UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

Exploration of audit quality disclosures contained in the transparency reports of audit firms

A research report submitted by

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1 ABSTRACT

Purpose: The purpose of this study is to explore the disclosure practices of audit firms issued in the transparency reports. This study uses audit quality standards to assess how disclosures regarding audit quality have been included in the audit transparency reports.

Methodology: This study analysed the publicly available transparency reports of the big 4 audit firms and medium audit firms. These reports were analysed following an interpretive approach to determining the extent of disclosure on audit quality from 2016 to 2020. This study also considered the change in disclosure on audit quality over these five years. A disclosure checklist has been developed using professional literature. Content analysis has been used to codify the disclosed information with disclosures being scored using an ordinal scale. Descriptive statistics have been used to analyse and graphically present the data.

Findings: The findings suggest inconsistencies in the preparation of the transparency reports. The number of disclosures did not increase significantly from 2016 to 2020, even though there was increased public scrutiny of the audit firms in the wake of audit failures over the same period. Additionally, the big 4 audit firms provided more disclosures compared to medium-tier firms.

Research limitations: The research is limited to the publicly available transparency reports and, therefore, the findings are not representative of all assurance providers in the South African market

Practical implications: The findings can be used to aid audit regulators in understanding inconsistencies in audit firm transparency reports to develop assurance reporting frameworks. Additionally, the findings can inform regulators of these reporting issues about audit quality indicators.

Value: This study complements the current research by providing insight into audit firms' disclosure practices in audit transparency reports. Current research has been focussed on corporate governance-specific disclosures.

Keywords: audit quality, audit quality management system, transparency report,

2 DECLARATION

I, Mpya Aaron Raphadu, declare that this research report is my own work except as indicated in the references and acknowledgements. The report is submitted in partial fulfilment of the requirements for the degree of Master of Commerce in Accountancy at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Name: Mpya Aaron Raphadu Signature:

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Table of contents

1 ABSTRACT ... ii

2 DECLARATION ... iii

3 ACKNOWLEDGEMENTS ... iv

4 LIST OF TABLES ... vii

5 LIST OF FIGURES ... viii

6 LIST OF ACRONYMS ... ix

7 INTRODUCTION ... 1

7.1 Research questions ... 2

7.2 Significance of the study ... 3

7.3 Delimitations of the study ... 3

7.4 Assumptions ... 4

8 LITERATURE REVIEW ... 4

8.1 Importance of audit quality ... 4

8.2 Defining audit quality and its indicators ... 5

8.2.1 IAASB Audit quality indicators ... 8
8.2.2 IRBA audit quality indicators ... 8
8.2.3 King IV on audit quality practices ... 9
8.2.4 Audit standards on audit quality practices ... 10
8.2.5 Skills and expertise ... 11
8.2.6 Reviews by audit seniors and internal inspection ... 12
8.2.7 Clients' reviews ... 12
8.2.8 Audit firm size ... 13
8.2.9 Partner rotation and audit firm rotation ... 13
8.2.10 Independence ... 14
8.2.11 Audit regulation ... 15
8.2.12 Appropriate sharing of information between auditors and stakeholders ... 16
8.2.13 Professional Scepticism ... 16

8.3 Concerns being raised about audit quality and responses from the IAASB ... 20

8.4 How to audit quality is managed in SA ... 21

9 RESEARCH METHODOLOGY ... 23

9.1 Research approach ... 23

9.2 Research design ... 23

9.3 Population and sample ... 24

9.4 Procedure for data collection ... 25

9.5 Data analysis and interpretation ... 26

9.6 Validity, reliability, and trustworthiness ... 27

9.7 Ethical considerations ... 28

10 PRESENTATION OF FINDINGS & DISCUSSION 28

10.1 Structure of transparency reports 29

10.2 Content in the transparency reports 30

10.2.1 Inputs 31

10.2.2 Contextual factors 33

10.2.3 Interaction with stakeholders 35

10.2.4 Process 37

10.2.5 Outputs 39

10.3 Extent of change in transparency reporting overtime 40

10.4 Comparison among the type of firms 42

11 CONCLUSIONS & RECOMMENDATIONS 45

11.1 Reliability of transparency reports 45

11.2 Summary of results 45

11.3 Recommendations 48

11.4 Suggestions for further research 49

REFERENCES 51

Appendix A: Change in disclosures over time with a year as the grouping variable 59

Appendix B: Change in disclosures over time with the Firm type as the grouping variable 69

Appendix C: Non-parametric test with disclosure theme as the grouping variable 75

4 LIST OF TABLES

Table 1: Indicators of high audit quality 17

Table 3: Population size analysis 24

Table 4: Results Summary 47

5 LIST OF FIGURES

Figure 1: Audit quality components 19

Figure 2: IRBA inspection results summary 22

Figure 3: Total disclosures reported per the theme 30

Figure 4: Total audit quality disclosures per year 40

Figure 5: Comparison of disclosures numbers between audit firm types 42

6 LIST OF ACRONYMS

The following abbreviated terms will be used in the study:

FRC	Financial Reporting Council
IRBA	The Independent Regulatory Board of Auditors
ISQM	International Standard on Quality Management
King IV	The King Report and Code of Corporate Governance

7 INTRODUCTION

In the wake of several audit failures and accounting scandals (for example Steinhoff, VBS Bank, Tongaat Hulett, Wirecard Bank) (Smith & Marx, 2021), the public and audit regulators expressed concerns about audit quality, market concentration and auditors' independence (Financial Reporting Council, 2016; Smith & Marx, 2021). The audit failures and accounting scandals led to a decrease in the legitimacy of the assurance profession, increasing pressure on audit regulators and standard setters to maintain and restore audit quality (Council, 2008; Holm & Zaman, 2012; Smith & Marx, 2021).

The actions taken by the international audit regulator community to address the concerns of the public include:

- Revising the IESBA Code of Conduct for Professional Accountants, restructuring the code to follow a more conceptual approach and clarifying independence rules.
- Revising audit quality standards by issuing ISQM 1 and 2, to allow for a risk-based approach to enhance audit quality at the firm level and the engagement level and
- Issued a report on audit quality indicators to assist firms in managing audit quality more effectively (IRBA, 2020).

As part of identifying factors that impact audit quality, the International Auditing and Assurance Standards Board (IAASB) recommends that audit firms be required to issue transparency reports (IAASB, 2018). The IAASB (2018) posits that transparency reports would enhance the transparency of the audit profession, addressing the expectation gap and adding legitimacy to the profession.

The IAASB has not given any guidance on what should be included in the transparency reports. Even though there is limited guidance by the standard-setting bodies, the Independent Regulatory Board of Auditors (IRBA) have requested South African audit firms to voluntarily issue a transparency report (IRBA, 2018). According to IRBA (2020), the transparency reports would provide users with information relating to leadership, culture, and ethics of the firm; the firm's risk management process; relationships among staff and service providers; independence and compliance results (also referred to as internal and external inspections). The information disclosed in these reports will not only address information needs of clients but also narrow the expectation gap that exists between the assurance function and public (IRBA, 2014; Zorio-Grima & Carmona, 2019). The IRBA recommended that audit firms disclosure information about the structure of the firm, human capital, engagement related information and quality management. There is, however, uncertainty about whether the disclosures will be useful to the users and enhance audit quality. The concern also arises whether the disclosures will be made sincerely or will be used for impression management in the wake of the accounting scandals. This would be seen as self-presentation, whereby audit firms attempt to influence the public perception of audit quality by regulating information about their quality audit practices (Schlenker, 1980) and use it as a marketing tool to be seen as leaders of good quality practices (Chersan & Danilet, 2019). This provides the backdrop for the current study which explores the content of publicly available transparency reports issued by audit firms.

Transparency reports disclose audit firms' systems of audit quality management and practices (IRBA, 2020). While IRBA requires audit firms to issue transparency reports voluntarily (Smith & Marx, 2021), there is limited guidance on what to report. Without a reporting framework to guide the creation of the transparency reports, transparency reports might not be as informative to users as expected, widening the expectation gap, and lowering the perceived level of audit quality at firms. This view is further supported by Healy and Palepu (2001), who concluded that the information gap would widen if the regulators do not set minimum requirements for reporting purposes.

7.1 Research questions

The primary research question is:

> What is included in publicly available transparency reports issued by South African audit firms?

To address the research question, it was broken down into different sub-questions:

1. What is the extent of reporting on the audit quality features included in transparency reports of the sample of audit firms?
2. Are the structure of the transparency reports consistent amongst the audit firms?
3. Does the extent of reporting on the audit quality features included in transparency reports of the sample of audit firms vary over time?

4 Does the extent of reporting on the audit quality features included in transparency reports of the sample of audit firms vary among the large and mid-tier audit firms?

7.2 Significance of the study

Transparency reporting has been an area of research in the international community for some time (Chersan & Danilet, 2019; Čular, 2017; Fu, Carson & Simnett, 2015; Girdhar & Jeppesen, 2018; Sengur, 2019; Pott, Mock & Watrin, 2008; Zorio-Grima & Carmona, 2019). However, research on transparency reporting in a South African context has been limited to corporate governance disclosure practices, as contained in the transparency reports (Smith & Marx, 2021). Internationally, this area of research has been conducted intensively in contrast to South Africa.

This study will explore disclosure practices, as contained in the transparency reports, related to audit quality. In addition to focusing on audit quality, this study uses newly issued audit quality standards[1] to identify where current disclosure practices do not meet the requirements of the standards, effective from 15 December 2022. The findings of this study will provide additional guidance to audit regulators and firms to improve the qualitative disclosures of transparency reports going forward.

7.3 Delimitations of the study

This research focused on external assurance providers assuring historical financial statements. This research aims to explore audit quality practices as contained in the transparency reports of audit firms in a South African context only. Additionally, the research will not be exploring the quality practices of the other business units within the audit firms, such as advisory services, taxation, and risk consulting. The study will also exclude the extant and effective audit standards related to audit quality [2]as these standards will not be effective from 15 December 2022.

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[1] The standards are: International Standard on Quality Management 1 and 2- effective 15 December 2022.
[2] The standards are: International Standard on Quality Management 1 and 2- effective 15 December 2022.

7.4 Assumptions

The following assumptions are made:

- The transparency reports obtained on the audit firms' websites are accurate and complete.
- The audit firms are committed to achieving quality audits.
- The sampled audit firms do disclose their audit quality practices in the transparency reports
- ISQM 1, 2, and ISA 220 are already applicable and effective.
- The researcher assumes that the 'reported' audit quality disclosures in the transparency reports are implemented by the audit firms and not used for impression management.

8 LITERATURE REVIEW

8.1 Importance of audit quality

Reeves and Bednar (1994) find that quality and service value as identical concepts. Similarly, audit quality is essentially the value of the audit (Kilgore, Radich, & Harrison, 2011; Reeves & Bednar, 1994). The lack of audit quality implies that the audit profession adds no value to the capital market (Kilgore et al. 2011). This is further demonstrated by Watts and Zimmerman (1986) who argued that an audit serves its purpose when it reduces agency problems. The value of quality audit can be shown as a reduction in the agency costs but if there is low audit quality evidence dense from an audit failure to detect misstatement, the agency costs might increase (Watkins, Hillison & Morecroft, 2004).

Kilgore et al. (2011) found that audit quality is the focal point of which the audit profession is judged. The study by Monroe and Tan (1997) also confirmed this by finding that the reliability of audited financial statements depends on the quality of the audit performed, and public perception (Kok & Maroun, 2021; Shockley, 1981). Therefore, to gain legitimacy and trust in the public eye, audit quality should be maintained and kept at a high standard (Power, 2003; Monroe and Tan, 1997; Shockley, 1981). In particular, high audit quality can decrease information asymmetry and lower agency costs and also add to the credibility of financial statements (Kok & Maroun, 2021; Maroun & Solomon, 2014; Watts & Zimmerman, 1986). Zeithaml, Berry and Parasuraman (1988) also found that high-quality services can be used as a marketing tool by service organisations. Audit firms can provide quality audits and thereafter use this as a marketing strategy to charge high premiums.

To ensure high and sustainable audit quality on audit engagements, audit firms need to implement a system of quality management that provides a holistic approach to managing audit quality (IRBA, 2014). Sustainable audit quality practices in audit firms would demonstrate that audit quality drives are not a one-off events or short-term initiatives, but an ongoing process of improvement and commitment towards audit quality (IRBA, 2020; Leitch, 2003; Zorio-Grima & Carmona, 2019). The audit has moved away from simply having to perform what is required of the auditors according to the applicable auditing standards (Francis, 2004). The audit quality management system approach could be utilised to have a better impact on the audit firms and its members to act responsibly and to also encourage them to focus on sustainable audit quality management measures (Leitch, 2003).

Audit is a social construct which evolves in response to society's needs (PWC, 2019; Ruhnke & Schmidt, 2014; Sikka, Puxty, Willmott & Cooper,1998). Therefore, the audit indicators would also need to be updated over time in response to changes in society's expectation of an audit function (Peecher, Schwartz, & Solomon, 2007). Moreover, audit quality is a complex concept, and one would expect audit indicators to change over time. Therefore, audit quality management system is paramount (Council, 2008).

It is important for the audit profession to be clear on how audit quality is defined or measured because a common understanding and definition help to bring consistency to audit engagements across all the audit firms, whether medium-sized or big.

8.2 Defining audit quality and its indicators

Zeithaml et al. (1988) found that it is generally difficult for service organisations to measure and control the level of quality of their services. Services cannot be measured, tested, and verified before they are rendered in contrast to tangible products to ensure that the service meets the quality standard. Moreover, the performance of a service such as an audit is highly dependent on the subjectivity of the auditors, auditees, and their daily interactions (Kok & Maroun, 2021; Zeithaml, Parasuraman, Berry & Berry, 1990; Zeithaml et al. 1988).

Audit quality is not defined in any standard issued by audit regulators (IAASB, 2021). DeAngelo (1981b) was the first to attempt to define audit quality, defining audit quality as the likelihood of the auditor detecting misstatements in the financial statements (expertise) or breaches of the internal controls, and the ability to report such incidents to those charged with governance (independence). Essentially, audit quality is the capacity of the auditor to detect misstatements, and then their propensity to report them (Knechel, 2016). Despite the common use of this definition, many researchers have questioned the completeness and scope of the definition (Knechel et al. 2013).

This is because the public would only uncover some of these identified audit misstatements when the companies fail. For example, with the Wirecard scandal (Gauthier & Brender, 2021). The issues identified on the audits performed are then the aftermath of the company failures, indicating that audit quality is generally measured when things go wrong (Francis, 2004) and may not necessarily be beneficial to the public and investors if they have already suffered losses from company failures (Gauthier & Brender, 2021). However, there are likely many companies still operating where the auditor did not detect a misstatement, but it is impossible to identify these firms. This supports the view of other researchers that the measurement of audit quality in relation to the number of misstatements identified is not appropriate (Knechel et al. 2013).

Audit quality can also be measured in relation to the expectation gap (Porter, 1993). Porter, hÓgartaigh & Baskerville (2012) take a practical approach to audit quality, finding that audit quality is achieved if the assurance provider can narrow the expectation-performance gap and perform assurance services which meet the reasonable expectations of the society (Porter, 1993; Porter et al. 2012). As a result, the society would criticise the profession less and public trust would be restored (Porter, 1993). Similar conclusions were reached by Chersan & Danilet (2019) who supported the view that trust in the audit profession decreased after the collapse of one of the big audit firm, Arthur Andersen. Kok & Maroun (2021) also found that audit quality reduces due to the lack of strong ethical professional conducts and inadequate audit work which fails to detect misstatements contained in the financial statements.

IAASB framework for Audit Quality was developed to improve audit quality. The IAASB also used a different approach to define audit quality. It focused more on the factors (input and output) that support audit quality at different levels (IAASB, 2020). The IAASB *Framework for Audit Quality* defined audit quality as the demonstration of core features, such as proper governance practices, that create and allows for an environment that encourages quality audits that are performed on a consistent basis, in accordance with the relevant regulations and internal processes. The framework considered the following elements to be important in achieving quality audits: input, output, key interactions between stakeholders and contextual factors. Audit quality is achieved when audit engagements are delivered and performed at the same level of quality in the firm (IAASB, 2020). However, it should be noted that it is complex for audit firms to measure the consistency or level of audit quality between audit engagements that were performed by the firm (Council, 2008; IAASB, 2018). This is because audit quality varies between different stakeholders based on their expectations of the audit function (Kok & Maroun, 2021; PWC, 2019; Ruhnke & Schmidt, 2014; Sikka al et. 1998). In addition, audit standards allow for the application of professional judgement (Lamba, Seralurin, Lamba & Pattiasina, 2020) resulting in difficulties in measuring the quality and appropriateness of the judgements/decisions applied/made by the auditors in certain situations (IAASB, 2018). For example, two auditors with the same facts and information about an entity may assess the risks and materiality levels differently by applying their professional judgment and experience, but both auditors may produce quality audit work irrespective of the application differences. This is because they would have applied and considered all the relevant information appropriately and applied the correct ISA methodologies. The fact that their risk assessment or materiality level may not exactly be the same, would not imply the lack of audit quality.

The quality of an audit is determined by the level of assurance that can be placed on the final audit report (IAASB, 2018). Therefore, if the work performed above by both the auditors can be relied upon by the users, then it is said that the audit work of both the auditors is of good quality irrespective of the differences. This is further supported by Knechel (2013) who found that the flexibility in the application of the audit standards and audit processes allows the auditors to be motivated and innovative in their efforts to a point which increases audit quality.

Research on the factors that influence audit quality has been extensively studied. It was found that these factors have a direct and indirect impact on audit quality and affect each other (Hosseinniakani, Inacio & Mota, 2014). Below, the research will discuss the different audit quality indicators from the IAASB, IRBA and past research studies that demonstrate high audit quality.

8.2.1 *IAASB Audit quality indicators*

The IAASB is responsible for setting high-quality standards, and for providing guidance on complex and uncertain audit matters to help in providing and facilitating quality assurance services. The IAASB provided guidance on audit quality measurement by publishing its audit quality framework report indicating the following five factors as contributors of accomplishing high audit quality (refer to IAASB, 2020). In this guidance report, the IASSB noted key factors that can increase audit quality. The IAASB (2020) found that the following elements [3] are pertinent in providing for an environment that can achieve audit quality.

- **Inputs** including factors such as ethics, skills, competence, independence and experience of auditors, and time allocated to perform the audit.
- **Process** addressing audit processes and quality control measures that impact audit quality.
- **Outputs** including reports and information prepared for the purposes of the audit such as audit reports.
- **Context factors** include applicable regulations to the audits and corporate governance requirements such as King IV and financial reporting environment, information technology and audit regulation that affects audit quality.
- **Key interaction within the financial reporting supply chain** covering formal and informal engagement between auditors and stakeholders such as regulators, audit committees, and management.

8.2.2 *IRBA audit quality indicators*

Locally, the IRBA stressed the importance of audit quality indicators in helping those involved in the financial reporting process to evaluate the level of audit quality (Sadhir, 2016). IRBA (2018) found that the direct indicators of high audit quality include: **1** competence of the audit team **2** independence of the team and firm **3** reputations of the

[3] The IAASB audit quality elements are broad and incorporate the IRBA audit quality indicators and audit quality proxies from existing studies. The elements above will therefore be covered and explained in detail as the researcher explains the audit quality proxies and IRBA AIs below.

firm **4** capacity of the team and the firm's resources to carry out the audit **5** requesting the public inspection results performed by IRBA directly from the contracted registered auditor **6** requesting the internal audit quality inspection results from the partner to analyse the results for any material issues. Sadhir (2016) also found that the recommended IRBA's audit quality indicators (AQIs) should be considered together with other applicable AQIs by the audit committees in evaluating the quality of the assurance services to improve auditors' performance and their independence. The IRBA (2020) believes that the AQIs will encourage transparency and add value to the financial reporting process. For example, during the audit tendering process, audit committees may favour assurance providers with cheaper audit fees if they have no information regarding the firms' audit quality management system (Chersan & Danilet, 2019). However, if auditors tendering for the audit engagement provide and present information related to AQIs to the audit committee, they may differentiate themselves from other assurance providers and provide the audit committee with an understanding of their audit quality practices (Schlenker, 1980). This transparency could encourage auditors to invest heavily in audit quality as audit committees would focus on quality (AQIs) as opposed to the price wars of tendering auditors (Chersan & Danilet, 2019; Sadhir, 2016).

8.2.3 *King IV on audit quality practices*

Corporate governance is a fundamental determinant of audit quality because the tone set at the top by the leadership, regarding ethics, quality and compliance with the firm's policies and procedures is pervasive. Furthermore, IRBA (2018) and IAASB (2018) believe that governance and leadership of an organisation are of vital importance to the quality of service, as it is the way the company embeds its culture and ethics. It is also the basis of how decisions in the business are made. In South Africa, King IV outlines recommended best practices for organisations to enhance good corporate governance (IOD, 2016). While King IV's recommendations are for all types of organisations, it also issued guidance reports for sector-specific (Smith & Marx, 2021). The audit profession is however not covered in these sector supplements but nevertheless, audit firms are required to comply with the provisions of King IV (IOD, 2016). Given the importance of the assurance function in the capital markets, it is concerning that the specific sectoral guidance was not issued for assurance providers. Additionally, given concerns expressed by stakeholders over the quality of assurance services provided in the wake of corporate failures, stakeholders do expect the audit firms to have some form of corporate governance mechanisms in place to effectively manage audit quality internally

through the implementation of King IV's recommendations. This is supported by the view expressed by IRBA (2014), which states that proper governance practices create and allow for an environment that encourages quality audits that are performed on a consistent basis, and in accordance with the relevant regulations. By applying King IV to audit firms, the assurance function may undo the damages done by the spate of recent corporate failures (Smith & Marx, 2021).
Additionally, should audit firms comply with King IV, they would be required to publish an integrated report, disclosing how the different capitals of the audit firm have been used to generate value. This information would include factors such as governance and leadership structures, development and training, rewards, risk management, internal controls policies, ethics and culture and monitoring results (IRBA, 2018). By disclosing this information, auditors can demonstrate how audit quality drives the value of the firm, and that the key to value creation is audit quality (IRBA, 2014; 2018; 2020; Smith & Marx, 2021).

8.2.4 *Audit standards on audit quality practices*

Audit standards play a critical role in the structure of an audit firm, the type of engagement that can be performed, how the engagement should be performed, the training process of personnel and their reporting obligation (Knechel, 2013). It is therefore essential for firms to comply with audits standards (Knechel, 2013). There are currently two standards dealing with quality control at the firm level (ISQC 1) and engagement level (ISA 220) (IAASB, 2009d; 2009p). The ISQC 1 and ISA 220 focused on policies and practices that should be implemented at the firm and engagement level to achieve the minimum level of acceptable audit quality (Logie & Maroun, 2021).

The IAASB (2020) approved three new audit quality management standards: (**1**) ISQM 1 deals with audit quality management at the firm level (**2)** ISQM 2 that on engagement the audit quality reviews process that is part of monitoring audit quality and **(3**) The revised IAS 220 that deals with audit quality management at the engagement level. The three standards are inter-related, with audit quality management being the key focus for the development of the new standards primarily because of the recent number of corporate failures and audit failures (IRBA, 2020).

According to IAASB (2021), the new standards will drive greater confidence and trust in the capital markets and economy. The new standards shift from quality control and begin a focus on quality management through the implementation of a risk-based approach, enhance firm governance, and focus on achieving quality objectives by identifying quality risk and responding appropriately.

The new ISQM 1 and 2 are principle-based standard that has adopted the risk-based approach focused on the nature and circumstances of the firm and its engagements. According to ISQM 1, audit quality management is a function of the following eight components: (1) governance and leadership, (2) risk assessment, (3) ethics, (4) resources, (5) acceptance/continuance of engagements, (6) performance of audits, (7) information and communication, and (8) monitoring of the system of quality management to evaluate the effectiveness and to identify deficiencies that require corrective actions (IAASB, 2020). These eight functions are incorporated in the five themes recommended by the IAASB (2018) and demonstrate high audit quality.

The following requirements are applicable to audit firms as per the ISQM 1 and 2 as part of their audit quality management system. The audit firms should disclose information related to the internal firm reviews and scope, human resources recruiting and talent retention policies, the capabilities and competence of the firm, governance structures, development, and rewards policies (IAASB, 2020). King IV make specific reference to governance and leadership, ethics, risk assessment and monitoring systems of control. The same components are also part of the new audit quality standards, proving that there is a link between King IV and the ISQMs (IAASB, 2020; IOD, 2016). The transparency reports would provide insight on the following factors in respect of the audit firms: leadership and governance; internal controls systems and their monitoring which help to manage and enhance audit quality (Zorio-Grima, & Carmona, 2019). Based on above, one may conclude that the transparency reports may be by their very nature, basic integrated reports for audit firms (IRC, 2011; Smith and Marx, 2020). It was therefore important to incorporate the ISQMs and King IV into the research disclosure checklist tool as they play a vital role in the creation of value of the audit firms.

8.2.5 *Skills and expertise*

Auditors' professional competence and skills are one of the main determinants of audit quality because auditors need the expertise to identify and raise misstatements during an audit engagement (Francis, 2004; Knechel et al., 2013). Auditors with the necessary knowledge and skills have a better chance of detecting sophisticated fraud that is hidden by management resulting in higher audit quality. Furiady & Kurnia (2015) also found that competent auditors have good knowledge and can exercise better professional judgment that enhances audit quality and incompetent auditors will likely not detect fraud or misstatements reducing audit quality. SAICA also views the competencies to be a vital part of ensuring that the audit work is performed in accordance with the audit and other applicable standards. This can be seen by the developments at the South African Institute of Chartered Accountants (SAICA) having revised their competency framework requirements for upcoming trainee accountants who qualify as chartered accountants, this framework sets out the professional competencies that should be demonstrated by an entry level-chartered accountant. The changes were made to ensure that members of the profession are relevant in the roles they perform in this volatile, uncertain, complex, and ambiguous environment (SAICA, 2018). Training plays an important role in ensuring that the skills and competencies of the audit teams are in line with the current developments (SAICA, 2018). The level of investment in formal training shows commitment in improving audit quality and maintaining professional knowledge (Delloite, 2010). Highly skilled audit teams are more likely to detect complex fraud and misstatements at the clients, and achieve audit quality (Knechel et al. 2013).

8.2.6 *Reviews by audit seniors and internal inspection*

Audit quality can be measured by the review results. This process should ascertain that the audit team performed their duties in accordance with the audit firm's policies and audit standards (Deloitte, 2010). Satisfactory results from internal inspections and reviews could be an indication that the quality of the work performed on the audit engagement is adequate (Palmrose, 1988).

High levels of internal reviews would indicate that sufficient time was allocated by senior team members in the audit to review to work performed by junior team members to ensure that the work performed is appropriate and professional judgment applied was sound. Lower time spent on the audit and reviews may indicate that insufficient time was spent by the audit team which could result in poor audit work or that areas of significant risks were not adequately addressed affecting quality (Palmrose, 1988).

8.2.7 *Clients' reviews*

Auditors can obtain direct feedback from the audit committee of the client (Knechel et al. 2013). This feedback is in relation to the audit services provided by the auditor. The feedback could address areas such as the expertise of the audit team, independence, and their experience from the interaction with the team. The views of the client can then be surveyed to document their satisfaction, for example the satisfaction levels could be rated as bad, good, or neutral. The reviews can be noted and analysed to provide an ongoing confirmation that the auditors are doing the right thing, and where necessary improvements are made (Knechel et al. 2013). Good feedback from the clients indicate that the service provided by the auditors are of good quality, and any poor reviews could be noted and followed up with, and the necessary plans for improvements can be put in place.

8.2.8 *Audit firm size*

DeAngelo (1981b) attempted to draw a link between the size of an audit firm and the audit quality thereof. The study dismisses the assertion by regulators and small audit firms of the non-effect of firm size on the quality of audits. The study alternatively proposes that due to the client-specific 'quasi-rents', larger audit firms have 'more to lose relative to small audit firms in an event that they do not meet the expectations of their audit clients in the performance of their audit duties. Thus, larger audit firms are more likely to have a higher incentive to ensure that the audit is performed to sufficient quality.

Watts and Zimmerman (1986) also suggested that audit firm size be used as a proxy for the quality of an audit, arguing that larger firms supply higher quality audits as they possess a comparative advantage given their ability to monitor individual auditor behaviour. This is supported by the dominance of the big 4 audit firms which are seen to have better resources due to their international footprints as compared to small-medium audit firms. This is further demonstrated by the findings that more than 90% of the JSE-listed entities are audited by the big 4 audit firms (IRBA, 2017).

Contrary to Watts and Zimmerman (1986) and DeAngelo (1981b), some empirical tests have found no relation between audit firm size and audit quality (Al-Thuneibat, Al Issa, & Baker, 2011). Some prior literature also finds that any size effect on audit quality becomes immaterial as all the audit firms gain client-specific knowledge, usually as the audit tenure increases (Knapp, 1991). Nevertheless, for the purposes of this research, the audit firm size is one of the determinants of audit quality.

8.2.9 Partner rotation and audit firm rotation

Mandatory rotation of auditors has been proposed as a mechanism to improve audit quality (Arrunada & Paz-Ares, 1997). Previous studies have found that audit partner rotation is good for audit quality because the auditors' industry specialisation is retained (Gavious, 2007). The rotation of audit firms would result in the complete loss of the industry specialisation within the audit firms, and client knowledge as the new auditor has little information and understanding about the client (Francis, 2004; Knechel et al. 2013). Considering that the auditors' knowledge of their clients is determinant of good audit quality, new auditors with little knowledge about their clients would decrease audit quality (Horton, Livne, & Pettinicchio, 2021; Knechel et al. 2013).

Studies have found that changing audit firms is not as beneficial as compared to audit partner rotation especially in the financial years post the change because it takes years to fully understand the entity being audited and its processes (Horton et al. 2021); the client knowledge also accumulates over a longer period; complexity in the business models and operations (Jackson, Moldrich, & Roebuck, 2008). Studies have also found that the likelihoods of audit failure are at its highest during the first three years of an audit engagement, the mandatory firm rotation would be inconsistent with the global sentiment (Jackson et al. 2008).

Changing auditors would also require the new auditor to spent and allocate more resources to obtain an understanding of the client and its environment. This is supported by the fact that understanding of an entity is the core and vital part of an audit for risk assessment purposes. With these expected costs associated with the new appointments such as marketing costs industry specialists to help with inputs of the new client's industry; cost of resources to understand the new client. These costs may be too high for the audit firms and may ultimately affect investment in technological resources, methodologies and retaining the best possible skill (Horton et al. 2021), which decrease audit quality in the long run (Gavious, 2007).

8.2.10 *Independence*

Carpenter and Dirsmith (1993) highlighted that the organisation or profession's survival requires it to conform to societal norms of acceptable behaviour to achieve high levels of production efficiency. This clearly depicts that auditing has a social function to fulfil (Ruhnke & Schmidt, 2014) and this emphasises the importance of audit independence. Due to the social intricacies, the auditor has an obligation to discover and report breaches (Daniels & Booker, 2011) and this will only be possible if the auditor is independent. The social importance of an audit highlights that mandatory firm rotation is vital for the profession because independence is part of the social context of auditing.

Auditing is a profession that has the responsibility of carrying the trust of the people, thus, the auditor needs to ensure audit quality (Firth, Rui, & Wu, 2012), and the social perception is that independence is synonymous with audit quality (Daniels & Booker, 2011). This is also in line with Suseno (2013) stating that audit quality is a balance between the auditor's competence and independence. The independence of the auditor is one of the determining factors in audit quality because independence adds credibility to the audit report on which investors, creditors, employees, government, and other stakeholders depend to make decisions about a company (Suseno, 2013).

As seen above, auditors' independence is imperative, and long-term audit engagements tend to create attachments and loyalties with the client, which weakens the objectivity, impartiality, and independence required from auditors (Gavious, 2007). Lack of independence has a direct impact on audit quality because audit quality can be defined as when the auditor will discover a breach in the client's accounting system; and the likelihood that the observed breach will be reported (Daniels & Booker, 2011). Daniels and Booker (2011) reason that an auditor who has an economic interest in their client or lacks independence will be less likely to report a discovered breach, thus reducing audit quality.

8.2.11 Audit regulation

Due to the many corporate failures in the audit profession in recent years. Many people have confused the concept of crisis and regulation (Knechel, 2016). The inherent limitation of a traditional audit of the financial statements also contributed to the intertwine (Knechel, 2016). The regulatory body then introduced various legislations, regulations, and guidance in the effort to enhance the general public trust and audit quality (Unerman & O'Dwyer, 2004). These actions taken include, for example revising the Code of Conduct for Professional Accountants, restructuring the code to follow a more conceptual approach and clarifying independence rules (Smith and Marx, 2020), prohibitions of non-assurance services to public interest entities (Khalifa, Sharma, Humphrey, & Robson, 2007) and the mandatory firm rotation of audit firms (Gavious, 2007).

External regulation is needed to restore trust in the audit profession (Kinney, 2005; Knechel, 2016). This can be achieved through external inspections such as the IRBA public inspection report (2020) which assess the quality of the work performed by South African audit firms and their audit quality management practices and found that audit quality is decreasing. Even though there is no standard description or objective grading scale for quality reviews amongst regulators and professional auditing firms. The independency of the inspections can objectively identify themes or issues in the audit process.

8.2.12 Appropriate sharing of information between auditors and stakeholders

Different stakeholders receive different outputs from an audit. These outputs are likely to be evaluated in terms of their usefulness and timeliness and be seen as aspects of audit quality. They may also provide broader insights into audit quality function (Kok & Maroun, 2021; PWC, 2019; Ruhnke & Schmidt, 2014; Sikka al et.1998).

Honest communication with stakeholders is a key aspect to achieve quality service delivery. This can be achieved through reports and presentations, attendance of audit committee meetings, and regular discussions with management to address issues in the audit. It is pertinent that stakeholders are kept informed of issues arising throughout the audit and the need to listen to their views on aspects that affect audit quality (Segal, 2017). Improved audit quality is then enhanced if all stakeholders involved communicate transparently about what they are expecting from the external assurance process, their concerns with the process and the information they know (IRBA, 2019).

8.2.13 Professional Scepticism

By its nature, an audit “product” is a judgment about issues and people (Zeithaml et al. 1988). The exercise of professional scepticism involves a questioning mind and appetite to challenge and alertness to inconsistencies. It features prominently throughout auditing standards and attracts significant focus from regulators. Current research has found that there is a direct relationship between professional scepticism and audit quality (Bowlin, Hobson & Piercey, 2015). Notably, auditors who exercise high levels of professional judgment and scepticism by questioning management or utilising more resources to mitigate the high audit risk arising at the client (Shaub & Lawrence, 1996), and have an increased chance of detecting management fraud (Bernardi, 1994), which indicates good evidence for a quality audit (DeAngelo, 1981a), contrary to over relying on management evidence would likely decrease audit quality (Bowlin et al. 2015).

Table 1 provides a summary of some of the audit quality indicators and a description discussed above.

Table 1: Indicators of high audit quality

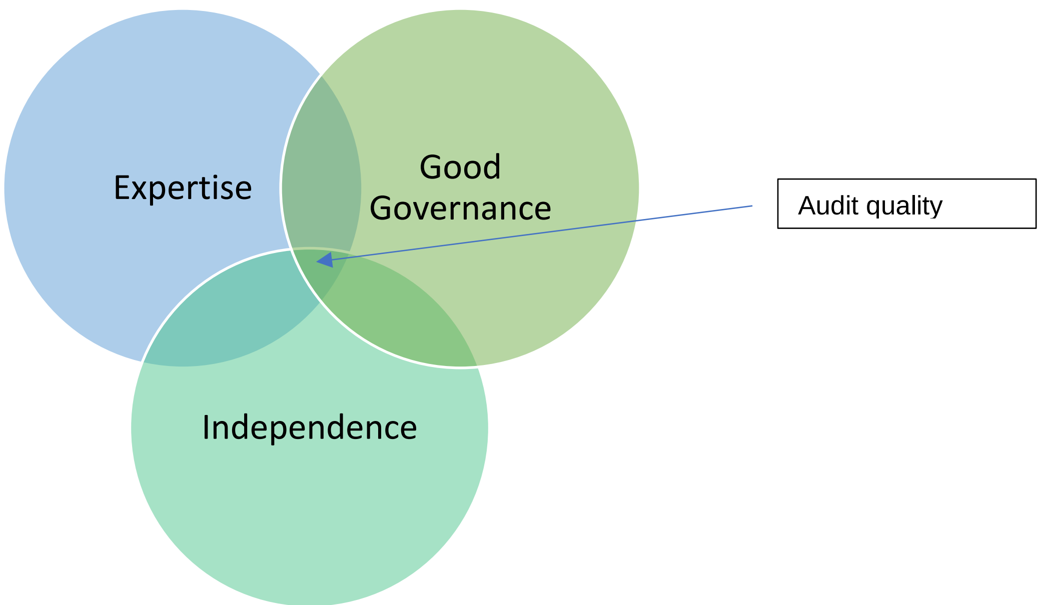
Table 1: Indicators of high audit quality	
Audit quality indicator	**Explanation**
Audit firm size (De Angelo, 1981b).	Big audit firms are concerned with reputational risk therefore they aim to improve audit quality to maintain their public image.
Audit tenure (Carcello and Nagy, 2004)	Familiarity threat is created by long professional relations which compromise audit quality, professional scepticism, and independence of auditors.
Independence of auditors (Francis, 2004; Gunny and Zhang (2013)	Audit quality decrease if the independence of the auditor is compromised.
Audit fee (Chung and Lindsay, 1988)	Over-reliance on one client's fees compromise auditor's independence and their propensity to report breaches to management.
Compliance with King IV's best practices (La Rosa, et al. 2018; Smith and Marx, 2021).	Application of the King IV code best practices by audit firms would enhance good corporate governance which has a significant impact on audit quality.
Compliance with the code of governance (Smith and Marx, 2021; *Fukuyama, 2013*).	Compliance with the governance code would achieve audit quality. This view was supported by IAASB which indicated good governance as a vital area to achieve quality service.
Inspection results (Deloitte, 2010; Casterella et al, 2009)	Satisfactory results from external and internal inspections could be an indication that the quality of the engagements is adequate.
Training hours (Deloitte, 2010)	The level of investment in formal training is one indicator of the firm's investment in improving audit quality and maintaining professional knowledge.
Auditors' propensity to restate and report (Knechel et al. 2013)	Audit quality is influenced by the likelihood of the auditor detecting misstatements in the financial statements (expertise) and the ability to report such incidents (independence).

Table 1: Indicators of high audit quality	
Audit quality indicator	**Explanation**
Accuracy of audit opinion (Francis, 2011)	Quality audit reports would reduce public scrutiny and restore trust.
Expertise (*Furiady & Kurnia, 2015)*	Audit quality is influenced by the likelihood of the auditor detecting misstatements in the financial statements (expertise) and the ability to report such incidents (independence).
Client reviews (Knechel et al. 2013)	Positive feedback from the auditee's audit committee would indicate satisfactory results.
Compensation of audit partners (Rosnidah and Trompeter, 1994)	Remuneration packages linked to auditee financial performance comprise audit quality because the auditor may overlook certain issues in the audit for financial gains.
Partner workload (DeFond et al. 2013)	High involvement of the partner may indicate a better oversight process in the audit file and greater quality.
Appropriate sharing of information between auditors and financial and prudential regulators (IAASB, 2014)	Transparency and communication with the regulators would allow firms to monitor regulatory changes that could impact their compliance with relevant audit standards.
The availability of adequate technical support (DeAngelo, 1981b)	The may auditors feel pressured to agree with the judgement of a client if the client has more expertise on the matter in question. In those instances, technical support could provide independent view on the subject matter.
Compliance with the audit standards (Knechel et al. 2013)	Compliance with the new standards will shift from quality control and focus on quality management through the implementation of a risk-based approach, enhance firm governance, and focus on achieving quality objectives by identifying quality risk and responding appropriately.

Table 1: Indicators of high audit quality	
Audit quality indicator	**Explanation**
Partner's experience (IAASB, 2014)	The more experience the engagement partner obtains over time the great the level of audit quality through better technical capabilities and sound judgment.
Time spent on the audit (Palmrose, 1988)	Lower time spent on the audit may indicate that insufficient time was spent by the audit team or that areas of significant risks were not adequately addressed.
Rotation of partners (Francis, 2011)	The longer the tenure, the greater the familiarity threat to independence.

Based on the discussion above, for the purposes of this study, audit quality is achieved by an audit firm where expertise, independence and governance intersect, allowing for an environment that encourages quality audits that are performed on a consistent basis, and in accordance with the relevant regulations and internal processes. This is illustrated in Figure 1.

Figure 1: Audit quality components



8.3 Concerns being raised about audit quality and responses from the IAASB

Considering all the high-profile scandals of the accounting irregularities such as, Gupta-linked entities, many have questioned the value of the local audit profession (IRBA, 2018, 2019, 2020, 2021; Kok & Maroun, 2021; Marx & Harber, 2020). Post these corporate failures that have occurred, audit quality has been much debated in business and auditors have come under scrutiny for their contributions to the corporate failures.

The IAASB develops and revises audit standards, and technical guidance papers. The IAASB determined the need to revise and improve audit quality management standards through several activities that were conducted over the past few years, these activities highlighted critical areas of concern (IAASB, 2018). These activities included: the need to improve audit firms' corporate governance, leadership, culture and ethics and addressing the emergence of new trends such as how the firms communicate with external parties (through transparency reporting), issues faced by small audit firms in the application of audit standards, enhancing audit partner's duties in taking ultimate responsibility for an audit engagement and lastly improving the robustness of the audit quality management practices in audit firms (IRBA, 2021; Smith & Marx, 2021). The IRBA demonstrated the new focus on audit quality by publishing the audit quality framework that encourages communication between assurance providers and stakeholders (IAASB, 2018). The framework is supported by the new audit quality management standards, ISQM 1 and 2.

The newly revised audit quality management standards have put a new focus on audit quality (IRBA, 2020). The new standards are believed to have a greater impact on audit quality by driving great confidence in the financial market by responding to a changing audit environment by improving the effectiveness of the audit quality management practices at the firms and addressing the growing need of the society to improve quality of audits performed (IRBA, 2021).

The changes in the audit regulations, practices and norms have been the standing ground in maintaining good audit quality (Humphrey et al. 2011; Maroun & Solomon 2014; Power 2003a). While these developments have taken place, there have been other corporate failures (Burns & Fogarty, 2010; Byington & Sutton, 1991; Humphrey, Loft & Woods, 2009). These developments could not prevent every audit failure.

8.4 How to audit quality is managed in SA

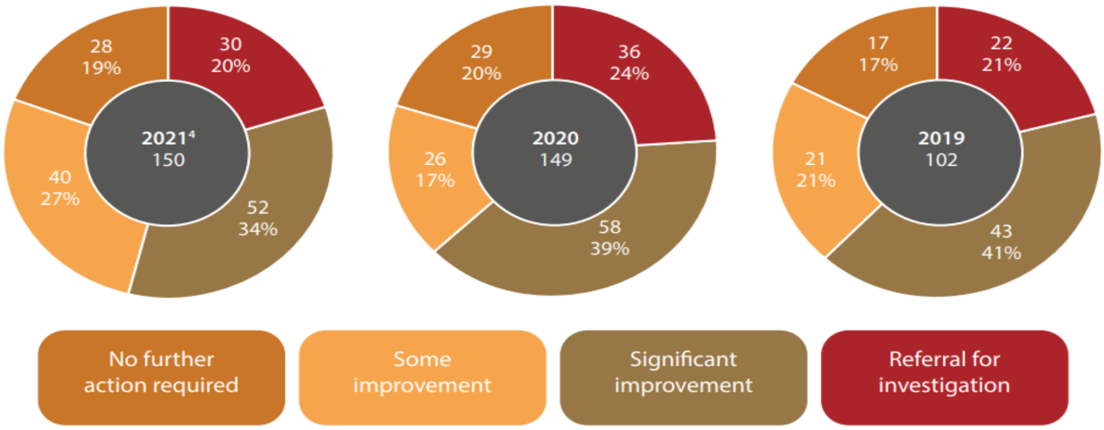
Audit regulators are of the view that audit quality issues are also caused by decreasing perception of quality by the society due to the lack of transparency by auditors, and it should be addressed by all stakeholders involved in the audit process (Cordoş & Fülöp, 2015).

In South Africa, the IRBA is responsible for the regulation of the audit profession, by ensuring that auditors provide quality audits to clients in accordance with the recognised standards and processes (IRBA, 2019 & 2020). In response to the declining audit quality, the IRBA responded by strengthening the disciplinary and sanctions process for those involved in unethical behaviours. This was in response to the findings that some of the audit firms are tolerant and forgiving of the non-compliance as noted from the inspection results (IRBA, 2019, 2020 & 2021).

The IRBA also called on the audit firms to publish transparency reports to disclose how they manage audit quality (IRBA, 2018; Smith & Marx, 2021). Noting the importance of audit quality, the IRBA spent considerable time and resources in conducting public inspections report (Logie & Maroun, 2021). The inspection report is based on a sample of audit engagements performed by registered auditors to assess possible weak aspects in the audit process which would help the registered auditors to improve on these areas to avoid future problems and improve audit quality (refer to IRBA, Public Inspection Report, 2020). This is particularly important to analyse the technical aspects of an audit process as highlighted by Maroun and Jonker (2014) that the technical analysis of the audit processes appear overlooked in the profession. This report is also useful to a broader stakeholder community. Moreover, it helps the audit committees in discussing matters that affect audit quality and ethics (IRBA, 2019). The inspection has not been used before in the past in South Africa and it is expected to highlight important areas for improvement, recurring adverse findings and trends from the inspections that can allow the audit firms to reflect on their systems of audit quality management (IRBA, 2021; Logie & Maroun, 2021).

The IRBA (2019, 2020 & 2021) conducted audit inspections for the inspection cycles ending 2019 to 2021 and published the overall results to the relevant parties and requested comments/feedback on the findings for additional communications (Logie & Maroun, 2021). The inspection outcomes for the assurance engagement files inspected are as depicted in the graph below as adopted from Logie & Maroun (2021).

Figure 2: IRBA inspection results summary



The feedback report (2021) highlighted the following main outcomes. There was a slight improvement in the 2021 engagement inspections results by 47% from 2020 (17%). Despite this improvement, the regulator noted and reported significant issues from the inspections that are concerning, those includes: insufficient controls in place to prevent recurring findings, insufficient documentation of the threat identification process and inappropriate safeguards to ensure independence, the engagement quality control review (EQCR) at the audit firms were noted to be ineffective as the reported deficiencies were from some of the audit files that went through the EQCR process, and ineffective consequence management as such non-compliance with the IRBA code or relevant standards were tolerated in some of the audit firms. The findings in the 2021 inspection report were similar to the ones contained in the past two inspection reports (IRBA, 2019 & 2020) which was concerning as some of the audit firms have no controls in place to prevent the outcomes of the inspections from recurring (IRBA, 2021).

In relation to audit quality, SAICA is responsible to provide guidance and technical resources to its members on technical matters relating to the auditing field (Terblanche, & Waghid, 2021). SAICA may use the inspection report to gauge the areas where the practitioners may potentially require more technical guidance and may pose challenges to the practitioners (IRBA, 2021). These findings are then used to drive the technical events and inform the guidance papers provided by SAICA to help drive audit quality. Overall, the findings of the inspection report drive its strategy.

9 RESEARCH METHODOLOGY

9.1 Research approach

This study explores audit quality disclosures contained in the transparency reports of audit firms. To collect and analyse the data, the study adopted a mixed methods approach as a suitable approach to provide a better insight into the problem and understanding thereof (Leedy & Ormrod, 2010). This provides an understanding of the audit quality practices in South Africa as reported by the assurance providers. The data was collected using qualitative content analysis to identify and quantify the audit quality disclosures of the audit firms, as disclosed in the transparency report. This approach was followed by Girdhar & Jeppesen (2018) paper which used a qualitative method to explore transparency reports' content disclosed by big 4 audit firms.

A quantitative approach was used to gauge the extent of audit quality disclosures using the data results from the content analysis. According to Guthrie, Petty, Yongvanich & Ricceri (2004), content analysis is the most common instrument that is used to code and score different disclosures because it can accommodate non-consistent formatted data (Krippendorff, 2018). Content analysis is an established research method, commonly used to identify and classify data sources into different themes (Leedy & Ormrod, 2013). The main purpose of obtaining an understanding of the themes is to fully comprehend the underlying subject matter. Girdhar and Jeppesen (2018) paper also used content analysis to analyse and understand the content of transparency reports. In this study, the transparency reports were inspected and analysed to obtain an understanding of audit quality disclosures.

9.2 Research design

A literature review was conducted to determine audit quality indicators reported by prior academic writings, the ISQM 1 & 2 requirements, IRBA inspection report, IAASB and IRBA guidance on audit quality, and King IV. These components were utilized to create a disclosure checklist which was then used as the research collection instrument in the study.

The research collection instrument was used to score 44 transparency reports' reported disclosures, the scoring method used a ranking of 0-3 as discussed in section 3.6. The disclosures were analysed using content analysis to identify and quantify the audit quality disclosures of the audit firms, as disclosed in the transparency report. To be able to carry out this exercise, a detailed understanding of the audit quality practices that confer to a good audit quality management system was obtained to deduce what type of actions in the audit firms are considered good practices to achieve quality audit in line with the guidance provided by the regulator, governance guidelines and the audit standards. The frequency and trends in the reported disclosures were evaluated to get an understanding of the audit quality practices.

As in other exploratory studies (refer to Malola and Maroun (2019), a small sample of 44 transparency reports were examined. This is because the aim of the study is to obtain a detailed understanding and insight into the audit quality practices' disclosures of the sampled assurance providers, and not to extrapolate the findings to all assurance providers.

9.3 Population and sample

The study examined the transparency reports of seven audit firms which account for 99.40% of the total market share per market capitalisation (refer to IRBA, 2017). Based on the proportion of the market share, the population results can be expected to provide meaningful results about audit quality practices in a South African context. The sampled audit firms are also expected to have mature reporting because of their size. Due to the small population, the study was conducted on all the transparency reports (Leedy & Ormrod, 2010). Table 3 below illustrates the population and sample size for each of the audit firms selected for this study.

Table 2: **Population size analysis**

Table 3: Population size analysis					
	Years included	**Number of reports**	**Percentage of reports**	**Audit firm market share per market capitalisation #**	**Audit firm size as per transparency report**
Large Firms					
PWC	2016-2020	8	18.18%	47.3%	Employ 208 000 people in 157 countries.

Table 3: Population size analysis					
EY	2016-2020	8	18.18%	13.8%	Employ 212 000 people in 150 countries.
Deloitte	2016-2020	8	18.18%	21.5%	Employ 220 000 people in more than 150 countries.
KPMG	2012-2020	7	15.91%	11.8%	Employ 174 000 people in 152 countries.
Medium-sized firms					
SNG-Grant Thornton	2016-2020	5	11.36%	4.6%	Employ 42 000 people in 130 countries.
Mazars	2016-2020	5	11.36%	0.5%	Employ 42 000 people in 90 countries.
BDO	2016-2020	3	8.82%	0.3%	Employ 64 300 people in 154 countries.
Total sample		**44**	**100%**	**99.40%**	

The table was developed in the study, with the information obtained from IRBA (2017).

The study examined a total of 44 transparency reports for the year 2016 to 2020 that were prepared and published by the audit firms presented in Table 3. The small sample size is appropriate given that this is an exploratory study and that results will not be extrapolated. Similar studies of this nature have also been conducted where a small sample was used (refer to Bacchetti, 2013; Malola and Maroun, 2019).

9.4 Procedure for data collection

In this study, transparency reports were inspected and analysed to obtain an understanding of audit quality disclosures. Each report was read several times to gain a sense of its content and structure. Each paragraph was carefully analysed to determine if it addresses one or more of the quality themes per the disclosure checklist. The quality of the disclosures was rated using an ordinal scale developed by Hassan, Roberts, and Atkins (2020). Each disclosure (per paragraph) was scored as followed:

- Code 0 represented a situation whereby no audit quality disclosure has been disclosed in the transparency report.
- Code 1 represented a situation whereby the audit quality control disclosure is contained in the transparency report of the audit firm. However, it is deemed to be generic or vague. For example, one audit firm merely reported that they offer training to its employees to enhance knowledge and skills to improve overall performance in the firm.
- Code 2 represented a situation whereby the audit quality disclosure is disclosed in the transparency report. The disclosure is verifiable, current and has objectives and lastly. One firm introduced the data and analytics tool Clara to build capacity D and A capabilities into their audits, it provides deeper understanding of data populations, giving focus to higher-risk transactions.
- Code 3 represented a situation whereby the audit quality disclosure is contained in the transparency report. The disclosure includes characters of Code 2 as well as specific information such as the monetary value, target, incident, number of affected species, trends, and description of specific measures. For example, one firm reported that the number of audit engagements subject to internal inspections in 2019 were 51 (2018: 47, 2017: 52) to ensure that engagements are performed in line with the firm’s audit quality policies.

9.5 Data analysis and interpretation

The researcher used descriptive statistics and graphical representations (bar graph and line plots) to highlight (1) the total amount of disclosure dealing with audit quality in the transparency reports and (2) the quality of the disclosures. The information is presented in total, per audit quality theme, per audit firm and per year. The analysis was supported by the data collected from the qualitative content analysis. Specific examples from the transparency reports were used to highlight how different audit quality features/characteristics are being disclosed. The examples of the disclosures were interpretively analysed by the researcher by cross-referencing the disclosures to the academic and professional literature. Examples of good and bad practices were provided and analysed (Smith and Marx, 2021).

Finally, the researcher used non-parametric tests to confirm the statistical significance of changes in the content of transparency reports

- A Kruskal Wallis H-test was used to test the variability of the amount and extent of disclosures (per audit quality sub-theme) from 2016 to 2020. Individual years were used as grouping variables.
- A Kruskal Wallis H-test was used to determine the variability of the number of disclosures (per audit quality sub-theme) with audit firm type as a grouping variable.
- A Kruskal Wallis H-Test was used to compare the frequency and number of annual disclosures by audit quality theme with themes as grouping variables.

This study used a low cut-off value of 1% for all the testing to lower the risk of a false positive finding which is commonly known as a Type-I error.

9.6 Validity, reliability, and trustworthiness

To achieve data reliability and validity,

- The first audit firm's transparency reports were coded by the researcher and reviewed by the supervisor to ensure that the identification of audit quality disclosures disclosed in the transparency reports and the coding process are appropriate and complete.
- To avoid inter-coder reliability problems, the researcher coded all the transparency reports individually.
- A sample of the coded reports was reviewed by the lead supervisor to ensure the accuracy, completeness, and consistency of the coding.
- Non-parametric tests were used to identify and test for differences in the coded scores as these are less sensitive to departures from the assumption that data are normally distributed.

Finally, the researcher noted that the coding process of scoring the audit quality disclosures disclosed in the transparency reports include some level of subjectivity. As a result, the researcher used their experience from coding similar sources of data when they investigated tax risk management disclosures in the integrated reports of South African listed banks in their Honours degree studies at the host university. This maintains data validity and reliability.

The researcher developed data testing methods after the completion of data collection to avoid pre-empting the findings of the data. The data collection instrument was supported and developed with the assistance of the two supervisors.

9.7 Ethical considerations

- The required ethics clearance certificate was obtained from the University of Witwatersrand with clearance number WSOA-2021-11-11W.
- The researcher did not receive any form of assistance from third parties during the data collection process as per the guidelines of Wits University. All the transparency reports were read and coded by the researcher as outlined in Section 3.3.
- The study analysed publicly available transparency reports that were obtained directly from audit firms' websites. There was no breach of confidentiality or anonymity in contrast to an interview or questionnaire (Creswell, 2009).
- The study has disclosed the applicable delimitations and limitations as recommended by Creswell (2009).
- The study did not obtain information from human interaction therefore there is a low risk of ethical consideration.
- The names of the audit firms have been changed in the results section for example, big audit firm 1 etc to protect their reputation and not associate the study with the respective auditing firms,
- The research was transparent by discussing negative and positive outcomes in analysing the results.
- The results are faithfully presented and indicate the actual findings of the data, the study had no pre-set findings that could impact the findings.
- The final disclosure checklist and related coded data were subjected to a review by the supervisors before they were used for the purposes of this research to eliminate unconscious biases.

10 PRESENTATION OF FINDINGS & DISCUSSION

As discussed in Chapter 3, currently audit firms are not mandated to publish their transparency reports. The IRBA (2018) has recommended firms to audit firms to disclose their audit quality practices in preparation for the legal requirements in 2023 demanding assurance providers to publish their transparency reports.

It was noted that the seven audit firms prepared the transparency reports and there was consistency in the publication of the transparency reports as the firms prepared the reports on a year-to-year basis. This was in response to the calls by the regulator for audit firms to disclose their audit quality practices.

However, it is concerning to note that some of the big audit firms only started to issue their transparency reports in recent years (2018) and one of the medium audit firms prepared their first transparency report in 2020. This may raise questions about their commitment and their actions to address concerns raised by the society regarding audit quality issues in recent years.

10.1 Structure of transparency reports

The researcher analysed the structure of the transparency reports by the headings used by the audit firms in the preparation of the reports. Based on analyses performed, it was noted that the structure of the transparency reports amongst the audit firms is inconsistent, but the audit firms generally report on the following five themes: inputs, contextual factors, interaction with stakeholders, process, and outputs. This is in line with the guideline provided by the regulator(s). The IAASB (2020) found that these elements are pertinent in providing for an environment that can achieve audit quality, and the structure of the reports address this accordingly. The inconsistencies in the structure of the reports can be explained by the fact that transparency reporting is impacted by the audit firms' operating environment (Zorio-Grima & Carmona, 2019). Each audit firm prepares and structures its transparency report according to its needs and reporting objectives. This may create issues because the reports prepared may be too inconsistent to provide users with meaningful information regarding the audit quality practices of the audit firms.

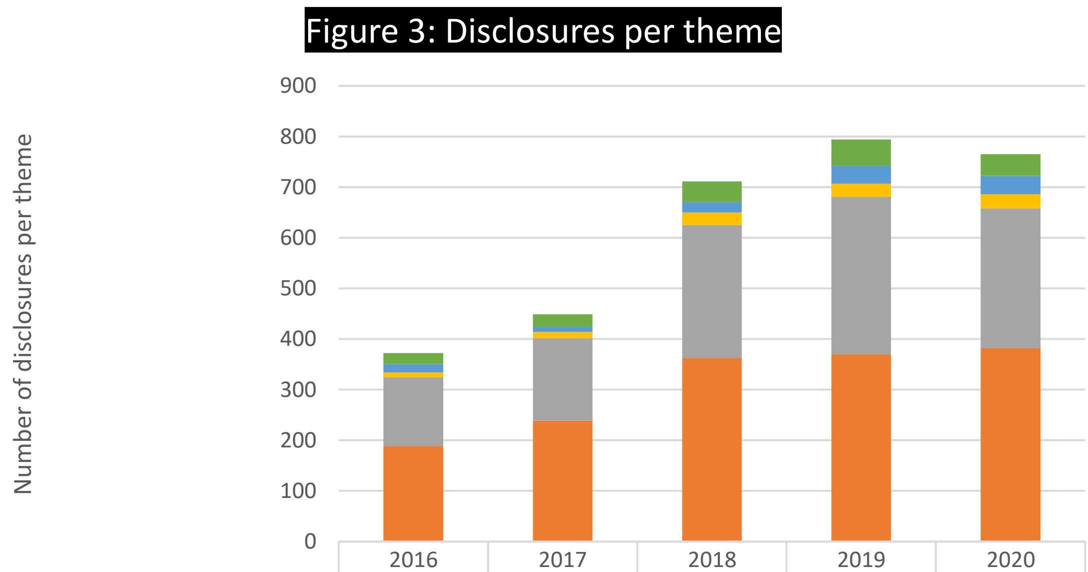
It may also be difficult to perform a comparison of the audit quality practices amongst the audit firms as the structure of the reports is not standardised. The findings of the thematic analysis confirmed that the transparency reports are inconsistent amongst the preparers. The findings are consistent with Zorio-Grima & Carmona (2019) that found that transparency reporting practices are different across firms.

10.2 Content in the transparency reports

Appendix C presents non-parametric test results in respect of changes in total disclosures (themes) over the period from 2016- 2020 with the disclosure theme used as the grouping variable.

Appendix C shows that there was a significant change in the total number of reported disclosures in relation to the themes in each year over the five years period. There was a statistically significant in total disclosure (themes) in 2016 (H= 14,244, p=<0,05), 2017 (H=32,637, p<0,05), 2018 (H=22,633, p<0,05), 2019 (H= 11,944, p<0,05) and 2020 (H=9,553, p<0,05). There was a significant year-on-year change in the total reported disclosures for all themes. This is evidenced by the large change in the number of reported disclosures in 2016 compared to 2020 per theme as presented in Figure 3. The analysis of disclosures per theme was therefore important in obtaining an understanding of the nature and extent of this change. The findings are presented below in Figure 3.

Figure 3: Total disclosures reported per the theme



	2016	2017	2018	2019	2020
Output	21	25	41	52	43
Context of factors	17	10	20	35	36
Interaction with stakeholders	9	12	25	26	28
Process	136	163	262	311	276
Inputs	189	239	363	370	382

Inputs Process Interaction with stakeholders Context of factors Output

10.2.1 Inputs

The input disclosure theme is the best-performing theme. This indicates a certain level of maturity and the adoption of similar reporting practices by the firm for inputs theme disclosures made. The focus reporting on the input theme is because it is concerned with some of the pertinent aspects of the audit process such as independence, ethics and attitudes of auditors and competencies. These factors were found to be the foundation of the audit profession (DeAngelo, 1981a). This is further supported by DeAngelo (1981b), noting that audit quality is mostly influenced by the ability of the auditors to detect fraud, and then their propensity to disclose the findings. Based on Figure 3, audit firms focused on inputs areas of the audit process, as a greater number of disclosures addressed this theme. The most reported disclosures from 2016 to 2020 were addressing the inputs theme. The inputs disclosure theme improved by 102% over the five-year period. This increase can be explained by the high reported disclosures in respect of the independence of the auditors, ethics consideration, client acceptance and competencies of auditors over the 5 years period. Public trust and confidence have reached an all-time low locally and globally, and the previous years were the hardest years in the audit profession due to several auditing scandals- most notably in relation to Steinhoff, VBS bank and Tongaat Hulett indicating that stakeholders expect the firms to report on the impact that these scandals and governance issues may have on their operations (Smith and Marx, 2021).

This increase can also be explained by the findings of the IRBA (2017), stating that compromised independence, professional scepticism, and honesty are the main contributors to audit failures. In response to this issue, more is required to be done by auditors in the wake of several audit failures and accounting scandals concerning audit quality, market concentration and auditors' independence (Council, 2008; Smith & Marx, 2021) such as more allocation of resource addressing auditors' ethics and independence problems. Audit firms focused their reporting on the issues that are addressing significant issues, being independence and ethics.

It is concerning that insufficient disclosures were reported in respect of partner rotation, audit fee and compensation of partners considering that these are one of the major determinants of the independence of auditors and audit quality as discussed by DeAngelo (1981a), Francis (2011) and Knechel et al. (2013). Disclosures reported in respect of audit fees were 11 in total over the five years period, while partner rotation had 28 disclosures. The number of disclosures reported addressing the compensation of partners amounted to 41. These reported disclosures were relatively low compared to the 150 disclosures reported for the independence of auditors from 2016 to 2020. The increased focus on independence issues is important for the audit profession to gain legitimacy and trust in the public eye (Power, 2003; Monroe and Tan, 1997; Shockley, 1981). This is in accordance with Francis (2004), who reported that auditors' independence should be given the highest level of attention to deal with audit quality issues. The study by Monroe and Tan (1997) also found that the reliability of audited financial statements depends on the quality of the audit performed, and public perception (Shockley, 1981). The focus on improving the independence of auditors will improve the public perception that assurance providers are independent from their clients.

It was noted that the reporting relating to personnel maintaining the appropriate competence theme was poor (refer to Appendix A). There was a significant decrease in the number of reported disclosures from year to year which is concerning considering that the IRBA has emphasized the need for more integrated technical competencies to allow auditors to provide quality deliverables (SAICA, 2018). The content analysis findings also indicated that the audit firms do not disclose information related to the experience, skills, and remuneration of their board members. Also, none of the firms disclosed biographical details of the board and executive members. This is inconsistent with the good corporate governance principle as recommended by King IV (IOD, 2016). The findings indicates that all the audit firms reported in detail the duties of their executive and the board of directors; and provided the structure of their leadership. This is vital for the effective management in the audit firms as recommended by the Financial Reporting Council (2016).With reference to the committees, all seven audit firms have disclosed information in respect of risk management and audit committees. The formation of audit committees and related sub-committees such as audit quality plays a critical role in ensuring audit quality is achieved. IRBA (2021) allocated the responsibility for audit failures to all the role players in the audit process, such as management, board of directors, audit committees, investors, and regulators. It is important that all parties play their role and contribute.

Despite the establishment of the audit and risk management committees, the number of meetings attended during the relevant financial years was not reported, and the audit committees' structures did not meet the recommended King IV principle which requires all members of the audit committee to be independent non-executive directors. Only one firm reported that it has a nomination committee, two audit firms indicated that their remuneration committee was formed to approve the remuneration policy.

Based on the content analysis performed to analyse the disclosure on the oversight board and its composition of the audit firms in South Africa, it is evident that not all audit firms have an oversight board, and it can be argued that the corporate structures of the audit firms are flawed. The findings are worrying considering that the recent accounting scandals were the product of the values governing auditing firms. Good audit firm governance is a way in which the audit firms can maintain the public trust in their brands by being seen as exemplars of best practice governance. These results support the findings of the study by Smith and Marx (2021) who concluded that the corporate governance aspects are not appropriately addressed in the transparency reports of audit firms because in South Africa there is no specific corporate governance code for auditing firms like there is in the UK. The King IV Code is applicable to any organisation, and includes specific sector supplements for several sectors, but audit firms are not included in these sector supplements which makes it difficult for audit firms to implement. In most cases, the current legislation does not address governance of the audit firm but only focus on the governance of the individual audit partners (Smith and Marx, 2021). These shortcomings in the corporate governance are concerning considering that proper corporate governance in the audit firms is vital in gaining market confidence and enhancing transparency.

10.2.2 Contextual factors

The total number of reported disclosures was 118, which is fourth among the five audit quality themes over the five years period. The number of reported disclosed was 17 in 2016 compared to 10 in 2017, this account for a 41,18% decrease. There were 10 additional disclosures reported in 2018 compared to 2017. This was followed by an increase of 75% in the number of disclosures related to contextual factors theme to 35 disclosures in 2019. In 2020, there was an additional disclosure compared to 2019. For the period between 2016 to 2020, there was an increase of 11,76% in the number of disclosures related to contextual factors theme. This increase can be explained by the high number of reported information related to the appointment and duties of the CEO and the chairperson of the board. From the content analysis, all the audit firms have disclosed information about their CEO(s) and chair of the board. It was also noted that none of the audit firms had a CEO who also held the position of the chair of the board as recommended by King IV (IOD, 2016).

According to Smith and Marx (2021), one of the most important components of a good corporate governance is the board composition. In addition, past studies have shown that to achieve good governance, a set of principles for good practices (setting the tone at the top) in the firm is required (Smith and Marx, 2021; Financial Reporting Council, 2016; Fukuyama, 2013). Owner accountability is important, and the management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision. From the analysis, it was found that most audit firms do not have specific independent oversight bodies in South Africa to provide oversight on governance. Only one audit firm has appointed a South African oversight board to provide oversight on governance, and the other firms have global oversight bodies.

Almost all the audit firms did not report the extent that they are satisfied with the composition of the governing body and have not disclosed adequately the directors that are independent. However, it was noted that most members were not independent from their oversight boards. This can be explained by the fact that the establishment of the audit firms can take two forms: being either a partnership or company (Smith and Marx, 2020). If an audit firm is formed as a company, all shareholders are directors, and all directors must be Registered Auditors. If an audit firm is a partnership, all partners are directors, and all directors must be Registered Auditors (RA) as per the Auditing Profession Act (2005) (IRBA, 2021). Audit firms will elect directors to form an Executive Committee (EXCO) which is responsible for the day-to-day management of the firms' operations. All members of the EXCO are partners or directors of the firm, and therefore it is not possible to appoint independent individuals to the EXCO. For this reason, it is difficult for audit firms to have independent boards (IRBA, 2020). However, some audit firms took measures and reported that they appointed an independent oversight structure which is not part of the day to-day management of the firm (most are set up globally and not specific to the South Africa firm), but rather provides oversight over governance of the audit firm. This is important in ensuring that owner accountability is realised, and the management of the firms are accountable to the firm's owners and no individual should have unfettered powers of decision. Audit firms should strive and take measure to improve on setting up the independent oversight body (Sadhir, 2016).

Contextual factors have an impact on audit quality. Such factors include corporate governance, others and law and regulations (IRBA, 2017). Matters such as state capture are important to stakeholders because they are interested to know about the governance issues and management ethics in leading audit firms. Only two audit firms reported information about litigation and related cost. An example of such a disclosure reported is:

About the investigations in South Africa, we confirm the existence of two significant regulatory investigations currently being conducted into the professional conduct of auditors in the employ of the big audit firm. These investigations, which emanate from the Independent Regulatory Board for Auditors (IRBA) are into the audits of Steinhoff International Holdings Proprietary Limited and audits of African Bank Limited and its subsidiarie (Sadhir, 2016).

It was concerning that one of the big audit firms implicated in state capture did not address the allegations against them in their transparency reports. The lack of litigation-related disclosures in the transparency reports can be explained by the reputational risk and public pressures, placed on this audit firm, being one of the big audit firms, to report information that can result in further public scrutiny of the audit profession. Litigation-related information may be challenged by the stakeholders because the information regarding matters such as state capture is in the public domain.

Given this context, audit firms may also not publish information on specific audit procedures that have been conducted during an engagement to avoid public scrutiny and accountability for not meeting society's expectations of an audit. The lack of specific audit quality disclosure themes suggests a lack of reporting guidance for audit firms. Considering the important role of an audit, to allow stakeholders to have confidence in companies in which people invest in, a proper reporting framework is needed (Healy and Palepu, 2001).

10.2.3 Interaction with stakeholders

Figure 3 indicates that interaction with stakeholders is the worst-performing disclosure theme with a total of 100 reported disclosures. Audit firms have focused on the same theme, namely the inputs, without developing other areas of disclosure. Despite this, the reported disclosures related to interaction with the stakeholder's theme increased over time with the following disclosure numbers; 2016 (**9**); 2017 (**12**); 2018 (**25**); 2019 (**26**) and 2020 (**28**). Despite the increases in the disclosures related to this theme, it remains one the least reported theme and disclosure for this theme is largely generic. This increase was mostly due to the high reporting of the disclosure relating to appropriate sharing of information between auditors and regulators such as IRBA through surveys and inspections, which accounted for 30% of the total reported disclosures. This can be explained by the fact that corporate failures in the audit profession in recent years also increased the need for external regulation, and the need for communication between auditors and regulators (Knechel, 2016). The focus on sharing of information between the auditors and regulators is important in addressing audit quality issues, with the regulators acting as the watchdog and holding the firms accountable (IRBA; inspection report: 2020). This also assures the stakeholders that the profession is reforming to restore public trust (Knechel, 2016). The importance of transparency and accountability has been widely recognised by both academics and market regulators (Delloite, 2010). This follows two decades of corporate failures and scandals of global companies such as Arthur Anderson, and more recently, VBS Bank and KPMG (Smith and Marx, 2020).

These acts of self-interest have undermined the confidence of all stakeholders, resulting in a relationship of broken trust between themselves and governing bodies. Although still to be prescribed in South Africa, audit firms are encouraged to voluntarily issue transparency reports for their South African activities and should report on their interactions with the all the regulators and provide more information to the public on how they managing these relationships such as disclosing the number of meeting held during the period, and also disclose what the types of activities that were performed by the regulators during the period and the results thereof (IRBA, 2021). These activities can include the IRBA surveys conducted and the results thereof. The early adoption of those best practices will encourage the maturing of the systems and reporting in audit firms, and learning ahead of regulation (Knechel, 2016). Audit firms should be aiming to improve the reporting of information related to the interaction with stakeholders' theme as it is the least reported theme in the five years to ensure that they rebuild public trust.

The disclosures relating to the feedback received from clients' audit committee were reported but they were generic. All the 14 reported disclosures were awarded a ranking score of 1s. Audit firms are not comprehensively reporting and disclosing matters addressed with the regulator. The lack of stakeholder-specific disclosures may be explained by the immense public scrutiny and pressures placed on assurance providers (Council, 2008; Holm & Zaman, 2012). Audit firms being considered to be at the forefront of corporate failures may have an incentive to not report information that may lead to further criticism of the profession, in particularly to restore their reputation and retain clients (Council, 2008; Holm & Zaman, 2012). However, IRBA provides information from its dealings with the assurance providers to reduce this information gap. An example of this is the IRBA feedback report on audit quality which provides the public with a set of measures reported by the assurance providers to the regulator with the aim to strengthen confidence in audit firms. An example of a reported disclosure related to interaction with stakeholders is listed below:

> *Honest and candid communication with clients, including management and audit committees, is a key aspect of our reporting and quality service delivery. We achieve this through reports and presentations, attendance at audit committee or board meetings, and informal discussions with management and members of the audit committee. We stress the importance of keeping the client informed of issues arising throughout the audit as reported by one of the big audit firms.*

Each stakeholder plays a vital role in supporting quality financial reporting and ways in which their interaction may influence audit quality. Key interaction between stakeholders is encouraged and should be disclosed adequately. With the current unprecedented level of scrutiny on audit firms, audit firms should be transparent, and for the audit profession to embrace the attitude of disclosure and transparency that is encouraged among their clients (IRBA, 2018).

10.2.4 Process

The disclosure process theme was the second most reported theme over the 5 years period after the input theme (refer to figure 8). There are additional 27 disclosures in 2017 related to the process theme, which accounts for a 19,85% increase. This was followed by another increase in number of disclosures from 163 in 2017 to 262 in 2018. This trend continued in 2019 whereby the number of reported disclosures increased by 49 resulting in an improvement of 18,70%. There were 35 fewer disclosures in 2020 compared to 311 reported disclosures in 2019, which accounted a for 11,25% decrease. Overall, there was an increase of 102,94% in the number of disclosures reported by audit firms from 2016 to 2020 in respect of the process theme. This showed maturity in reporting in respect of the process theme overtime.

It was encouraging to note that all audit firms indicated that at least annually, they conduct a review of the effectiveness of their firm's system of internal control. The significant increase in the number of reported disclosures related to process themes may be explained by the shift from traditional auditing to the use of more sophisticated auditing software to align with the 4th industrial revolution**.** This is supported by the high reported disclosures related to investments in technological capabilities and infrastructure, with 188 disclosures. Industrial revolution remained the most prominent issue in each year. This supports the findings of Sengur (2019) that there is a preference by preparers of reports for information that is quantified as this is seen as more high-quality reporting and the provision of facts. The firms have been driving digital transformation at a high speed to adapt to the disruptions of technological changes (Atkins, Buchling, Cerbone, Lange, Maroun, Kok & Van Zijl, 2020) and they were focusing on reporting how they were managing and responding to the technological changes.This can be seen as a marketing tool as audit firms are promoting to the stakeholders that they have the best data capabilities and technological resources to deliver the best audit compared to their counterparts.

All seven audit firms have disclosed they have significant investment in researching and developing innovative technology solutions to allow efficient delivery of quality services. All firms have successfully carried out major projects, with the implementation of global platforms and audit softwares to allow audit firms to better respond to new market demands and fully embrace technology. Examples of a reported disclosure related to technological advances is:

> *Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM. EY Canvas, our global audit platform, lies at the heart of the audit and enables us to provide a high-quality audit. Canvas is built using HTML5, state-of-the-art technology for web applications. This allows us to provide data security and evolve our software to respond to changes in the accounting profession and regulatory environment. The predecessor audit support tool, GAMx, was decommissioned in 2018 as reported by one of the big 4 audit firms (IRBA, 2021).*

The results indicate that audit firms invest and respond appropriately to changes in technology. This in line with the findings by the PWC (2019) that found that the future of audit is dependent on how assurance providers embrace technology to audit efficiently and effectively. The firms also indicated that they have embraced the need to train their personnel to better utilise technology and they are committed to achieving audit quality. This is evidenced by the relatively high reported disclosures in respect to commitment to audit quality, the number of disclosures was at 147. An example of this was training programmes conducted by one of the big four audit firm during 2020. Their audit professionals have attended 75 012 hours of training in 2020 and 40 673 in 2019 to clearly highlight the shift to technology-based learning during the lockdown. Covid-19 has resulted in many challenges for auditors in obtaining sufficient and appropriate audit evidence. For example, travel restrictions may have impacted physical access to attend inventory counts, the ability to obtain original documents for inspections and availability of client staff. Other considerations were given to alternative audit procedures to obtain appropriate evidence for the auditors to express an audit opinion on the financial information. The trainings were essential to prepare audit teams for remote audits and ensured that the team members are adequately trained to use the technological infrastructure.

The content analysis results also indicated audit firms do accept that artificial intelligence (AI) will transform the audit profession. Many reported that AI has a higher level of precision than the human inspector is capable of. By making it possible for auditors to work better and smarter, AL will help optimize time, enabling auditors to use professional judgement to analyse a broader and deeper set of data and documents. This was seen to enable them to ask better questions and to interact more with management, audit committees and company boards adding value to the audit process. This contributes to providing better quality audits.

10.2.5 Outputs

The total number of disclosures related to output themes increased by 104% over the five years period. The reported disclosures improved in 2017, from 21 in 2016 to 25. The number of reported disclosures increased by 64% in 2018. This was followed by an increase in the number of disclosures from 41 in 2018 to 52 in 2019. There were 9 fewer reported disclosures in 2020 compared to 2019, which account for a 17,31% decrease.

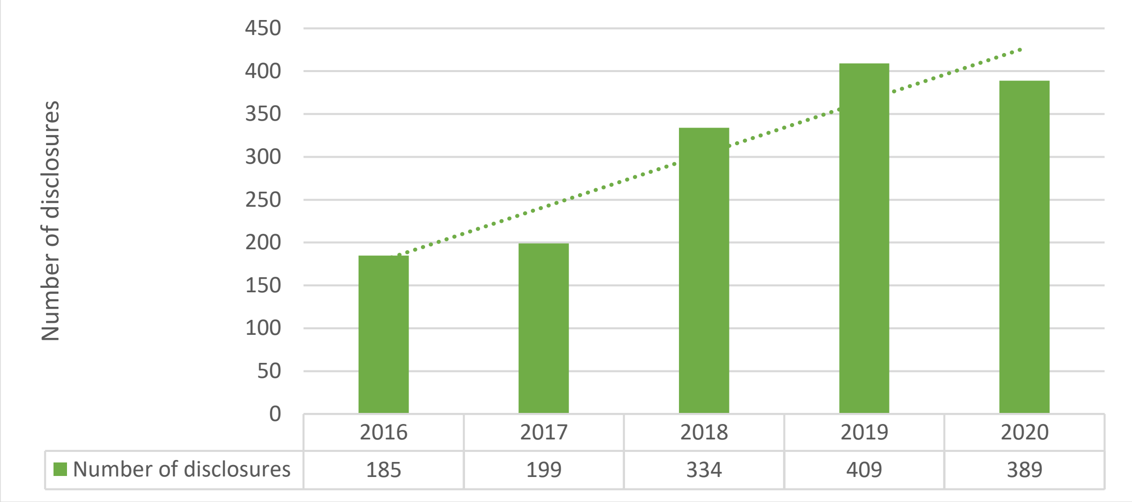
It was noted that audit firms focus on the details addressing the dating of the audit reports. The firms reported that all audit reports should be dated once the independent quality reviewer has completed the review process. This is in accordance with the audit quality standards requirement (IAASB, 2020 (ISQM 1); IAASB 2009d, (ISA 220). It was also noted that all the audit firms disclosed that they aim to issue audit reports in accordance with laws and regulations, however, this information was generic. This is reflected by the number of one ranking awarded to 40,66% of the total reported disclosures in respect of output theme.

It was concerning that in the 2020 transparency reports, none of the firms addressed the recoverability of audit fees as a consideration for rendering assurance services to clients and issuing an audit report. This can be explained by the fact that audit fees are always paid because they are insignificant business costs. Nevertheless, this is a significant risk for audit firms considering how the Covid pandemic affected some of their clients' operations. A portion or full outstanding audit fees may not be recoverable due to the changing economic situation (Albitar, Gerged, Kikhia, & Hussainey, 2020). None of the audit firms disclosed how the credit risk is managed, this may raise independence issues if clients cannot afford to settle their audit fees and are still retained as clients in subsequent years (Atkins et al. 2020). On the contrary, DeAngelo (1981a) found that audit fees charged to the clients and their recoverability will not affect audit quality or independence of auditors because the audit fees lost by audit firms may be the seen as cost already incurred. However, this may not be the reality in the current environment because of the financial strains faced by both audit firms and their clients (Atkins et al. 2020). Due to the increased business risks, auditors will be required to put more effort and resources to audit financially distressed companies especially ongoing concerns and IFRS 9 expected credit loss allowance (Albitar et al. 2020), which will result in an increase in the audit fees. Other existing research found that during poor economic conditions, companies tend to negotiate with their auditor for a reduction in the audit fees (Albitar et al. 2020). From the content analysis, it was found that none of the firms have reported how they have negotiated audit fees and payment terms with their clients during the Covid pandemic. However, audit fees are normally disclosed separately in the financial statements of companies and interested stakeholders may review the financial statements to note the audit fees charged by the auditors. The audit fee of listed companies would be publicly available to the public, and this may provide the auditors with reasons to not report on audit fees generated from JSE listed companies.

10.3 Extent of change in transparency reporting overtime

The analysis shows that the period from 2016 to 2020 had 1516 observations. The number of disclosures improved by 110,27% over this period. Figure 4 below illustrates the analysis of the number of audit quality disclosures of all audit firms.

Figure 4: Total audit quality disclosures per year



Based on figure 4, it can be seen that there was an increase in the number of disclosures from 2016 to 2017 of 14, this was an improvement of 7,57%. In 2018, there were additional 135 disclosures, which constituted an increase of 67,84% from 2017. There were 409 disclosures in 2019, this amounts to an increase of 22,46% from 2018. Lastly, there was a decrease in the number of disclosures from 409 to 389 in 2020. This accounted for a decrease of 4,89%. The overall change was an increase of 110% over the period from 2016 to 2020 and an upward trend can be noted over the period of 5 years. Figure 4 shows how the number of disclosures has increased over the period, but it does not address the significance of the increase.

Audit firms increasing their reporting indicate that the firms are expanding audit quality disclosures rather than trying to maintain conciseness in their reports as noted by the inconsistencies in the reporting of audit quality practices. The extent of disclosures was likely influenced by public pressure as audit firms face greater exposure to the issues relating to audit quality and public scrutiny on the recent audit failures, leading to increased reporting (IRBA, 2021). Total number of disclosures per year increased as stakeholders involved in the audit process demand for more information on audit firms' impacts on audit quality (Sengur, 2019). The impact of the firms is made visible, allowing for accountable. A factor noted from the analysis was the prevalence of information related to the firms' independence policies, client acceptance, monitoring of inspection results and governance issues. This could indicate that the increase in disclosure is underpinned by a sense of accountability by firms as this information may be used to show that they are taking measures and corrective actions to rectify the issues that led to the downfall of the audit profession in South Africa especially relating to their governance and independence (IRBA, 2018).

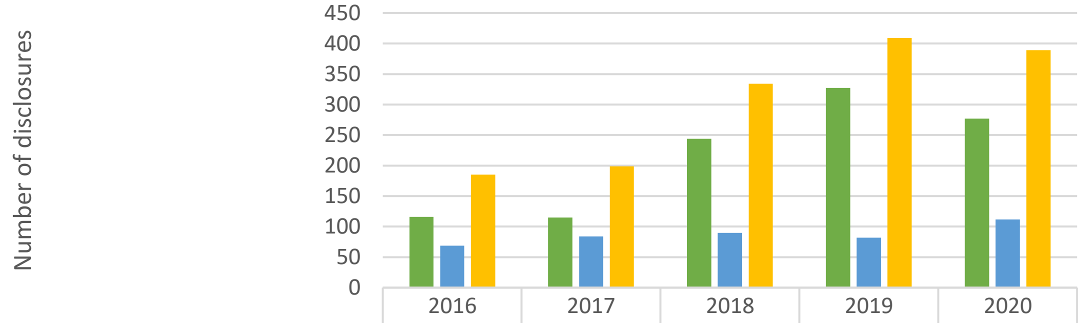
A Kruskal Wallis H-test was used to determine the variability or significance of the change in the number of disclosures (in total) from 2016 to 2020. Individual years were used as grouping variables. (The test tables are in Appendix A). The total disclosures related to the monitoring and remediation process (sub-theme) which is used to identify audit deficiencies changed significantly over the five years period. The results were statistically significant ($H=6,692$, $p<0,05$) as the findings of the study indicated a Kruskal Wallis H-test below 0,05 at 0,035. Therefore, it is found that there is a change in the monitoring and remediation process sub-theme every year. This is supported by the results from Jonckheere's trend test which found that there is a negative year-on-year change to this sub-theme (-0,2,444, $P<0,05$).
A total of 124 items were considered for a change year-on-year to evaluate whether the the number of disclosures reported change from 2016 to 2020. A significant change was noted in the one disclosure sub-theme (monitoring and remediation process). The test also suggested that the number of reported information in respect of the remaining 123 disclosure sub-themes was consistent from 2016 to 2020 as presented in Appendix A as the results were statistically insignificant ($H=6,692$, $p> 0,05$). There is a lack of variability in the disclosure sub-themes amongst the different years. This indicates that the disclosure sub-themes were reported consistently during the five year period, irrespective of the reporting year. When considering the results on an overall level, it is noted that the majority of disclosure items did not undergo a statistically significant change. This does not indicate a good level of maturity and the adoption of similar reporting practices by firms for audit quality practices.

10.4 Comparison among the type of firms

From 2016 to 2020, the big audit firms reported a greater number of disclosures in comparison to the medium-tier audit firms. The figure below illustrates the analysis of the comparison of disclosure numbers between big and medium-tier audit firms.

Figure 5: Comparison of disclosures numbers between audit firm types

Figure 5: Comparison of disclosure numbers between big and medium tier audit firms



	2016	2017	2018	2019	2020
Total number of disclosures of big audit firms	116	115	244	327	277
Total number of disclosures of medium tier firms	69	84	90	82	112
Total number of disclosures in all audit firms	185	199	334	409	389

Big audit firms

The analysis shows that for the period between 2016 to 2020 had 1079 observations. The number of disclosures improved by 138,79% over this period. Figure 4 indicates that there was a decrease in the number of disclosures from 116 to 115 in 2017, which accounted for a decrease of 0,86% from 2016. This was followed by an increase of 112% in 2018, this was due to additional 129 disclosures 2018. There were 327 disclosures in 2019, this was an increase from the 244 disclosures in 2018. This increase amounted to 34%. In 2020, there was a decrease of 50 in the number of reported disclosures from the 327 disclosures reported in 2019. This accounted for a decrease of 15,29%. Overall, there was an increase of 58% in the number of disclosures reported by big audit firms from 2016 to 2020. The findings by Bedard, Johnstone, and Smith (2010) showed that big audit firms tend to measure their audit quality levels in reference to outcomes determinants, such as litigation cost and the number of restatement. Additionally, they focus on external inspections of their engagements. To the contrary, big audit firms reported a low level of disclosures related to litigation (4) and restatement (1). This is concerning particularly because most of the big audit firms have been embroiled in corruption and accounting scandals such as VBS Bank, Steinhoff, Tongaat Hulett, one would have expected to see more reported disclosures to address these issues in more details to their stakeholders.

Medium audit firm

In contrast to the big audit firms, medium audit firms reported number of disclosures increased from 69 to 84 in 2017, which accounted for 17,86% increase from 2016. This was followed by another increase of 6,67% in 2018. There were 82 disclosures in 2019 as compared to the 90 in 2018. This amounted to a decrease of 8,89% in 2019. There were 30 additional disclosures in 2020, which accounted for 36,59%. Overall, there was an increase of 62,32% in the number of disclosures reported by the medium-tier audit firms from 2016 to 2020. The increase in the number of reported disclosures in 2020 can be explained by the Covid 19 pandemic, which required firms to disclose more information to their stakeholders in respect of the business interruptions and new audit approaches that were utilised to audit remotely (Atkins et al. 2020).

Overall, medium-tier audit firms reported fewer audit quality practices disclosures (average = 87,40) than big audit firms (mean = 215,80). Based on Figure 5, it can be noted that in 2016, the big audit firms reported more disclosures 116 in comparison to the 69 disclosures by medium firms. This trend continued until 2020. In each year, the big audit firms have reported a greater number of disclosures compared to the mediummedium-tier as seen in Figure 5 above, this is in line with the findings by Malola and Maroun (2019) who concluded that big organisations are expected to have better quality and maturity repo ing because of better resources. Big audit firms are therefore expected to have superior and matured reporting of their audit quality practices over medium-tier firms because of their worldwide brands, and better resource capacities to invest in mature reporting over time. A Kruskal Wallis H-test was used to determine the variability of the amount (in total and per audit quality sub-theme) from 2016 to 2020 with the audit firm type used as grouping variables. The findings of the test are presented below.

In addition, Kruskal Wallis H-test results indicate that there were 64 disclosure sub-themes in total out of 123 which had a statistically significant change in the audit quality disclosures from 2016 to 2020 (Also refer to Appendix B). This suggest that there is a link between reported disclosures and audit firm type, further supporting the view that big organisations tend to have more mature reporting compared to medium size organisations (Malola and Maroun, 2019). In particular, the following disclosure sub-themes; **1** professional scepticism independence of the auditors **3** auditor tenure **4** compliance with the audit standards and **5** compensation of audit partner**,** showed that on a year-to-year basis from 2016 to 2020 they had changed. There were statistically significant changes in the number of reported disclosures between big and medium tier firms, **1** ($H=19,2936$, $p<0,05$), **2** ($H=19,0431$, $p<0,05$), **3** ($H=22,9646$, $p<0,05$) **4**

(H=18,4004, p<0,0,05) **5** (H=17,9507, p<0,05) respectively (refer to Figure 5). However, the Jonckheere-Terpstra test did not confirm a positive year-on-year change in the five disclosure sub-themes mentioned above (refer to Appendix B).

11 CONCLUSIONS & RECOMMENDATIONS

11.1 Reliability of transparency reports

All audit firms have disclosed that the measures and procedures outlined in the transparency reports serve as the basis for their system of quality management, with the purpose to provide a reasonable degree of assurance that the statutory audits carried out by the audit firms comply with the applicable laws and regulations. This is in accordance with the requirement contained in ISQM 1, requesting audit firms to monitor their system of quality management to evaluate the effectiveness and to identify deficiencies that require corrective actions (IAASB, 2020). They also acknowledged that their system of quality management has natural limitations, and they are not intended to provide absolute assurance to the stakeholders that non-compliance with relevant laws and regulations would be prevented or detected.

All the reported disclosures in the transparency reports were not assured by independent parties. This may raise concerns on the reliability and credibility of the reported information. Audit firms may be reporting information for impression management, to be seen as credible to its potential clients. According to Maroun and Solomon (2014) and Watts and Zimmerman (1986), assurance over information enhances information quality. Assurance over the reported information would mean that the disclosures are following an acceptable reporting framework or standard (once they have been set).

11.2 Summary of results

Audit quality has been researched by many researchers over many years, yet the concept is still much debated, especially regarding its definition and measurement. In South Africa, the IRBA (2020) has found it troublesome to measure and gauge the quality of assurance services among the audit firms. Over the years, this was aggravated by the accounting scandals and corruption cases in which the audit firms were implicated. As a result, the public scrutiny of the audit profession was immense. In response to the public outcry, the IRBA requested audit firms to publish transparency reports to disclose their audit quality practices with the aim to gain public trust, however no proper reporting guidance was issued.

This study was the first to explore transparency reporting in a South African context. The study covered 44 transparency reports published by audit firms over a five-year period, from 2016 to 2021. The findings of the study will therefore provide opportunities for future research. The study also found similar results with existing research; the research has found that audit firms are committed to making improvements to their audit quality practices and report on their governance structures. However, they do not adhere to the corporate governance principles as recommended by King IV regarding the composition of their boards and committees. These findings support the results from the research conducted by Smith and Marx (2020) indicating that the audit firms did not comply with King IV corporate governance requirements and have poor governance structures in place.

Audit firms were found to be inconsistent in preparing the transparency reports due to the lack of the reporting framework by the IRBA. Each firm prepared its transparency reports and structured them according to their professional judgment, considering the needs of the stakeholders. In addition, the individual audit firms were also found to have inconsistencies amongst their own reports, with significant changes in the structure of their reports over the five years period.

The study also found that audit firms are committed to audit quality and have invested significant resources in addressing concerns raised by the public regarding the recent audit failures. This was evidenced by the increase in the number of reported disclosures over the five years period, but the increase was not considered to be significant, nor did it provide detailed information to stakeholders about audit quality practices because the reported information was mainly generic. Based on the analysis above, it is concluded that the audit firms appear to be more focused on preparing transparency reports and not focusing on increasing or enhancing the level of detailed reporting as evidenced by the high levels of one ranking awarded to the reported information. If the information reported in the transparency reports is not meaningful to the stakeholders and does not provide potential clients and the public with the firms' audit quality practices broadly, audit firms will struggle to gain legitimacy and public trust.

The increase in the reported disclosures did not improve at the expected level despite audit quality being a pressing issue in the audit profession. The results above indicated that the big audit firms reported more disclosures compared to the medium-tier firms because of their resource wealth. This is in line with the prior studies that found that big organisations have mature reporting because of their various resources. Moreover, it was found that there is a positive link between the type of audit firm and the disclosure sub-themes (as per figure 6).

The reported information was found not to be assured which could cast doubts on the credibility of the information disclosed and reduce the meaningfulness of the transparency reports to be informative to users as expected, to increase the perceived level of audit quality at the firms.

The researcher used the term ‘reported’ to describe the audit quality practices that were contained in the audit firms’ transparency reports from 2016- 2020 because other audit quality practices may be in place but may have not been disclosed by the firms in their reports. The researcher could not reach a definite conclusion on whether the reported audit quality practices were not implemented by other audit firms. This gave rise to a limitation of the study.

Table 3: Results Summary

Research preposition	Findings
Expect transparency reporting to address the five audit quality themes as outlined in Section 2.2 as recommended by IAASB.	It was found that the reports prepared by audit firms to disclose their audit quality management systems were inconsistent amongst the sample audit firms but the number of reported disclosures per theme changed over the period
Expect inconsistencies in reporting and structure of the reports as there is no guidance on reporting framework.	The study found there are inconsistencies in the audit quality practices' reporting and structure of reports.
Expect transparency reporting in the audit firms to increase over time (2016-2020) in response to the latest audit failures to gain public trust and legitimacy.	The results of the analysis in Appendix A indicated audit quality disclosures did not improve from 2016-2020.
Expect more reporting of audit quality practices from the large audit firms for the period 2016 to 2020 because of their worldwide brands, and better resource capacities to invest in mature reporting.	The findings of the study have indicated that big audit firm reported more audit quality disclosures compared to medium-tier firms. The reported disclosures accounted for 62,70% (**2016**); 57,79% (**2017**); 73,05% (**2018**); 79,95% (**2019**) and 71,21% (**2020**) of the total disclosures in each year.

11.3 Recommendations

Considering the findings of the study, the following recommendations are made:

- The IRBA should provide a comprehensive reporting framework that can be utilised by audit firms in the preparation of transparency reports to ensure consistency and comparability.
- To enhance transparency and accountability in the profession, assurance providers should make available all working papers compiled during an audit engagement to the audit committees of the clients to provide them with the opportunity to evaluate the work performed by the auditors and gain an understanding of how auditors have developed their audit opinion.

- The auditors have shown that they are committed to addressing audit quality issues. However, the main issue is the independence of auditors due to a long association and audit fees. Audit firms should consider disclosing the audit fees from each audit engagement and the related non-assurance fee received from any assurance client to safeguard independence.
- Another key stakeholder such as audit committees and investors also have a responsibility to inform themselves about the audit process, from the understanding thereof, they may be able to develop their own set of audit quality features that audit firms can be judged against from each stakeholder's perspective. The audit quality problem is not an audit firm problem, other stakeholders in the financial market have a vital role to play.
- Audit is consistently evolving, and stakeholders' expectations are changing and increasing all the time. Assurance is required over other aspects such as governance of companies, that are not limited to financial reporting. The audit profession should be asking itself and addressing the issue of how should audit revolve and what are the expectations of the key stakeholders from an assurance, this would ensure that the profession is shaping to the future and adapting appropriately.
- To solve market concentration in the audit industry, the IRBA should consider having a requirement requesting JSE-listed companies to have joint auditors which will provide opportunities for medium and small audit firms to work collectively to tender for audit contracts. In addition to this, the regulator should also provide detailed guidelines on performing joint audits as a "norm" other than bank audits.

11.4 Suggestions for further research

Research on transparency reports is a little-studied area in audit, especially in the South African context, which provides opportunities for further research. The scope of this report was limited to the exploration of audit quality practices of assurance providers, other possible research may be conducted to explore quality practices of the other business units within the audit firms.

Future research can also focus on identifying the audit quality practices that are established by assurance providers but may not have been disclosed in the transparency reports. This can be achieved by conducting online sessions with the senior audit managers and partners involved in the process of preparing the reports. In addition, the decision-making processes can be explored whereby the focus is on how the audit firms come to a resolution in respect of audit quality practices information that is to be disclosed in the transparency reports. The audit quality practices' reporting can be improved through the understanding of these decision-making processes because other audit firms are provided with meaningful direction in disclosing audit quality practices.

To address the concerns that may arise on whether the reported disclosures were made sincerely or only used for impression management in the wake of accounting scandals or audit failures. Interviews could be conducted with the audit practitioners to investigate whether the reported disclosures are implemented or not.

Lastly, future research could investigate the impact of the newly issued ISQM 1 and 2 on audit quality management in practice by conducting interviews. The findings will be the first to the limited exploratory research on the practical insight of the ISQM 1 and 2 for assurance providers and academics.

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Appendix A: Change in disclosures over time with a year as the grouping variable

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Risk-based approach in implementing components of the system quality management	2	2,745	0,254	-0,778	0,437
Establish the quality objectives	2	0,164	0,921	-0,032	0,975
Identifies and assess quality risks	2	0,329	0,848	-0,559	0,576
Ultimate responsibility for the system quality management is assigned to the firm's CEO	2	1,608	0,448	-0,655	0,512
Direct line communication between operational level workers and those ultimate responsibility for the system quality management	2	0,069	0,966	-0,231	0,817
Staff fulfil their responsibilities in accordance with professional standards	2	0,425	0,808	-0,580	0,562
Evaluates the system quality management	2	1,480	0,477	-0,636	0,525
Commitment to quality	2	3,445	0,179	-1,875	0,060
Recognise the importance quality in the firm's strategic decisions and actions.	2	0,679	0,712	-0,696	0,486
Resource needs, are obtained, allocated in a manner that is consistent with the firm's commitment to quality	2	0,251	0,882	0,268	0,788

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Organizational structure and assignment roles, responsibilities and authority are appropriate	2	0,199	0,905	-0,456	0,649
Relevant ethical requirements	2	0,442	0,802	-0,695	0,489
Acceptance and continuance client relationships	2	0,026	0,987	-0,164	0,870
Supervision and coaching engagement teams	2	0,196	0,906	-0,066	0,947
Consultation on difficult or contentious matters	2	0,645	0,724	-0,723	0,470
Difference’s opinion is adequately addressed	2	0,192	0,908	-0,422	0,67
Dating the audit report	2	0,465	0,792	-0,676	0,499
Timely documentation	2	0	1	0	1
Competence and capabilities	2	1,922	0,383	-0,967	0,333
Personnel maintain the appropriate competence	2	4,481	0,106	-2,005	0,045
Individuals are obtained externally when required	2	2,829	0,243	-0,610	0,542
Appropriate technological resources	2	0,299	0,861	0,567	0,571
Information system	2	2,428	0,297	-1,304	0,192
Engagement teams communicate information to the firm	2	0,871	0,647	0,721	0,470
Information is communicated externally when required by law	2	0,603	0,740	0,783	0,434
Confirmation compliance with independence	2	1,004	0,605	-0,941	0,346
Procedures for receiving, investigating, and resolving complaints and allegations about	2	1,0170	0,601	0,898	0,369

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
failures to perform work appropriately					
Evaluating and reporting any breaches the relevant ethical requirements	2	0,895	0,639	-0,905	0,365
Establish a monitoring and remediation process to take appropriate actions to identified deficiencies	2	6,692	0,035	-2,444	0,015
Establish a monitoring and remediation process to take appropriate actions to respond to identified deficiencies	2	2,499	0,287	1,130	0,258
Individuals performing the monitoring activities to have the competence and capabilities	2	1,355	0,508	-0,769	0,442
Address the objectivity the individuals performing the monitoring activities	2	0,6239	0,732	-0,747	0,455
Evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process	2	0,201	0,904	-0,396	0,692
Firm investigate the root cause(s), and considers the nature the identified deficiencies	2	0,446	0,800	-0,593	0,553
Periodic performance evaluations the individual(s) assigned ultimate responsibility	2	0,860	0,650	0,775	0,438
Prepares documentation its system quality management	2	0,2603	0,877	0,058	0,953
Retention documentation	2	0,265	0,875	0,339	0,734

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Set forth the criteria for eligibility to be appointed as an engagement quality reviewer	2	0,023	0,988	0,128	0,897
Address threats to objectivity created by an individual being appointed as an engagement quality reviewer.	2	0,111	0,945	-0,268	0,788
Procedures that require which engagements require the appointment engagement quality reviewers.	2	0,4182	0,811	-0,280	0,779
Criteria for eligibility individuals who assist the engagement quality reviewer	2	1,609	0,447	-1,260	0,207
Engagement quality reviewer to take overall responsibility for the performance the engagement quality review	2	2,428	0,296	-1,303	0,192
Address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired	2	0,096	0,953	-0,323	0,746
Performance evaluation the engagement quality review.	2	2,428	0,296	-1,303	0,192
Engagement quality reviewer discusses with the engagement partner significant matters and significant judgment	2	2,428	0,296	-1,303	0,192
Reviewer notifies the engagement partner that the engagement quality review is complete, and	2	0	1	0	1

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
report significant issues found on review					
Engagement quality reviewer to take responsibility for documentation the engagement quality review	2	0	1	0	1
Assignment Engagement Teams	2	0,607	0,738	-0,146	0,883
Engagement quality reviewer evaluates the basis for the engagement partner’s determination that relevant ethical requirements	2	2,428	0,296	-1,303	0,192
Rotation partners	2	2,164	0,338	-0,365	0,714
Industry expertise the audit firm.	2	1,328	0,514	1,069	0,284
Size the audit firm.	2	3,0358	0,219	1,719	0,085
Compensation audit partners and other team members	2	1,300	0,521	-0,713	0,475
Auditor tenure	2	0,932	0,627	-0,286	0,774
Independency the auditors.	2	2,268	0,321	-1,439	0,149
Compliance with the audit standards	2	3,124	0,209	-1,43	0,150
Hours spent on the audit.	2	0,034	0,982	-0,185	0,852
Training hours	2	0,540	0,763	-0,481	0,630
External and Internal Inspection report results	2	0,663	0,717	0,080	0,935
Litigation and related costs	2	0,203	0,903	0,286	0,774
Accuracy audit opinion	2	0,854	0,652	0,823	0,410
Audit procedures and tests planned to reflect client risk	2	1,666	0,434	1,150	0,249
Audit fee	2	0,467	0,791	-0,245	0,805
Auditors' propensity to restate	2	0	1	0	1

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Knowledge of a client	2	0	1	0	1
Client reviews.	2	1,592	0,450	1,130	0,258
The size and number of required adjustments to be made by the client.	2	0	1	0	1
Professional scepticism	2	0,082	0,959	-0,277	0,781
Technological capacities.	2	0,070	0,965	0,269	0,787
Investment in infrastructure	2	0,043	0,978	0,134	0,892
Timely reporting going concern issues	2	0	1	0	1
Partner and staff workload.	2	0,737	0,691	-0,351	0,724
Risk compliance programme results	2	0,935	0,626	0,861	0,388
Review by the audit committee of the client	2	1,083	0,581	-1,050	0,293
Staff turnover	2	1,712	0,424	-0,300	0,763
Soundness of the audit methodology	2	0,398	0,819	-0,273	0,784
Communications to those charged with governance	2	0,796	0,671	0,385	0,699
Appropriate sharing of information between auditors and financial and prudential regulators	2	1,350	0,509	0,576	0,564
Audit budgeting	2	0	1	0	1
Client discretionary accruals and other earnings quality measures	2	0	1	0	1
Report how its governance structures and management operate, their duties	2	0	1	0	1
Disclose the names and job titles of all members the firm's governance structures	2	1,666	0,434	1,150	0,249

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Governance structures, and management should be subject to formal, rigorous, and ongoing performance evaluation	2	0,034	0,982	-0,185	0,852
Composition by setting the direction and approving the of processes for it to attain the appropriate balance of knowledge	2	0	1	0	1
Diversity targets	2	1,384	0,500	-0,699	0,484
Appropriate mix of knowledge, skills, and experience,	2	0,332	0,846	0,336	0,736
Governing body should approve codes conduct and ethics policies	2	1,095	0,578	-0,110	0,911
Appropriate mix of executive, non-executive and independent non-executive members in the board	2	1,254	0,534	-0,997	0,318
As a minimum, the chief executive officer (CEO) and at least one other executive should be appointed to the governing body	2	0,871	0,646	0,720	0,470
Maintain a culture of openness	2	0	1	0	1
Independent non-executives should number at least three and be in the majority on a body	2	0	1	0	1
Disclose on its website and in its transparency report information about the appointment, retirement, and resignation independent non-executive	2	0	1	0	1
The targets set for gender	2	1,963	0,374	0,554	0,578
Categorisation of each member as executive or non-executive	2	1,460	0,481	0,419	0,674

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Disclose the qualifications and experience of board members	2	0	1	0	1
Independent non-executive member as chair to lead the governing body	2	1,860	0,394	0,602	0,546
Criteria for assessing the appointing independent non-executives	2	0	1	0	1
The CEO of the organisation should not also chair the governing body	2	1,139	0,565	1,050	0,293
Disclose whether the chair is independent	2	4,394	0,111	1,771	0,076
Each committee should have a minimum three members	2	0,371957273	0,830	0,594	0,552
Each separate committee has the necessary knowledge, skills, experience, and capacity to execute its duties effectively	2	1,666	0,434	1,150	0,249
Management should be invited to attend committee meetings either by standing invitation	2	0	1	0	1
Disclose the number of meetings that each committee met during the year	2	0,157	0,924	-0,418	0,675
There is an audit committee in the organisation.	2	0,005	0,997	0,063	0,949
Members of the audit committee	2	0,889	0,641	0,664	0,506
Members of the committee for nominations	2	0	1	0	1
The committee for risk governance	2	1,666	0,434	1,150	0,249
Joint membership both committees (audit and risk	2	0	1	0	1

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
management) for more effective functioning					
Risk committee to manage risk in the organisation	2	2,139	0,343	-0,604	0,545
Members of the committee for remuneration	2	0	1	0	1
The social and ethics committee	2	0,871	0,646	0,720	0,470
The committee for remuneration	2	1,666	0,434	1,150	0,249
The governing body should appoint the CEO	2	1,049	0,591	0,741	0,458
CEO should be responsible for leading the implementation and execution approved strategy, policy, and operational planning	2	0,034	0,982	-0,185	0,852
Governing body should be responsible for the evaluation its own performance and that its committee	2	0,048	0,975	-0,184	0,853
Periodic independent assurance on the effectiveness risk management	2	0	1	0	1
Governing body should be responsibility for the governance compliance with applicable laws	2	2,068	0,355	0,509	0,610
Material regulatory penalties or fines for contraventions non-compliance with statutory obligations whether imposed on the organisation or on members the governing body should be disclosed if any.	2	1,1318	0,567	-0,166	0,868
The governing body should approve policy that articulates and	2	2	0,367	-0,153	0,878

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
gives effect to its direction on fair, responsible and transparent remuneration					
All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge	2	0	1	0	1
Dialogue with company shareholders, and their audit committees, about matters to enhance mutual communication	2	0	1	0	1
Understanding this ISQM and ISQC 1 including their application	2	0,660	0,718	-0,717	0,473
The firm should, at least annually, conduct a review the effectiveness the firm's system internal control.	2	0,359	0,835	-0,569	0,569

Appendix B: Change in disclosures over time with the Firm type as the grouping variable

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Establish the quality objectives	7	14,209	0,047	2,795	0,005
Identifies and assess quality risks	7	14,785	0,038	3,215	0,001
Ultimate responsibility for the system of quality management is assigned to the firm's CEO	7	21,947	0,002	2,460	0,013
Staff fulfil their responsibilities in accordance with professional standards	7	24,768	0,000	-2,381	0,0172
Resource needs, are obtained, allocated in a manner that is consistent with the firm's commitment to quality	7	19,527	0,006	-2,499	0,012
Organizational structure and assignment of roles, responsibilities and authority is appropriate	7	30,148	8,917	3,592	0,000
Relevant ethical requirements	7	17,331	0,0153	-0,249	0,803
Supervision and coaching of engagement teams	7	19,078	0,007	0,409	0,681
Consultation on difficult or contentious matters	7	14,519	0,0426	1,092	0,274
Differences of opinion are adequately addressed	7	17,750	0,013	0,445	0,656
Dating of the audit report	7	21,226	0,003	-0,351	0,725
Competence and capabilities	7	16,660	0,019	-0,719	0,472
Individuals are obtained externally when required	7	14,519	0,042	-0,968	0,332

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Information is communicated externally when required by law	7	17,415	0,0149	-0,700	0,483
Confirmation of compliance with independence	7	24,987	0,001	2,143	0,032
Procedures for receiving, investigating, and resolving complaints and allegations about failures to perform work appropriately	7	17,265	0,015	1,698	0,089
Evaluating and reporting of any breaches of the relevant ethical requirements	7	15,434	0,030	-1,992	0,046
Establish a monitoring and remediation process to take appropriate actions to identified deficiencies	7	15,93	0,0257	1,641	0,100
Individuals performing the monitoring activities to have the competence and capabilities	7	15,209	0,033	0,301	0,762
Address the objectivity of the individuals performing the monitoring activities	7	22,384	0,002	-0,330	0,740
Retention of documentation	7	16,828	0,0185	1,025	0,304
Set forth the criteria for eligibility to be appointed as an engagement quality reviewer	7	27,543	0,000	-0,811	0,416
Address threats to objectivity created by an individual being appointed as an engagement quality reviewer.	7	28,009	0,000	-0,764	0,444
Procedures that require which engagements require the appointment of engagement quality reviewers.	7	26,277	0,000	0,925	0,354

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Criteria for eligibility of individuals who assist the engagement quality reviewer	7	20,656	0,004	-0,354	0,722
Address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired	7	26,559	0,000	1,091	0,274
Assignment of Engagement Teams	7	17,542	0,014	-0,018	0,985
Engagement quality reviewer evaluates the basis for the engagement partner's determination that relevant ethical requirements	7	17,28	0,015	1,078	0,280
Rotation of partners	7	15,149	0,034	-0,774	0,438
Size of the audit firm.	7	18,740	0,009	-0,549	0,582
Compensation of audit partners and other team members	7	17,950	0,01	-0,219	0,825
Auditor tenure	7	22,964	0,001	0,570	0,568
Independency of the auditors.	7	19,043	0,008	-0,198	0,842
Compliance with the audit standards	7	18,400	0,010	1,029	0,303
Hours spent on the audit.	7	22,551	0,002	1,179	0,238
Training hours	7	16,969	0,017	-0,415	0,677
Litigation and related costs	7	30,948	6,355	-3,133	0,001
Audit procedures and tests planned to reflect client risk	7	31	6,217	-1,698	0,089
Audit fee	7	26,970	0,000	1,431	0,152
Professional scepticism	7	19,293	0,007	1,176	0,239
Risk compliance programme results	7	16,054	0,024	0,342	0,731

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
Review by the audit committee of the client	7	20,868	0,003	0,0576	0,954
Communications to those charged with governance	7	25,526	0,000	-0,480	0,631
Appropriate sharing of information between auditors and financial and prudential regulators	7	21,224	0,003	1,794	0,072
Governance structures, and management should be subject to formal, rigorous, and ongoing performance evaluation	7	19,242	0,0074	3,124	0,001
Diversity targets	7	20,331	0,004	-0,195	0,844
Appropriate mix of knowledge, skills, and experience,	7	15,904	0,025	2,232	0,025
Governing body should approve codes of conduct and ethics policies	7	17,317	0,015	2,649	0,008
Appropriate mix of executive, non-executive and independent non-executive members in the board	7	17,28	0,015	2,646	0,008
As a minimum, the chief executive officer (CEO) and at least one other executive should be appointed to the governing body	7	19,956	0,005	3,191	0,001
Categorisation of each member as executive or non-executive	7	15,899	0,026	2,326	0,019
Independent non-executive member as chair to lead the governing body	7	20,222	0,005	2,127	0,033

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
The CEO of the organisation should not also chair the governing body	7	21,264	0,003	2,457	0,013
Each committee should have a minimum of three members	7	22,318	0,002	1,062	0,288
The committee for risk governance	7	31	6,217	-1,698	0,089
The committee for remuneration	7	31	6,217	-1,698	0,089
The governing body should appoint the CEO	7	16,533	0,020	2,520	0,011
CEO should be responsible for leading the implementation and execution of approved strategy, policy, and operational planning	7	23,808	0,001	2,746	0,006
Governing body should assume responsibility for the evaluation of its own performance and that of its committee	7	23,834	0,001	3,107	0,001
Governing body should assume responsibility for the governance of compliance with applicable laws	7	14,276	0,046	-0,883	0,377
Material regulatory penalties or fines for contraventions of non-compliance with statutory obligations whether imposed on the organisation or on members of the governing body should be disclosed if any.	7	14,922	0,037	-0,946	0,343
Count of Understanding of this ISQM and ISQC 1 including their application	7	22,068	0,002	-0,164	0,869
The firm should, at least annually, conduct a review of the	7	20,263	0,005	-1,565	0,117

Test		Jonckheere Terpstra Test			
Disclosure sub theme	**df**	**Test statistic**	**Asymp. Sig.**	**Std. J-T Statistic**	**Asymp. Sig. (2-tailed)**
effectiveness of the firm’s system of internal control.					

Appendix C: Non-parametric test with disclosure theme as the grouping variable

Appendix C: Change in total disclosures over time with disclosure theme as the grouping variable					
Kruskal Wallis Test					
	2016 Total	2017 Total	2018 Total	2019 Total	2020 Total
Test Statistics	14.244	32.637	22.633	11.944	9.553
df	4	4	4	4	4
Asymp. Sig.	.007	.000*	.000*	.018	.049
Significance level at 5%					