thereof, or high probability of inappropriate audit report.

Findings rated 3 or 4 will result in re-review.

An excessive number of findings rated 1 or 2 might result in a re-review as recommended by the QARR and confirmed by the QAC.

Re-reviews are scheduled at least twelve months after the QAC decision.

9.4 Referral for investigation – File

An excessive number of findings rated 3 or 4 will result in a referral to the Investigation Committee.

Any repeat high-risk finding(s) raised in the previous review within the same three-year rolling cycle.

Failure to cooperate in the review process will result in referral to the Investigation Committee.

Failure to obtain a satisfactory result during a second re-review will result in referral to Investigation, as discussed further in Paragraph 9.6 below.

9.5 Referral for investigation – Firm

Excessive number of findings rated 3 or 4 will result in referral to the Investigation Committee.

Any repeat high-risk finding(s) raised in the previous review within the same three-year rolling cycle.

Failure to cooperate in the review process will result in referral to the Investigation Committee.

Failure to obtain a satisfactory result during a second re-review will result in referral to Investigation as discussed further in Paragraph 9.6 below.

9.6 Referral for investigation – Re-review

Repeat findings rated 3 and/or 4 raised in the prior review, as indicated in 9.4 and 9.5 will result in referral to the Investigation Committee.

Based on the results of the re-review, the QARR will make a new recommendation to the QAC (Refer to section 11: Reporting and evaluation). A maximum of two re-reviews are permitted in any given three-year rolling cycle.

If, after two re-reviews, the firm / engagement partner still did not address all identified deficiencies, a referral for Investigation will be initiated accordingly.

Investigation fees are charged to the respective firm or engagement partner.

10. Timelines

The review report should be discussed and submitted to the firm / engagement partner during the review where possible. The draft report should be discussed with the engagement partner during the site visits, and the QARR should consider any additional documentation relevant to the findings. The final report should be emailed to the engagement partner within five business days of the completion date of the review. The preliminary assessment of the review findings level will be included in the report sent to the engagement partner.

The firm / engagement partner should respond to the review findings report with comments, and any additional documentation referred to in their comments within five business days of the date of receipt of the final report sent by the QARR, via email to the QARR. Engagement partners should

avoid using firm and client names and details in their responses to maintain anonymity and confidentiality.

The QARR finalises the final report with the firm/engagement partner, and the final assessment of risk per review finding is reconsidered. The report is sent to an Independent Quality Control QARR within five business days, who performs a quality control review on the report. The quality control involves a review of the consistency of the wording of findings, consideration of comments and final assessment of the risk level of each finding and final recommendation of the result before the reports are submitted to the QAR Team Leader within five business days who will collate the reports and submit them to the QAC of the PAAB. The identity of the client and engagement partner will be replaced by a review number generated by the QAR Team Leader before submission to the QAC of the PAAB.

The QAC considers the report independently and assesses the risk level and final recommendation.

Engagement partner and firm reviews are treated individually and anonymously in a similar fashion depending on assessment results.

The QAC will evaluate reports only after receiving at least 3 firm reports and 10 engagement file reports. The QAC will meet within four weeks after the submission of the reports by the QAR Team Leader.

A firm / engagement partner must be found satisfactory in a review cycle before proceeding to the next cycle.

A risk assessment of firms and engagement partners, as well as the results of the QAR, will be used to determine the frequency of QAR between a one- or three-year cycle. High risk firms and engagement partners (firms which have yet to achieve a satisfactory review result in any given review period) are reviewed annually.

Firms and engagement partners with satisfactory review results will progress to the next cycle and will be reviewed in the next three-year cycle.

11. Reporting and evaluation

The QAC of the PAAB is a sub-committee of the PAAB Board. This committee provides oversight over the QAR processes and results.

The QAC receives and reviews the reports from the QARRs and is the final arbiter of the outcome and actions (sanctions and remedial actions required).

Review reports are considered and evaluated on an anonymous basis by the QAC.

Committee meetings will be based on the availability of QAC members and number of reports submitted to the QAC.

The results of the QAR are summarised, and documented in a prescribed format by the QARR and submitted to the QAC for evaluation.

The QAC considers the reports, performs an independent assessment of the risk level and makes a review decision.

The review decision is either:

- a) Satisfactory: review in the next cycle, or
- b) Unsatisfactory: review in one year's time, or
- c) Initiate Investigation procedure in accordance with the PAAB rules governing the investigation and discipline of Public Accountants and Auditors.

12. Reconsideration requests deadline

Should a firm / engagement partner believe a re-review decision of the QAC should be reconsidered due to the QAC not having sufficient information available at the time the initial decision was made, the firm / engagement partner has six weeks from the date when the QAC decision was communicated to the firm / engagement partner to submit a detailed request, (including relevant supporting evidence) for reconsideration to the QAC.

The QAC will only take new evidence submitted to the committee for reconsideration. This request will then be placed before the QAC, on an anonymous basis, at the next meeting for consideration.

Only one request for reconsideration on a re-review result per firm / engagement partner will be permitted.

13. Committee decision

The QAC's decision will be one of the following alternatives based on the reports submitted, the re-review criteria and the risk assessment level.

- 1. Satisfactory: review will take place in the next three-year rolling cycle, or
- 2. Re-review: review will be scheduled in one year's time, or
- 3. Investigation: Refer to the Investigation Committee and possible referral to a disciplinary committee thereafter by the Investigation Committee.

14. Post-review root cause analysis by firm

Firms are required to submit a root cause analysis of the findings raised and the measures they will implement to ensure that the findings are not repeated. These measures will be inspected

during the next review to ensure they have been implemented. Failure to implement the measures can result in a re-review.

15. Costs (under review)

Annual subscription fees that firms / engagement partners pay to the PAAB do not cover the cost of quality assurance reviews. Firms/engagement partners are billed separately for quality assurance reviews, the fees of which are determined annually.

The Public Accountants and Auditors Act 51 of 1951 (as amended) in section 21 (1)(h) gives the Board the power *“to take any steps which it may consider expedient for the maintenance of the integrity, the enhancement of the status and the improvement of the standards of professional qualifications of accountants and auditors and to encourage research in connection with problems relating to any matter affecting the accounting profession;”*

As the monitoring function was previously performed by the Institute of Chartered Accountants of Namibia (ICAN) on behalf of the PAAB, the recovery of the fees is permitted by the Public Accountants and Auditors Amendment Act (PAAA Act) 10 of 1994 Section 9.

Which states that: *“Anything done by the Institute of Chartered Accountants of Namibia since the date of Namibia's independence and until the first composition of the Board after the commencement of this Act in accordance with section 3 of the principal Act, as amended by this Act, and which purports to have been done in the stead and on behalf of the Public Accountants' and Auditors' Board and in the exercise or performance of any power, duty or function conferred or imposed on that Board by the principal Act, is hereby validated and shall be deemed to have been done by that Board”*.

PAAA Act 10 of 1994, Section 2 amends the provisions of Section 3(a) the principal Act by the substitution for subsection (1) with the following subsection:

“(1) The board shall consist of ten members appointed by the Minister, of whom-

(b) four shall be officers in the public service who, in the opinion of the Minister, are in the performance of their duties concerned to a considerable extent with certificates, reports or opinions furnished by accountants or auditors;”

The monitoring function of the board is indicated in the act above to require that the public members as part of the board will be responsible for the oversight over the reports that accountants and auditors issue and thus the PAAB has the responsibility to perform quality assurance reviews.

Firms/engagement partners receive a twelve-week notice before their review visit. Cancellation fees are charged when firms / engagement partners cancel review visits at short notice.

The costs of file, firm and re-reviews will be charged to the firm.

The cost for Investigation cases will be charged to the firm.

The review fees are payable within a reasonable time.

16. Cancellation of reviews

The PAAB will charge the firms / engagement partner where visits are cancelled by firms / engagement partners.

The cancellation fees will be based on the expected cost of the review.

The cancellations fees will be levied as follows:

a) A month in advance: None

b) Three weeks in advance: 2 hours at the prescribed rate.

c) Two weeks or less in advance: Half of the cost of the Review based on the estimated number of hours.

d) Less than a week in advance: The full cost of the Review based on the estimated number of hours.

The firm / engagement partner should notify PAAB of any cancellation of the review engagement and engagement letter as soon as possible.

PAAB will notify the firm / engagement partner of the cancellation of their review and their engagement letter within a reasonable timeframe.

This will only be applied in exceptional circumstances when the review cannot be performed beyond the circumstances and control of PAAB.

17. Registration

All firms/engagement partners will be issued a registration certificate specifying the audit registration period, which may vary from one year to three years.