

Reference #774378

31 March 2023

The Director Standards
Independent Regulatory Board for Auditors (IRBA)
PO Box 8237
Greenstone, 1616
South Africa

By e-mail: standards@irba.co.za

Dear Imran,

Comments on the Proposed Due Process Policy for the Development, Adoption and Issue of Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (Revised November 2022) and the Proposed Status and Authority of Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (Revised November 2022)

A robust, documented process for the development of pronouncements, and a clear articulation of the authority attached to those pronouncements, are vital elements of standard-setting. SAICA appreciates the opportunity to comment on the proposed revisions of these two foundational documents of the Committee for Auditing Standards (CFAS).

To inform our submission, we established a task group consisting of members of our Assurance Guidance Committee and its related project groups. We also conducted research, which entailed a desk-top consideration of ISA adoption in IFAC member jurisdictions. We shared some of the results of our research in Appendix 1 to this letter.

The Assurance Guidance Committee has approved this submission.

Our comments are set out as follows:

- A. Proposed Due Process Policy: Request for Specific Comments
- B. Proposed Status and Authority of Pronouncements: Request for Specific Comments

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Annerie Pretorius (AnnerieP@saica.co.za).

Kind regards
Thandokuhle Myoli

Executive: Audit and Assurance
The South African Institute of Chartered Accountants

A. PROPOSED DUE PROCESS POLICY: REQUEST FOR SPECIFIC COMMENTS

1. Do respondents agree with the proposed due process followed for making limited modifications to the final IAASB Standard, in whole or in part, in particular:
 - i. The Compelling Reasons Test and the criteria that should be met before any modification is made to the final IAASB Standard, in whole or in part; and
 - ii. The impact of the modifications made on the effective date of the final IAASB Standard?

If “not”, please provide reasons for your disagreement and suggestions for corrections and/or improvements.

1.i. The Compelling Reasons Test And The Criteria That Should Be Met Before Any Modification Is Made To A Final IAASB Standard

Overarching comments

1. We agree that the Due Process Policy should contain a Compelling Reasons Test and criteria that should be met before any modification is made to a final IAASB Standard. We however have concerns on whether the proposed Compelling Reasons Test and proposed criteria would provide the relevant IRBA task group and CFAS with sufficient guidance to enable the task group and CFAS to perform their required considerations. The consideration of the proposed criteria would, in our view, be almost entirely subjective. We suggest that the proposed Compelling Reasons Test and criteria should be reconsidered – the relevant IRBA task group and CFAS should be provided with an objective mechanism for considering any proposed modifications to an International Standard.

Source/origin of proposed local modifications – our comments on paragraph 33 of the proposed Due Process Policy

2. In our view, the source/origin of any possible local additions, deletions or other amendments (collectively referred to as “modifications” in this submission) to an International Standard would be the input received from stakeholders during the local exposure process of the International Standard. The right questions should thus be asked.
3. It is also important that respondents should be made aware of the purpose of the “South African-specific questions” in the local exposure process.
4. Paragraph 33 states:

“Further additional South African-specific questions may be included in the communication, requesting input from stakeholders in comment letters to be submitted to the IRBA on:

 - a. Any regulatory requirements that could affect the implementation of the proposals in South Africa.
 - b. Whether there are any proposals that need to be added for application in South Africa and, if so, what those amendments should be; and
 - c. Any other identified matters that may be relevant for the South African market.”
5. The information requested per paragraph 33 does not appear to be wholly aligned with paragraph 42. For example, questions are not asked about potential deletions from the International Standard.

Our suggestions

6. We propose that the information that will be requested in the local exposure process should be aligned to the information that will be needed for conducting the Compelling Reasons Test and for measuring modifications against the Criteria to be met before making modifications to the final IAASB Standard. For example:
- Questions should be asked about the need to eliminate options (alternatives) provided for in the proposed IAASB Standard.
 - Where respondents suggest the deletion of a requirement of the proposed IAASB Standard in its entirety, the respondent should also provide an alternative that would ensure that the objective of the deleted requirement will still be met.
 - Respondents should be asked to provide justification for their proposals, and should link their suggested modification(s) to the relevant category of modification (see our proposal in paragraph 14 of this submission).
7. The Due Process Policy should also indicate that the request for comment should contain an explanation for respondents on why the South African-specific questions are being asked (i.e. that responses to these questions would be used to inform the CFAS of possible local modifications to the International Standard.) The reason for the question, and implication of responses, should thus be clear to respondents.

The scope of possible local modifications to an International Standard – our comments on paragraphs 42 and 43 of the Proposed Due Process Policy

8. The IAASB Policy Position discusses a) additions to an IAASB Standard and b) deletions from or other amendments to, an International Standard. (This is reproduced in paragraph 40 of the proposed Due Process Policy but see our comment in paragraph 26 of this submission.) We understand an “addition” to mean an entirely new requirement or application and other explanatory material paragraph in a standard. We understand an “amendment” to mean amending an existing requirement or application and other explanatory material paragraph in a standard but without deleting the requirement or application and other explanatory material paragraph in its entirety.
9. Rather than setting out a Compelling Reasons *test*, paragraphs 42 and 43 appear to set out the scope of possible local modifications to an International Standard. We are of the view that even if a matter is within the scope of possible modifications to an International Standard (for example, requirements or application and other explanatory material where the International Standard recognises that different practices may apply in different jurisdictions and South Africa is in such a jurisdiction), this would not automatically mean that there is a compelling reason to modify the International Standard to address that matter.
10. The use of “could include” in paragraph 42 furthermore creates the impression that other amendments and/or deletions may also be appropriate.
11. Paragraph 43 indicates *when* the Compelling Reasons Test should be considered, but does not indicate *what* is to be done in performing the test.

Our suggestions

12. We suggest that:
- The scope of possible modifications should firstly be defined; and
 - “Compelling Reasons” for possibly amending the International Standard for in-scope modifications, should be included in the Due Process Policy.
13. To avoid confusion, we suggest that paragraph 42 should closely mirror the wording of paragraphs 8 and 9 of the IAASB Policy Position (i.e. paragraph 40.i and ii in the Due Process Policy), and should deal with i) additions and ii) deletions or other amendments to an International Standard, separately. Paragraph 42 should however be tailored to indicate that:
- The IAASB Policy Position’s reference to “National legal and regulatory requirements” refers to legal and/or regulatory requirements of the IRBA, and
 - The IAASB Policy Position’s reference to “guidance” refers to “application and other explanatory material” in the International Standards.
14. Consider, for example, the following as a replacement of the current proposed paragraph 42. (Note that our suggested wording below is aligned with the wording of paragraphs 8 and 9 of the IAASB Policy Position):

42. South African additions to the final IAASB Standard shall be limited to the following:
a. Legal and/or regulatory requirements of the IRBA.
b. Other requirements or application and other explanatory material that are not inconsistent with the current requirements or application and other explanatory material in the International Standard.

43. South African deletions from, or other amendments to, an International Standard, shall be limited to the following:
a. The elimination of options (alternatives) provided for in the International Standard.
b. Requirements or application and other explanatory material, the application of which is not permitted in the legal and/or regulatory requirements of the IRBA, or which require amendment to be consistent with the legal and/or regulatory requirements of the IRBA.
c. Requirements or application and other explanatory material where the International Standard recognises that different practices may apply in different jurisdictions and South Africa is in such a jurisdiction.

15. We suggest that current paragraph 43 should be replaced by the suggested paragraphs below.

Proposed new paragraphs:

The following Compelling Reasons Test should be passed before a possible addition to, deletion from, or other amendment to the final International Standard, would be considered:

<u>Category</u>	<u>Compelling Reason(s) for making a modification relating to the category</u>
<u>Additions:</u> a. <u>Legal and/or regulatory requirements of the IRBA.</u>	<u>A particular legal and/or regulatory requirement of the IRBA has direct bearing on (i.e. is in the scope of) a particular International Standard; and</u>

	<p><u>There is objective evidence of widespread* non-compliance with the legal and/or regulatory requirement of the IRBA; and</u></p> <p><u>An objective root-cause analysis* of the widespread non-compliance indicates the reason as being that the legal and/or regulatory requirement of the IRBA has not been included in the International Standard; and</u></p> <p><u>The modification cannot be effected by utilising another IRBA pronouncement, for example a Practice Statement, Guide or Staff Practice Alert or IRBA Rule.</u></p>
<p><u>Additions:</u></p> <p>b. <u>Other requirements or application and other explanatory material that are not inconsistent with the current requirements or application and other explanatory material in the International Standard.</u></p>	<p><u>There is objective evidence that the matter is unique* to the South African environment and was either not deliberated by the IAASB or was deliberated and not included in the final standard as the matter was deemed to be specific to South Africa; and</u></p> <p><u>The modification cannot be effected by utilising another IRBA pronouncement, for example a Practice Statement, Guide, Staff Practice Alert or IRBA Rule.</u></p>
<p><u>Deletions or other amendments:</u></p> <p>a. <u>The elimination of options (alternatives) provided for in an International Standard.</u></p>	<p><u>The application of an option (alternative) that is provided for in the International Standard is prohibited in terms of the legal and/or regulatory requirements of the IRBA; and</u></p> <p><u>There is objective evidence of widespread application of an option provided for in an International Standard that is prohibited by the legal and/or regulatory requirements of the IRBA; and</u></p> <p><u>An objective root-cause analysis of the widespread application of a prohibited option indicates the reason as being that the prohibited option (alternative) has not been deleted from the International Standard; and</u></p> <p><u>The modification cannot be effected by utilising another IRBA pronouncement, for example a Practice Statement, Guide, Staff Practice Alert or IRBA Rule.</u></p>
<p><u>Deletions or other amendments:</u></p> <p>b. <u>Requirements or application and other explanatory material, the application of which is not permitted in the legal and/or regulatory requirements of the IRBA, or which require amendment to be</u></p>	<p><u>There is objective evidence of widespread application of a matter which is prohibited by the legal and/or regulatory requirement of the IRBA; and</u></p>

<p><u>consistent with the legal and/or regulatory requirements of the IRBA.</u></p>	<p><u>An objective root-cause analysis* of the widespread application of a prohibited matter indicates the reason as being that the prohibited requirement or application and other explanatory material has not been deleted from the International Standard; and</u></p> <p><u>The modification cannot be effected by utilising another IRBA pronouncement, for example a Practice Statement, Guide, Staff Practice Alert or IRBA Rule.</u></p>
<p><u>Deletions or other amendments:</u></p> <p>c. <u>Requirements or application and other explanatory material where the International Standard recognises that different practices may apply in different jurisdictions and South Africa is in such a jurisdiction.</u></p>	<p><u>There is objective evidence that a particular practice is applied in South Africa; and</u></p> <p><u>There is objective evidence that clarification of the particular practice applied in South Africa is essential* for the International Standard to be capable of application in South Africa; and</u></p> <p><u>The modification cannot be effected by utilising another IRBA pronouncement, for example a Practice Statement, Guide, Staff Practice Alert or IRBA Rule.</u></p>

An overarching Compelling Reason that applies to all categories above is that modifications to a final IAASB Standard should only be considered if the modification cannot be effected by utilising another IRBA pronouncement, for example a Practice Statement, Guide, Staff Practice Alert or IRBA Rule.

16. We acknowledge that the Due Process Policy would need to define/clarify some of the terms in our suggested Compelling Reasons Test, for example the terminology that we have indicated with an asterisk (*).
17. The Due Process Policy should clarify the circumstances when an IRBA pronouncement (for example a SAAPS, Guide, etc.) would not be an acceptable avenue through which to address a possible modification.
18. The Due Process Policy should also clarify the meaning of “Other requirements or application and other explanatory material that are not inconsistent with the current requirements or application and other explanatory material in the International Standard”, in context of the CFAS’ aim of referring to the framework applied as being the IAASB Standards (for example “ISA”). It is important that one should not confuse *application* of a standard with *developing/drafting* of a standard when considering this matter. Consider the following example: Elevating application material in an International Standard to a requirement in the modified standard. Would this be “inconsistent with the current requirements or application and other explanatory material in the International Standard”? If an auditor applied a “may” in an International Standard as a “shall” in the conduct of an engagement, we would not have concerns regarding the auditor asserting that the auditor has conducted the audit in accordance with the International Standard. However, to modify *the International Standard* to elevate a “may” to a “shall” means that the modified standard is no longer consistent with the original. In this scenario, an auditor that complies with the requirements of the original International Standard (only) will not automatically be complying with the requirements of the modified standard. In our view, the modified standard will, in this scenario, be inconsistent with the International Standard.

Criteria to be met before making modifications to a final IAASB Standard – our comments on paragraphs 45 and 46 of the proposed Due Process Policy

19. We have concerns regarding some of the wording used in paragraph 45, and question whether the stated criteria will allow for objective consideration of proposed additions.

20. For example:

- Paragraph 45(a): *‘The application of which results in addressing known deficiencies and/or areas of concerns, including recurring IRBA regulatory findings.’*

This criteria appears to imply that regulatory findings point to deficiencies in the standards, which is debatable – regulatory findings in general point to inappropriate application of the standards. We propose that this should be deleted as criteria.

- Paragraph 45 (b): *‘Is clear and promotes consistent application by all registered auditors in South Africa; or’*

The use of “or” at the end of paragraph b makes it unclear whether or not all the stated criteria would need to be met, or only some of them.

- Paragraph 45 (c): *‘Promotes improvement in the quality of the audit, review, assurance or related services engagement and enhances the value that stakeholders will derive from these engagements.’*

It is not clear how “improvement” or “value” would be measured by the task group and CFAS. We are of the view that the Due Process Policy should avoid a situation where auditors or regulators will be making assumptions about stakeholder value.

- Paragraph 45(d): *‘The addition made to the final IAASB Standard does not result in a modified Standard that:*

- *Is inconsistent /conflicts with, or results in lesser requirements than, the final IAASB Standard*
- *Is overly complex and confusing*
- *Inadvertently changes the meaning or intent of the final IAASB Standard or places more onerous requirements on registered auditors than necessary.’*

It is not clear how “overly complex and confusing” will be determined/measured.

It is not clear how “more onerous than necessary” will be decided on by the task group and CFAS.

21. Paragraph 46(b): It is not clear how the task group would consider the positive impact on the protection of the financial interest of the public or what the task group and CFAS would need to consider regarding the additional work effort.

Our suggestions

22. We suggest that the Due Process Policy should contain objective, minimum metrics regarding any stated criteria to be met before making modifications to a final IAASB standard.

1.ii. The impact of the modifications made on the effective date of the final IAASB Standard

23. We agree with the articulation of paragraph 49 – it requires the task group and CFAS to “consider” the impact of modifications on the effective date of the standard. However, we question whether it would be appropriate to refer to the framework as “ISA” (using audit engagements as an example) if the modified standard will have an effective date later than the IAASB Standard.

2. Do respondents agree with the view that the scope of the amendments and/or deletions that may be made to the final IAASB Standard should be limited to inconsistencies/conflicts with only the IRBA’s legal and/or regulatory requirements? If “not”, please provide reasons for your disagreement and suggestions for corrections and/or improvements.

24. Yes, we agree. We concur with the CFAS’ reasoning as set out in paragraphs 20 and 21 of the Explanatory Memorandum. For the sake of clarity, however, we suggest that “the IRBA’s legal and regulatory requirements” should be defined in the Proposed Due Process Policy.

3. Are there additional significant aspects that should be included in this proposed Revised Due Process Policy? If so, please list those aspects and provide suggestions.

Further suggested editorial amendments

25. We suggest that paragraph 39 should reflect the wording in paragraph 1 of the IAASB Policy Position.

Suggested amendment:

39. ... The IAASB Policy Position: Modifications to International Standards of the IAASB – A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find It Necessary to Make Limited Modifications (July 2006) sets out the IAASB policy that National Standard Setters must comply with to assert ~~compliance with the IAASB Standards when making modifications that~~ the resulting national standards conform to the IAASB Standards.

26. Paragraph 40 is not an exact quote of paragraphs 8 and 9 the IAASB policy position.

Suggested amendment:

40.i.b) ~~Other requirements or guidance that are not lesser or in conflict~~ inconsistent with the current requirements or guidance in the International Standard.

40.ii.a) ~~The elimination of options or (alternatives)~~ provided for in the International Standard.

27. Paragraph 40 contains an ambiguous reference:

“In the case of paragraph (b) and (c), however, the objective of any deleted requirement must still be met. ...”

Suggested amendment:

In the case of paragraph ii. (b) and (c), however, the objective of any deleted requirement must still be met.

28. We suggest that paragraph 48 should be moved after paragraph 60.

29. Paragraph 52 indicates that the project proposal should set out, among other matters,

“b. The Compelling Reasons Test for making modifications to the final IAASB Standard

c. The criteria to be met for making modifications to the final IAASB Standard (refer to paragraphs 44 and 45)”

This could be read that the project proposal should repeat the content of the Due Process Policy.

Suggested amendment:

Paragraphs b. and c. should be amended to clarify that the project proposal should set out the Application of the Compelling Reasons Test and the Criteria.

Consideration of the need for re-exposure of pronouncements

30. The Due Process Policy, in general, does not address the process to be followed for the consideration of the need for re-exposure of pronouncements. We suggest that such considerations should be included in the Due Process Policy.

Cross reference between the Due Process Policy and Status and Authority of Pronouncements

31. We suggest that the Due Process Policy should contain a cross reference to the Status and Authority of Pronouncements document, and vice versa.

4. Are there any further matters that should be considered in the finalisation of this proposed Revised Due Process Policy? If so, please list those aspects and provide suggestions.

Consider the possible need for re-exposure of the proposed Due Process Policy

32. We regard our proposed amendments to be of a substantive nature. Furthermore, we are of the view that our proposed Compelling Reasons Test may benefit from further deliberation and consultation. We suggest that the CFAS may need to consider a need to re-expose the Proposed Due Process Policy, should our proposals be accepted.

Targeted enhancements to the IAASB Standards, in principle

33. An unintended outcome from deliberations on our submission was that questions have been raised as to why changes to the International Standards would need to be considered at all.

34. The Explanatory Memorandum sets out the decision of the erstwhile Public Accountants' and Auditors' Board (PAAB) to adopt the original text of the IAASB Standards as the standard to be

applied by all registered auditors in South Africa, and the IRBA's confirmation of the PAAB's adoption of the IAASB Standards.

35. South Africa has applied the International Standards, without modification, since 2005. Where additional guidance or requirements have been required, the IRBA has used mechanisms such as Practice Statements, Guides, Staff Practice Alerts and IRBA Rules to address such needs.
36. The IRBA Regulatory Strategy (issued via Government Gazette No. 45389 on 27 October 2021) states the following:

“Our philosophy around audit and ethics standard setting is to first and foremost maintain South Africa’s comparability and competitiveness with international peers. This is followed by a need to make targeted enhancements to standards for the local environment, without eroding the baseline. We then supplement our authoritative standards with local guides, industry-specific guidance and other non-authoritative materials.”

37. It is not clear what prompted the decision of making targeted enhancements *through modification of the International Standards* rather than by using the mechanisms to effect targeted enhancements that have been utilised to date.
38. The IAASB follows a robust, international due process in developing its standards. While IAASB board members do not represent any particular jurisdiction, there is a long and esteemed list of South Africans who have served as IAASB board members. There are currently two South Africans who are IAASB board members. The South African auditing profession plays an active part in the IAASB standard-setting processes.
39. In our view the current standard-setting process in South Africa, as adopted by the IRBA, works well. The adoption of the ISAs and the effective use of the local pronouncements by the IRBA have resulted in South Africa producing a globally relevant auditor that is also fit to address local issues.
40. As stated in the proposed Due Process Policy, the intention is to only make limited amendments to the International Standards. The proposed Due Process Policy also indicates an intention to continue referring to the International Standards as the framework applied, rather than referring to national standards. In our view, continued reference to “ISA” (in context of audit engagements) would only be appropriate if the modifications were truly “limited”. Considering the process required to make those limited modifications, including the administrative implications of maintaining the modified standards, it begs the question whether making such limited modifications *to the International Standards* are worth your while.

Due Process for developing IRBA Rules

41. While we acknowledge that the prescription of IRBA Rules are not within the mandate of the CFAS, and thus out of scope of this project, we suggest that the IRBA should consider documenting the due process to be followed for the development of IRBA Rules.

B. PROPOSED STATUS AND AUTHORITY OF PRONOUNCEMENTS: REQUEST FOR SPECIFIC COMMENTS

1. Are there any aspects of this proposed Revised Status and Authority of Auditing Pronouncements with which respondents disagree? Please provide reasons for your disagreement and suggestions for correction and/or improvements.

42. The proposed revised Status and Authority of Pronouncements does not appear to deal with modifications made to the IAASB Standards and thus does not clarify the status and authority of the modified International Standards. The uninformed reader could, for example, understand the paragraphs under the heading “South African Standards” to refer to modified IAASB Standards. Our understanding is that a “South African Standard” would be a standard, developed in its entirety in South Africa, to address a matter not addressed in the IAASB Standards at all. For example, SASAE 3502.

2. Are there any further matters that should be considered in the finalisation of this proposed Revised Status and Authority of Auditing Pronouncements? If so, please list those aspects and provide suggestions?

43. We don't have further matters for consideration, other than the matter referred to in paragraph 31 of this submission.

Annexure 1 Results Of Our Research On The Auditing Frameworks In IFAC Member Jurisdictions

44. In order to educate ourselves on the standard-setting processes, in relation to the IAASB Standards, in other jurisdictions, we conducted research on the ISA adoption in all the IFAC member jurisdictions. Our research was a desk-top exercise, and we primarily relied on the information available on the IFAC website <https://www.ifac.org/what-we-do/global-impact-map> in February 2023.

45. We share some of the results of our research below which may be of assistance in the CFAS’ deliberations on how the auditing framework in South Africa would/should be referred to, should modifications be made to the IAASB Standards.

45.1 We did not identify jurisdictions where “ISA” was the stated auditing framework AND where local amendments were made to the International Standards.

45.2 We identified several jurisdictions where the jurisdictional National Standards were based on the ISAs, with local amendments made to the International Standards, or where a previous version of the ISAs was applied. We list a few examples:

Jurisdiction	Auditing framework	Notes
Australia	Australian Auditing Standards (AAS)	Australian Auditing Standards (AAS) are based on the ISA as issued by the IAASB.
Brazil	Brazilian auditing standards	The CFC is responsible for the adoption of auditing standards for all companies and since 2005 has adopted ISA, through a convergence process, as Brazilian auditing standards. The CFC and the Brazilian Institute of Independent Auditors (IBRACON) report that an ongoing system is in place to incorporate new and revised ISA as they become available. As of 2022, the 2020 ISA version is being applied.
Egypt	Egyptian Standards on Auditing Review and Other Assurance Services (ESAROAS)	ESAROAS are based on a previous version of ISA.
Ireland	International Standards on Auditing (Ireland)	ISAs (Ireland) are based on the ISAs, but with local amendments.
Luxemburg	International Standards on Auditing (“ISAs”) as adopted for Luxembourg by the	Carve outs and add-ons are made to the ISAs.

	“Commission de Surveillance du Secteur Financier” (“CSSF”).	
New Zealand	New Zealand Auditing and Assurance Standards (NZAuAS)	New Zealand Auditing and Assurance Standards (NZAuAS) are fully converged with ISA.
United Kingdom	ISA (UK)	ISA (UK) is based on the ISAs, but with local amendments.
Singapore	Singapore Standards on Auditing (SSA)	The International Standards on Auditing (ISA), as issued by the International Auditing and Assurance Standards Board (IAASB) are adopted as Singapore Standards on Auditing (SSA), with modifications to reflect national requirements where appropriate.
Spain	Spanish Generally Accepted Auditing Standards	Spanish GAAS are ISA adapted for their application in Spain (add-ons and carve-outs)and also include Spain-based technical standards.

45.3 In Africa, the applied auditing framework is predominantly “ISA” without amendments made to the IAASB Standards:

