

REF#737724

1 July 2019

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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 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 Kritzinger, senior lecturer at the University of South Africa for their assistance in analysing the results of the survey.

Questions

- 1) Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?
9. (44 valid responses, thus the following answer is based on a response rate of 46% (44/95))

The majority of respondents (84%) indicated their support for a separate standard addressing engagement quality reviews. For them this is a welcome change and they argue that a separate standard provides emphasis and a greater focus on the importance of engagement quality reviews. Respondents' views are summarised in the following comment: *"a separate standard elevates the importance of an EQR in achieving audit quality objectives"*. Respondents also mentioned that as the requirements for engagement quality reviews is not applicable to all firms it makes sense that its application is addressed in a separate standard. Those respondents (15%) who were not in favor of a separate standard for EQR argued that all aspects relating to quality control should be in one standard. One respondent perceived a separate standard to give "undue importance to one aspect of the system of quality".
10. In terms of the scope of ED-ISQM 1 and ED-ISQM 2, most of the respondents (87%) indicated that they agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews. Respondents commented that from a risk-based perspective it makes sense to incorporate the engagements for which an engagement quality review is to be performed in ISQM 1, as it will address the risk that an engagement quality review is not performed when it is indeed required. This is clear from the following comment: *"Practitioners may 'think' they don't need EQRs and then don't look at ISQM 2 at all, if the requirements for when an EQR is needed, is included in ISQM 2"*
- 2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?
11. (42 valid responses, thus the following answer is based on a response rate of 44% (42/95))

The vast majority (95%) of respondents indicated that there is clear link between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2.
- 3) Do you support the change from "engagement quality control review/reviewer" to "engagement quality review/reviewer?" Will there be any adverse consequences of changing the terminology in respondents' jurisdictions?
12. This question was not included in the survey.
- 4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

13. (40 responses, thus the following answer is based on a response rate of 42% (40/95))

More than eighty percent (83%) of respondents indicated their support for the eligibility requirements for the engagement quality reviewer or an assistant to the engagement quality reviewer. There was consensus amongst respondents that the requirements are reasonable and clearly set out. For these respondents, the extended eligibility requirements will improve the quality and standard of engagement quality reviews and will contribute to enhancements in audit quality.

14. Some respondents alluded to the requirement of the reviewer having “appropriate authority”. One respondent commented, *“the EQR should be as senior or more than the engagement partner”* and another that the reviewer should *“be at least as knowledgeable, if not more, than the engagement partner”*. One respondent alluded to the importance of the firm creating a culture of respect for the role of the engagement quality reviewer. The respondent wrote: *“In my experience EQRs are normally the more technically up to date (younger) partners in a firm, so they may not always be regarded to have the necessary ‘authority’ when reviewing the audit of a more senior partner.....practically one would have to establish processes that will ensure that the senior partner won’t ‘bully’ the junior partner”*.

15. SMP respondents expressed concerns about this requirement alluding to their resource constraints. For these respondents the eligibility requirements will place unnecessary pressure on the firm and one respondent asserted: *“there may be limited options available for selection in a small firm and the best person will still be selected, regardless of the set of rules”*.

(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

16. (53 valid responses, thus the following answer is based on a response rate of 56% (53/95))

The majority of respondents (72%) indicated that guidance in relation to a “cooling off” period should be located in proposed ISQM 2 as opposed to the IESBA Code (28%). From the respondents who preferred that guidance be located in proposed ISQM 2, the majority indicated that ED-ISQM 2 should include a requirement for the firm to establish policies or procedures regarding a “cooling-off” period.

5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

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

Eighty-four percent (84%) of respondents agreed with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. For these respondents, the responsibilities of the engagement quality reviewer is appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (revised). They argued that greater responsibility of the engagement quality reviewer would result in better quality work. Some respondents however cautioned that the requirements should not take the focus away from the fact that the engagement partner is ultimately responsible for the engagement.

18. One respondent expressed her support for the requirement that addresses the engagement quality reviewer's responsibilities to perform procedures at appropriate points in time during the engagement. The respondent wrote: *"If the engagement quality reviewer reviews sections in the file earlier (timing) then risks that might have been missed by the engagement partner during the planning stage; and any information that may come to light during the audit that would have affected the decision to accept the client at inception could be highlighted sooner, rather than later"*.

- 6) Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

19. (38 valid responses, thus the following answer is based on a response rate of 40% (38/95))
The vast majority (92%) of respondents indicated that the engagement quality reviewer's evaluation of the engagement team's significant judgments should include an evaluation of the engagement team's exercise of professional skepticism. The following comment support this view: *"the EQR should critically kick the tyres in terms of the levels of professional skepticism of the engagement team"*.

20. Most of the respondents (74%) do not believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. Those respondents (26%) who believe that ED-ISQM 2 should further address the exercise of professional skepticism suggested more guidance in the application material with examples of areas where professional skepticism should be applied by the engagement quality reviewer. One respondent wrote the following: *"More clarification needs to be provided in terms of what constitutes the sections that needs to be reviewed by the EQR"*. Another respondent echoed this notion commenting: *"There is not enough information included in the application material to properly define what are considered to be key significant judgments that should be considered as a minimum. The areas subject to significant judgment will always vary between engagements, but there are surely common judgments applicable to all audits"*.

21. One respondent suggested that an EQR *"must look at any issues of going concern, estimation uncertainty and any other elements that have caused financial collapses in the past"*. Another respondent suggested: *"significant risks, significant judgements resulting from estimates, concluding and reporting"*.

22. From a regulatory point of view, respondents raised some concern with one respondent questioning how this requirement: *"will be judged in practice"*.

- 7) Do you agree with the enhanced documentation requirements?

23. (37 valid responses, thus the following answer is based on a response rate of 39% (37/95))
The majority of the respondents (81%) indicated that they agree with the enhanced documentation requirements of ED-ISQM 2. They welcomed the enhanced documentation requirements arguing that there should be evidence of the procedures performed by the engagement quality reviewer. This is evident from the following two comments:

"Requiring more than just a short checklist and working paper references would go a long way to ensuring proper re-performable documentation of EQRs"

“Documentation needs to be provided in terms of the judgement applied and how the EQ reviewer arrived at the conclusion of significant judgements”.

24. SMP respondents raised concerns regarding practical implementation of the enhanced documentation requirements. One respondent questioned: *“how much is enough”* and another alluded to cost implications: *“it may be burdensome in terms of cost vs. proof of performance”*.

8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

25. (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”*.

26. 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.