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Mr. Willie Botha

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International Auditing and Assurance Standards Board (IAASB)

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Submitted electronically at www.iaasb.org and to WillieBotha@iaasb.org

Dear Sir

COMMENT LETTER ON THE IAASB'S EXPOSURE DRAFTS FOR QUALITY MANAGEMENT AT THE FIRM AND ENGAGEMENT LEVEL, INCLUDING ENGAGEMENT QUALITY REVIEWS

The South African Institute of Chartered Accountants (SAICA) is the home of the chartered accountants in South Africa – we currently have over 44,000 members from various constituencies, including members in public practice ($\pm 30\%$), members in business ($\pm 49\%$), in the public sector ($\pm 4\%$), education ($\pm 2\%$), and other members ($\pm 15\%$). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We welcome the opportunity to comment on the IAASB's Exposures Drafts for Quality Management at the Firm and engagement Level, including Engagement Quality Reviews (QM-EDs). We wish to express our appreciation for the work of the IAASB's Quality Control Task Forces (IAASB Task Force) in addressing the fundamental topic of quality management.

Accompanying this cover letter, please find an analysis of the data received in response to the SAICA survey. I refer you to the introduction section for background information to the SAICA survey.

Please do not hesitate to contact Hayley Barker Hoogwerf (HayleyB@saica.co.za) should you wish to discuss any of our comments.

Yours Sincerely

Signed electronically

Hayley Barker Hoogwerf

Acting Senior Executive, Assurance and Practice

Introduction

1. SAICA developed a survey (referred to as the SAICA survey) to obtain the views of the members in relation to the proposals included in the QM-EDs. Refer to Appendix A to the Response Template: Covering Explanatory Memorandum for Quality Management Exposure Drafts for the SAICA survey. The SAICA survey was distributed to all registered SAICA members.
2. The SAICA survey used phrases from the QM-EDs and provided sufficient background for survey respondents to provide meaningful and informed answers. The SAICA survey included closed- and open-ended questions. Closed-ended questions consisted of yes/no questions and multiple-choice questions. When appropriate, closed-ended questions were followed by an open-ended question where survey respondents were requested to explain their answers.
3. The information gathered provided unique insights into the perceptions of survey respondents relating to the QM-EDs. The results of the SAICA survey relating to the questions posed in the QM-EDs have been presented as separate comment letters. The purpose of providing the detailed response to the SAICA survey is to provide the IAASB with insight into the responses received and is not necessarily reflective of SAICA's view.
4. As part of introducing our members and educating them of the contents of the QM-EDs, SAICA developed a number of video-recordings, which were presented as training material on the QM-EDs. These video-recordings are available for viewing on YouTube as follows:
 - [Introduction and six biggest changes](#)
 - [ED ISQM 1 – Introductory paragraphs](#)
 - [ED ISQM1 - Engagement Quality Reviews](#)
 - [Monitoring and remediation documentation](#)
 - [Client acceptance and retention](#)
 - [Ethics](#)
 - [Risk assessment process](#)
 - [ISA 220](#)
 - [Governance and leadership](#)
 - [Resources, information and communication](#)
 - [Engagement performance](#)
 - [Networks and service providers](#)
5. In addition, SAICA presented an Information Session to provide our members with an overview of the QM-EDs. The above video-recordings were used as part of the Information Session and participants were afforded the opportunity to complete the SAICA survey during this session.

Results of the survey

6. In total, 108 people (referred to as survey respondents) responded to the SAICA survey. Thirteen respondents did not complete all the questions.
7. Details relating to the respondents are as follows:
 - 97% are SAICA members;
 - 33% are auditors registered with the IRBA;
 - 50% are in public practice.

For members in public practice, the services provided are as follows:

- Assurance – Audits and independent reviews – 65%
- Assurance – Audits only -11%
- Assurance – Independent reviews only – 11%
- Non-assurance – 13%

In terms of the constituencies that respondents below to,

- 21% are large firms
 - 35% are SMPs
 - 44% are sole practitioners.
8. SAICA would like to recognise the work done by Professor Karin Barac, University of Pretoria and Jana Kritzing, senior lecturer at the University of South Africa for their assistance in analysing the results of the survey.

Questions

- 1) Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?
9. (39 valid responses, thus the following answer is based on a response rate of 41% (39/95))
The vast majority (97%) of respondents indicated that they support the focus on the sufficient and appropriate involvement of the engagement partner, as part of taking overall responsibility for managing quality on the engagement.
10. Eighty-seven percent (87%) of respondents indicated that the proposed ISA appropriately reflect the role of other senior members of the engagement team, including that of other partners. Some respondents (13%) however argue that the standard should be clearer in terms of the role of other senior members of the engagement team and that of other partners. Their views are summarised in the following comment from one of the respondents: *“Paragraph A30 is the only application material paragraph addressing this and it is done very simplistically”*. In line with the other respondents’ suggestions this respondent suggested that the *“application material should be expanded to explain the role of other senior members/other partners in a bit more detail”*.
11. In terms of paragraph 37 of ED-220, respondents support the inclusion of the “stand-back provision”. One respondent however questioned how the engagement partner should document that this requirement has been complied with. The respondent wrote: *“I find it confusing - is this like a 'mini opinion' that the partner concludes on his involvement? And how do you document this? Or is it just a requirement to sit back and think about it - because then there won't be any evidence of it being done. But if you actually have to document your conclusion, what more would you need to do than you are already doing?”* The same respondent raised a concern on the scalability and relevance of the requirement. This is evident in her comment: *“This may be a matter to be clarified in terms of scalability once again. A massive audit of a large multinational will obviously require a different level and more regular involvement from an audit partner than one of a small local manufacturing or retail company with a PI score of, say, 700 points. Never mind the involvement of a partner on a voluntary audit of a company with a PI Score of 50 of 250!”*
- 2) Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?
12. (38 valid responses, thus the following answer is based on a response rate of 40% (38/95))
The majority (98%) of respondents indicated that ED-220 has appropriate linkages with the ISQMs.
- 3) Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)
13. (37 valid responses, thus the following answer is based on a response rate of 39% (37/95))
Almost all respondents (97%) support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.
- 4) Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

14. (37 valid responses, thus the following answer is based on a response rate of 39% (37/95))

Ninety five percent (95%) of respondents believe that ED-220 adequately deal with the modern auditing environment, including the use of different audit delivery models and technology. One respondent believe that *“IT capabilities have the power of providing real time absolute assurance and this has not been appropriately discussed in the ED”*.

- 5) Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)

15. (39 valid responses, thus the following answer is based on a response rate of 41%)

Ninety-seven percent (97%) of respondents indicated that they support the revised requirements and guidance on direction, supervision and review.

- 6) Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?

16. (38 valid responses, thus the following answer is based on a response rate of 40%)

The majority of respondents (92%) indicated that ED-220 include sufficient requirements and guidance on documentation. Those respondents (8%) who are not satisfied with the requirements perceive it as *“a bit light”* to ensure engagement quality. These respondents suggested more robust documentation requirements to assist with regulation and consistent application across firms.

- 7) Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

17. (37 valid responses, thus the following answer is based on a response rate of 39% (37/95))

Thirty five percent (35%) of respondents indicated that the new and revised requirements are scalable for firms of varying size and complexity. These respondents argue that the standards are principle-based and one respondent commented: *“There is no reason why it cannot be implemented by everyone”*.

18. The majority of respondents (46%) however, held a different view and believe that more needs to be done to make the standards scalable. For SMP respondents, the requirements are too extensive for their practices. This is clear from the following two comments: *“Imposing and probably overkill for SMPs and sole practitioners”* and *“small firms will simply go out of business as they will fail IRBA reviews”*. A regulator respondent expressed concern over implementation at large audit firms commenting that from a regulatory perspective *“Big firms will try to scale themselves down to smaller firms and bypass the quality systems”*. Respondents requested more guidance to assist with implementation.