

Reference #775685

30 May 2024

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 Committee for Auditing Standards' Proposed Due Process Policy for the Development, Adoption and Issue of Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (Revised March 2024) (the Proposed Due Process Policy)

We appreciate the opportunity to provide comments on the Proposed Due Process Policy.

To inform our submission, we established a task group consisting of members of our Assurance Guidance Committee and its related project groups.

The Assurance Guidance Committee has approved this submission.

Our comments are set out as follows:

- A. Overarching comments
- B. Proposed Due Process Policy (Revised March 2024): Request for Specific Comments
- C. Visual representation of the process of adoption of International Auditing and Assurance Standards Board (IAASB) standards in South Africa

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. OVERARCHING COMMENTS

Non-adoption of an entire IAASB pronouncement or suite of IAASB pronouncements

1. The South African auditing profession is currently deliberating the adoption (or not) of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, in South Africa. The Proposed Due Process Policy does not accommodate the non-adoption of an entire IAASB pronouncement or entire suite of IAASB pronouncements. For the sake of transparency and consistency regarding the Committee for Auditing Standards (CFAS)' processes, these scenarios should be addressed in the Due Process Policy prior to its finalisation.

Outreach regarding the reference to "ISAs (South Africa)" or other similar naming convention

2. Our comments on the naming convention of the auditing framework in South Africa, should local amendments be made to one or more of the ISAs, are contained in Part B to this document.
3. Irrespective of the naming convention applied, educational material should be readily available on the IRBA website where the differences between the IAASB standards and the South African standards are explained.
4. We agree that an amendment to the naming convention of the auditing framework would be required once local amendments have been made to one or more individual ISAs.
5. As set out in the Explanatory Memorandum, the naming convention was deliberated by the CFAS. We are not aware of the IRBA having conducted outreach to determine the impact that reference to a localised framework may have on stakeholders' perceptions of the South African auditing profession and the product delivered by South African registered auditors. We recommend that the IRBA should consider approaching stakeholders such as audit committee members, CFOs and regulators who are not involved at the CFAS on this matter prior to approving the final Due Process Policy, unless such outreach has already been conducted as part of the March 2024 exposure process.

Visual representation of the process to make South African amendments to the IAASB standards

6. The process of making South African modifications to the IAASB standards, as set out in the Proposed Due Process Policy, is iterative and complex. We are of the view that it would be beneficial to current and future registered auditors to have a visual representation of this process. We have provided a suggestion for inclusion in the Due Process Policy in Part C to this document.

B. PROPOSED DUE PROCESS POLICY (REVISED MARCH 2024): REQUEST FOR SPECIFIC COMMENTS

- a. Do you agree with the proposed due process followed for making limited modifications to the final IAASB Standards, as detailed in paragraphs 33-69?

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

7. Yes, we agree with the articulation of the policy positions in the CFAS Due Process document, with comments set out below.

The meaning of “compelling” reasons

8. The intended meaning of “compelling” reasons is not apparent from the Proposed Due Process Policy.

Our suggestions

9. We propose the following inclusion before proposed extant paragraph 47:

Considerations for determining whether there are compelling reasons to modify a final IAASB Standard

47. “Compelling reasons” are reasons that are valid, objective, convincing and conclusive regarding the need for a modification to an IAASB standard. Credible research would enhance the validity of arguments put forward advocating for modifications to an IAASB standard. If there is uncertainty about whether there are compelling reasons to modify an IAASB standard, modifications should not be made.

Process to be followed when addressing the considerations required by the Due Process Policy

10. The Proposed Due Process Policy requires the relevant CFAS task group to consider a number of matters. While some matters are straightforward, others are subjective in nature. It is not clear from the stated policy *how* or *against what* the task group would consider the following:

“50. Additions to a final IAASB Standard that are within the scope of matters envisaged in paragraph 44 are made only when:

...

(b) The addition to be made to the final IAASB Standard results in a modified Standard that:

...

- **Promotes improvement in the quality** of the audit, review, assurance or related services engagement”

“51. The elimination of an option (alternative) is made only if:

...

- b. An option (alternative) is **not appropriate for the South African environment**; or
- c. The elimination of an option is **desirable for promoting consistent application locally**”

“54. In undertaking any modifications under paragraph 44 and/or paragraph 45, the relevant task group and the CFAS will consider the consequences of the modifications proposed, including:

- a. Whether **those will positively impact the protection of the financial interests of the public**;

...”

Our suggestions

11. In support of the Due Process Policy, the CFAS should have a structured, documented process that should be followed by every task group. This should guide each task group on how they should conduct their outreach and deliberations in meeting the requirements of the Due Process Policy in determining whether or not there are compelling reasons for making modifications. The aim of this documented process would be to facilitate the practical execution of the Due Process Policy.
12. The Due Process Policy should be linked to this process document.

- b. Do you support the suggested option on what the International Standards Framework should be called, if limited South African modifications are made to the International Standards? Should “International Standards on Auditing” be replaced with “International Standards on Auditing (South Africa)”?

If “not”, please provide reasons for your disagreement and suggestions for other naming options

13. We support the contention that an amendment should be made to the naming convention of the audit / review / other assurance / related services framework when South African modifications have been made to one or more individual standards.
14. Regarding the auditing standards, we support the suggested naming convention of “International Standards on Auditing (South Africa)”. We would however also accept “International Standards on Auditing (including limited South African modifications)” which would highlight that only limited local amendments are made to the ISAs.

Suggestions regarding the articulation of paragraph 73

15. Paragraph 73 in the Proposed Due Process Policy states:

“73. Individual International Pronouncements issued by the IAASB in between issuing revised editions of the IAASB Handbooks are considered separately at the CFAS meeting following their issue (refer to paragraphs 33-66). Thereafter, the CFAS recommends the International Pronouncement to the Board for approval to adopt and prescribe. Once approved, a communication is issued to advise registered auditors of the issue of the revised or new International Pronouncement and its adoption and prescription by the IRBA. After the first modification, the South African modified Standard will be referred to as the “International Standard on Auditing (ISA) (South Africa)”, as the modifications that can be made, as set out above, will adhere to the principles that are in the IAASB’s Policy Position. This enables the IRBA to assert that the resulting standard conforms to the final IAASB Standards when making modifications thereto.”

16. Our understanding of paragraph 73 is that it applies to the entire suite of IAASB pronouncements, not only to the ISAs.
17. We furthermore understand paragraph 73 to be referring to the naming convention of the, for example, auditing *framework* rather than only to the naming convention of each individual auditing (for example) standard.
18. We therefore propose the following amendments to paragraph 73 to clarify its intention.

“73. Individual International Pronouncements issued by the IAASB in between issuing revised editions of the IAASB Handbooks are considered separately at the CFAS meeting following their issue (refer to paragraphs 33-66). Thereafter, the CFAS recommends the International Pronouncement to the Board for approval to adopt and prescribe. Once approved, a communication is issued to advise registered auditors of the issue of the revised or new International Pronouncement and its adoption and prescription by the IRBA.

74. After the first South African modification is made to an IAASB pronouncement, the affected suite of South African modified Standard pronouncements will be referred to by inclusion of “(South Africa)” in its title. For example, if a modification has been made to one or more International Standards of Auditing, the auditing framework in South Africa will thereafter be named as the “International Standards on Auditing (ISAs) (South Africa)”. As explained in paragraph 41, the IRBA’s compliance with, as the modifications that can be made, as set out above, will adhere to the principles that are in of the IAASB’s Policy Position. This enables the IRBA to assert that the resulting national standards conforms to the final IAASB Standards when making modifications thereto. The titles of individual standards (e.g. ISA 570 *Going Concern*) will also include “(South Africa)”.”

Part C – VISUAL REPRESENTATION OF THE PROCESS OF ADOPTION OF THE IAASB STANDARDS IN SOUTH AFRICA

