



Committee for Auditing Standards (CFAS)

Strategy for 2015-2019

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CHAIRMAN'S STATEMENT

This document presents the Committee for Auditing Standards' (CFAS) Strategy for 2015-2019 (Strategy). This follows on the CFAS having achieved the objectives of the Work Programme for 2012-2014 (see *Appendix 1*), including, in particular, issuing the CFAS *Due Process Policy for the Development, Adoption and Issue of Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* and the *Status and Authority of Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*.

This Strategy focuses on the needs of South African stakeholders for high-quality auditing pronouncements and how best to meet those needs in the next few years. There is an appropriate weight given to developing local pronouncements, where the public interest considerations are considered high.

Underlying the work of the CFAS and the development of auditing pronouncements is audit quality. When the International Audit and Assurance Standards Board (IAASB) issued the *Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* in February 2014, this focus on audit quality was further strengthened.

In preparing this Strategy, the following has been taken into account:

- The Strategic Plan of the IRBA for 2016-2021, including the IRBA Four Pillar Strategy, resulting from the possible implications of National Treasury's implementation of recommendations in the World Bank's ROSC¹ Report, in addition to other strategic developments that may affect the future mandate of the IRBA²;
- Emerging international and local trends affecting financial reporting, financial statement audit and other assurance (see *Appendix 2*); and
- The IAASB's *Strategy for 2015-2019*³ and its *Work Programme for 2015-2016*⁴.

The Secretariat of the Standards Department of the IRBA offers direct support to the CFAS. In addition, the Secretariat's work and resources are dedicated to the activities of the Committee for Auditor Ethics (CFAE), the coordination of the auditor helpdesk and communication activities (refer to *Appendix 3*). These activities are aligned to the promotion of the IRBA Four Pillar Strategy.

¹ *South Africa, Report on the Observance of Standards and Codes, Accounting and Auditing, June 2013.*

² Refer to the IRBA Strategic Plan for the Fiscal Years 2016-2021.

³ The IAASB's *Strategy for 2015-2019*³: *Fulfilling Our Public Interest Mandate in an Evolving World*, issued in December 2014.

⁴ The IAASB's *Work Programme for 2015-2016: Enhancing Audit Quality and Preparing for the Future*, issued in December 2014.

Stakeholders are encouraged to provide comments and share views on anticipated needs and activities.

Michiel Engelbrecht

CFAS Chairman

December 2015

INTRODUCTION

1. The objectives of the Independent Regulatory Board for Auditors (IRBA) are to protect the public by regulating audits as well as develop and maintain internationally comparable auditing standards that promote investment and, as a consequence, employment in South Africa⁵.
2. The Committee for Auditing Standards (CFAS) is the IRBA's auditing standard-setting statutory committee, established in terms of Section 22 of the Auditing Profession Act, 2005 (Act).
3. Section 22 of the Act states that:
 - (2) *The committee for auditing standards must assist the Regulatory Board –*
 - (a) *to develop, maintain, adopt, issue or prescribe auditing pronouncements;*
 - (b) *to consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and*
 - (c) *to promote and ensure the relevance of auditing pronouncements by –*
 - (i) *considering the needs of users of audit reports;*
 - (ii) *liaising with the other committees of the Regulatory Board on standards to be maintained by registered auditors and receiving feedback from such committees on areas where auditing pronouncements are needed;*
 - (iii) *ensuring the greatest possible consistency between auditing pronouncements and accepted international pronouncements; and*
 - (iv) *consulting with professional bodies on the direction and appropriateness of auditing pronouncements;*
 - (3) *The committee for auditing standards may assist the Regulatory Board to influence the nature of international auditing pronouncements by –*
 - (a) *preparing comment on exposure drafts or discussion papers and replies to questionnaires prepared by the International Auditing and Assurance Standards Board or a successor body; and*
 - (b) *nominating representatives to committees of the International Auditing and Assurance Standards Board or a successor body when requested to do so by the Regulatory Board.*

⁵ Section 2 of the Auditing Profession Act, 2005.

4. The IRBA's Delegations Document sets out the powers and duties of the CFAS⁶.
5. The CFAS *Due Process Policy for the Development, Adoption and Issue of Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (CFAS *Due Process Policy*) reflects the process followed by the CFAS in exercising its powers and implementing its duties⁷. The *Status and Authority of Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (*Status and Authority of Auditing Pronouncements*) clarifies the status and authority of auditing pronouncements adopted, developed and issued by the IRBA for use by registered auditors⁸.
6. The Strategy has been developed by CFAS members and conceptualised using the framework of the requirements of the Act, the powers and duties bestowed on the CFAS in the Delegations Document and the Due Process Policy of the CFAS.

KEY CONSIDERATIONS FOR THE CFAS STRATEGY FOR 2015-2019

7. This Strategy has been driven by several key considerations, which are underpinned by the IRBA's statutory public interest mandate. These include:
 - (a) The IRBA's Four Pillar Strategy;
 - (b) Emerging local and international trends, including regulatory reporting requirements;
 - (c) The IAASB's Strategy and Work Programme; and
 - (d) The 2012-2014 achievements of the CFAS and the IRBA.

CFAS's consideration of the IRBA's Four Pillar Strategy

8. The World Bank issued its *Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing for South Africa* in 2013. The ROSC and other strategic developments described above resulted in an Extended Mandate (Four Strategic Pillars) for the IRBA as follows⁹:
 - (a) **Comprehensive regulator:** Provide for a more comprehensive regulatory model that will include the regulation of Professional Accountancy Organisations (PAOs). The Minister of Finance has given approval, in principle, that the IRBA will assume this responsibility.

⁶ Refer to the *CFAS Due Process Policy*: Appendix A.

⁷ Issued by the CFAS in November 2013.

⁸ Issued by the CFAS in November 2013.

⁹ Refer to the IRBA Strategic Plan for the Fiscal Years 2016-2021.

- (b) **Independence:** Strengthen the independence of both the IRBA and registered auditors.
 - (c) **Leadership in Africa:** Implement programmes that will contribute towards enhancing and improving overall reporting, governance and regulatory practices on the African continent.
 - (d) **Transformed profession:** Influence the advancement of transformation in the profession.
9. The CFAS recognises the importance and impact of recommendations in the ROSC Report, as well as the far reaching policy implications for South Africa. As these recommendations have been accepted by National Treasury, they are likely to affect the IRBA's role which could include having to independently regulate PAOs. The recommended regulation of the broader accounting profession and the impact of that on this Strategy will be assessed as developments unfold and clarity is obtained.

CFAS's consideration of emerging local and international trends, including regulatory reporting requirements

10. The CFAS considers local and international developments when it assesses and prioritises the need to adopt or develop; issue; and prescribe standards that meet the needs of various stakeholders in South Africa.
11. Emerging trends, both internationally and locally, have indicated a need for further discussions and/or research as well as the development of standards, practice statements, guides and/or regulatory reports in the areas of:
- (a) Financial reform, including banking, insurance and valuation of financial instruments;
 - (b) Scaling audit or assurance requirements for small and medium practices (SMPs);
 - (c) Reporting on compliance with laws and regulations and the needs of South African regulators;
 - (d) Other assurance, including assurance on integrated reporting, combined assurance and hybrid assurance;
 - (e) Global technological developments, such as data analytics;
 - (f) Professional scepticism; and
 - (g) Audit quality.
12. The CFAS's continued participation in the IAASB National Standard Setters' (NSS) meetings as well as the submission of comments on IAASB consultation papers and exposure drafts allow the committee to make its views known internationally and help it influence high level debates in the context of auditing and assurance.
13. The IRBA continues to provide input to the International Federation of Independent Audit Regulators (IFIAR), and more specifically to the IFIAR's Standards Co-

ordination Working Group (SCWG), on new and revised international standards. Therefore, the CFAS has direct and early knowledge of emerging trends.

14. For an in-depth discussion on emerging international and local trends over the past seven years, refer to *Appendix 2*.

CFAS's consideration of the IAASB's Strategy and Work Programme for 2015-2019

15. The CFAS believes the IAASB's strategic objective of ***ensuring that ISAs¹⁰ continue to form the basis for high-quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments*** fulfils the statutory responsibility of assisting the IRBA in meeting its public interest mandate:
 - (a) The need to be seen to be responding on a timely basis – while also adhering to the CFAS *Due Process Policy* to ensure the issues are fully understood, alternatives are explored and the views of all stakeholders are taken into account – is essential to the quality of the standards, and ensures the CFAS assists the IRBA in meeting its public interest mandate.
16. The CFAS believes that the IAASB's strategic objective of ***ensuring the IAASB's standards evolve as necessary to adequately address the emerging needs of stakeholders for services other than audits of financial statements*** will inform a significant part of this Strategy:
 - (a) The CFAS recognises that reporting is moving away from traditional reporting on financial statements/information only. It is now geared towards reporting on sustainability information, sustainability reports, integrated information and integrated reports. Engagements such as other assurance services, with reasonable or limited assurance expressed on both financial and non-financial information, are being considered. The concept of combined assurance, and what that means, is being discussed.
 - (b) The CFAS recognises that it can contribute to the outcome of local and international debates on possibly changing the role of auditors.
 - (c) A priority for the CFAS is the ongoing work of the South African Integrated Reporting Council (IRC) as well as issues that relate to the publication of the International Integrated Reporting Council's (IIRC) <IR> International Framework in December 2013 and the GRI G4 Sustainability Reporting Guidelines. The potential implications for sustainability assurance engagements and integrated reporting assurance engagements performed by auditors are monitored, with a view to further research or the possible development of local assurance pronouncements.

¹⁰ International Standards on Auditing.

- (d) The CFAS is aware of international developments and calls for auditing and assurance pronouncements that respond to global technological developments, such as data analytics.
- 17. The CFAS believes that the IAASB's strategic objective of ***strengthening outreach and collaboration with key stakeholders in the reporting supply chain on public interest issues relevant to audit, assurance and related services*** is important to South Africa and will inform this Strategy:
 - (a) In South Africa the IRBA and CFAS task groups continue to seek continued interaction with various government departments and other stakeholders to provide timeous input regarding issues arising from legislative and other proposed or promulgated requirements that affect auditors, the role of the audit, auditor reporting and the auditing profession.
 - (b) One of the Four Strategic Pillars of the IRBA is Leadership in Africa. The CFAS will monitor developments in this regard and respond appropriately as necessary.

The 2012-2014 achievements of the CFAS and the IRBA

- 18. The CFAS strategic focus areas for 2012-2014 prioritised the development of local auditing pronouncements as follows:
 - (a) The needs of South African regulators and influencing regulation affecting auditors.
 - (b) South African pronouncements and guidance, for example, standards, practice statements, circulars and guides.
 - (c) Other assurance and needs of other users.
 - (d) Continued adoption and implementation of international standards by way of:
 - (i) Comments provided on IAASB consultation papers and exposure drafts;
 - (ii) Participation in the implementation monitoring of the Clarity ISAs, assisted by the NSS in those jurisdictions that had adopted the IAASB standards, following the completion of the clarity project; and
 - (iii) Adoption of new and revised international standards.
- 19. For reflections on the CFAS strategic focus areas for the period 2012-2014 and what the committee achieved in that period, refer to *Appendix 1*.

KEY STAKEHOLDERS AND RESOURCES

20. The two diagrams below reflect the CFAS's key stakeholders that inform both this Strategy and the auditing pronouncements adopted, developed and issued by the IRBA. The diagrams also show the available resources that the CFAS draws on to achieve its output.



Diagram 1: Key Stakeholders

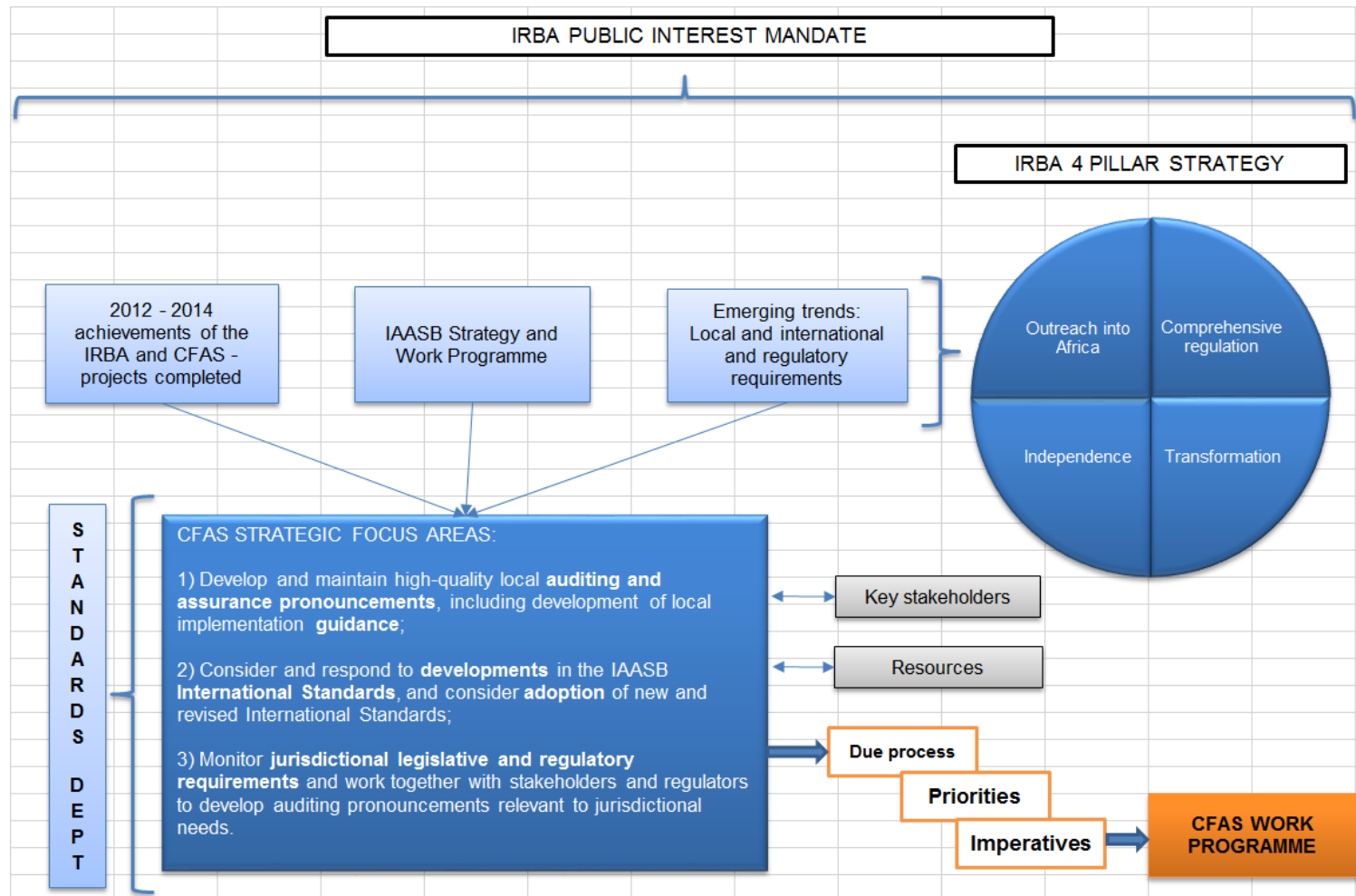


Diagram 2: Resources

CFAS STRATEGY FOR 2015-2019

21. Taking into account the four key considerations driving the strategy, this Strategy comprises the following three strategic focus areas:
 - (a) Develop and maintain high-quality local **auditing and assurance pronouncements**, including the development of local implementation **guidance**.
 - (b) Consider and respond to **developments** in the IAASB **international standards**, and consider the **adoption** of new and revised international standards.
 - (i) Comment on international consultation papers and exposure drafts.
 - (ii) Consider and adopt new and revised IAASB standards issued.
 - (iii) Engage with international stakeholders, for example, the IAASB's NSS as well as the IFIAR and their respective working groups.
 - (c) Monitor **jurisdictional legislative and regulatory requirements** and work with stakeholders and regulators to develop auditing pronouncements that are relevant to jurisdictional needs.
 - (i) Continued engagement with local stakeholders, such as South African government departments, regulators, audit firms and academics, regarding legislative and regulatory requirements affecting auditors, particularly in respect of audit and assurance reporting needs, and influencing legislation and regulation affecting the auditing profession.
22. The CFAS Work Programme is determined based on this Strategy. Refer to *Appendix 4* for the process of determining which projects are taken onto the CFAS Work Programme and how these are prioritised. Refer to *Appendix 5* for the format of the CFAS Work Programme. Refer to *Appendix 6* for CFAS performance measurement information.

STRATEGY ON A PAGE



Appendix 1

Reflections on the CFAS Strategic Focus Areas for the Period 2012-2014

What did the CFAS achieve?

- (a) Developed auditors' regulatory reports for a variety of regulators and government departments, and submitted comments on amendment Bills affecting local legislation, as well as engaged directly with the relevant government departments to provide timeous inputs.
 - (i) Regulatory auditor's reports:
 - Financial Services Board: Retirement funds;
 - Council for Medical Schemes: Auditors' reports on annual returns;
 - Department of Trade and Industry: Auditor's reports relating to grant claims and incentive programmes;
 - Home Loan and Mortgage Disclosure Act: Auditor's report relating to home loan and mortgage disclosure required by financial institutions;
 - Estate Agency Affairs Board: Report on trust accounts;
- (b) Developed and issued the following local auditing pronouncements during the past five years:
 - (i) The CFAS *Due Process Policy* and the *Status and Authority of Auditing Pronouncements*;
 - (ii) Revised SAAPS¹¹ 2 (Revised 2013), *Financial Reporting Frameworks and the Auditor's Report*, and Revised SAAPS 3 (Revised 2013), *Illustrative Reports* (on the audit or review of financial statements);
 - (iii) SAAPS 6, *External Confirmations from Financial Institutions*;
 - (iv) *Guide for Registered Auditors: Engagements on Attorneys Trust Accounts*;
 - (v) JSE Securities Exchange:
 - *Illustrative ISAE 3420 Assurance Report* prepared to meet the JSE Listing Requirements for an *Illustrative Independent reporting accountant's assurance report on the compilation of pro forma financial information included in a <prospectus/pre-listing statement/circular>*;

¹¹ South African Auditing Practice Statement.

- *Guide for Registered Auditors: Reporting on Financial Information Contained in Interim, Preliminary, Provisional and Abridged Reports Required by the JSE Listings Requirements;*
- (vi) Joint Guides with the Auditor-General South Africa (AGSA):
- *Guide for Registered Auditors: Audit of Predetermined Objectives (the Guide);*
 - *Guide for Registered Auditors: Auditing in the Public Sector;*
 - *Guidance on Performing Audits on behalf of the AGSA: Guidance on Performing Audits on behalf of the AGSA;*
 - *Guidance on Performing Audits where the AGSA has opted not to perform the Audit;*
- (c) Other assurance engagements and needs of other users:
- (i) SASAE 3502, *Assurance Engagements on Broad-Based Black Economic Empowerment Verification Certificates;*
 - (ii) Guidance by way of an *Illustrative sustainability report* and related *engagement letter* developed for registered auditors performing sustainability engagements;
 - (iii) The CFAS Sustainability Standing Committee Chairman, at the request of the IIRC, led the IIRC's Technical Consultative Group's (TCG) *Research Project into Assurance on Integrated Reports <IR>* with global conference participants. The TCG provided several discussion papers that informed the development of the *IIRC <IR> Framework for Integrated Reporting* issued in December 2013;
- (d) The international agenda:
- (i) Comments were submitted on all IAASB consultation papers and exposure drafts issued during this period;
 - (ii) Reporting Round Tables were held in Johannesburg and Cape Town, in the course of submitting comments on the IAASB Consultation Paper on the proposed changes to the ISAs reporting standards;
 - (iii) New and revised IAASB standards as contained in successive editions of the *IAASB Handbook of International Quality Control, Auditing Review, Other Assurance, and Related Services Pronouncements* (2010, 2012 and 2013) were adopted and prescribed by way of Board Notice for use by auditors in South Africa.

Appendix 2

Emerging International and Local Trends

- (a) Over the past eight years, important global and local developments aimed at increasing the credibility and reliability of financial reporting have emerged, and these have affected the importance and relevance of the financial statement audit and other assurance services. Of particular note are the following:
- (i) In 2008, the G-20¹² committed to a fundamental reform of the financial system to correct the fault lines that led to the global financial crisis of 2007-2008 and rebuild the financial system to be a safer, more resilient source of finance that better serves the real economy. The Financial Stability Board¹³ is coordinating a framework of financial reforms at the request of the G-20 and has recently published a progress report on these reforms. Importantly, the Financial Stability Board has signalled that the ISAs, among other standards, are key for sound financial systems and deserving of priority implementation.
 - (ii) Following the current financial crisis, the International Organization of Securities Commissions (IOSCO)¹⁴ adopted a new strategic direction that emphasises the need for securities regulators to identify, monitor and manage systemic risks. The IOSCO published the *Securities Markets Risk Outlook for 2013-2014*, highlighting important trends, vulnerabilities and risks that may be of concern from a systemic perspective in securities markets.
 - (iii) In 2014, the European Commission (EC) finalised its amended Statutory Audit Directive and new Regulation on Statutory Audit to clarify the role of auditors and restore confidence in financial statements. The revised Directive includes measures to strengthen the independence of statutory auditors, make the auditor's report more informative and strengthen audit supervision throughout the European Union. It makes specific reference to the ISAs and other relevant IAASB standards. The Regulation introduces stricter requirements on the statutory audits of public interest entities, such as listed companies, credit

¹² The Group of Twenty (G-20) is an international forum for governments and central bank governors from 20 major economies. The members include 19 individual countries —Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States — and the European Union (EU).

¹³ The Financial Stability Board is an international body that monitors and makes recommendations about the global financial system.

¹⁴ The International Organization of Securities Commissions “brings together the world's securities regulators and is recognised as the global standard-setter for the securities sector”.

institutions and insurance undertakings, to reduce risks of excessive familiarity between statutory auditors and their clients, encourage professional scepticism and limit conflicts of interest. The US Public Company Accounting Oversight Board (PCAOB), in its dual role as a standard-setter and a regulator, is also actively addressing, among others, the topics of auditor reporting and audit quality. While these efforts are in the context of a regional regulatory environment, they have stimulated debate at the international level. Linked to this is the greater international alignment between standard-setters and audit regulators globally, taking into consideration the topics on the agendas of the IAASB, the PCAOB, the EU and the IFIAR.

- (b) South Africa, as a member of the G-20, is not immune to these developments and similar initiatives are taking place locally, including:
 - (i) The Twin Peaks Model of Financial Regulation, as per the Financial Sector Regulation Bill proposed by the National Treasury to control market abuse. As South Africa moves towards a twin peaks model of regulation, we will see the emergence of two regulatory authorities – the Prudential Authority and the Market Conduct Authority (the Financial Sector Conduct Authority).
 - (ii) The Solvency Assessment and Management (SAM) Project for the Insurance Industry by the Financial Services Board (FSB).
 - (iii) The JSE Limited (JSE): establishment of the Financial Reporting Investigation Panel (FRIP) to monitor financial reports of issuers' compliance with International Financial Reporting Standards (IFRS). This adds to the stronger interrelationship between accounting, auditing and governance.
- (c) Developments in other assurance are taking place both globally and locally, with South Africa proving to be a leader in the fields of providing assurance on sustainability reports and thought leadership on assurance on integrated reports.
 - (i) In 2013, the IIRC released its International Integrated Reporting (<IR>) Framework, which establishes guiding principles and content elements of an integrated report. The Framework is aimed at advancing the adoption of integrated reporting as a better language for businesses to communicate with their investors in order to deliver more sustainable value creation and help create more efficient capital markets. Various levels and forms of assurance may be provided on integrated reports. The importance of providing assurance on integrated reports has been identified internationally. Recently, the IIRC issued a paper on *Assurance on <IR> – Overview of feedback and call to action*, while the IAASB also issued one on *Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting*. A new

standing committee of the CFAS, the Integrated Reporting Standing Committee (<IR>SC), was established in 2014 to provide thought leadership to the IAASB and the IIRC¹⁵.

- (ii) The CFAS has also established a Sustainability Standing Committee (SSC). The trend in sustainability reporting is the need to align the assurance efforts and standards. The SSC has developed illustrative assurance reports and engagement letters for use by auditors in the performance of assurance engagements on sustainability reports.
- (d) There have been significant corporate governance and regulatory developments, locally and internationally, since the 2009 issuing of the King III Code of Governance Principles and the King Report on Governance, which need to be taken into account. King IV, which is currently being developed, will incorporate local and international developments on the governance front.

¹⁵ The Sustainability Standing Committee was appointed to lead the IIRC's Technical Consultative Group – Assurance Research Project considered by the IIRC in the development of the IIRC <IR> Integrated Reporting Framework issued in December 2013.

Appendix 3

CFAS Communications

The IRBA continues to issue a variety of CFAS communications regarding auditing pronouncements and guidance adopted or developed and issued for use by registered auditors, and examples include:

- (a) An IRBA Board Notice or CFAS communiqué, communicating the issue of each proposed or final IAASB and CFAS auditing pronouncement adopted or developed and issued.
- (b) A CFAS report within the IRBA annual report written to a broad audience on the performance of the CFAS, including a report on progress against the CFAS Work Programme and on how the CFAS has complied with its stated due process.
- (c) Communications to promote the activities and publications of the CFAS through the IRBA website (this includes proposed auditing pronouncements and related comment letters, as well as final auditing pronouncements issued and prescribed); and evaluating how technology may be better used to reach a broader audience.
- (d) Communications to maintain sound relationships with international stakeholders such as the IAASB, the NSS (including the annual meetings of the IAASB and IESBA NSS attended by delegates from about 15 countries), regulators, the IFIAR, IFAC member bodies, the Forum of Firms, INTOSAI, the AGSA and academics.
- (e) Quarterly IRBA News that contains details of the CFAS and Committee for Auditor Ethics (CFAE) activities/auditing pronouncements in progress and those issued.

Appendix 4

Determining the CFAS Work Programme from the CFAS Strategy

1. The CFAS Work Programme (WP) is determined based on this Strategy.
2. The Standards Department has developed a process, approved by the CFAS, to prioritise projects based on various factors. The process is summarised in the CFAS Process Flow Diagram (Diagram 3) and is explained in more detail under the sections with the following headings:
 - A. Regulator helpdesk: Approach for the drafting of regulator factual findings reports;
 - B. Due process and project prioritisation;
 - C. Definition of ratings; and
 - D. Internal due process approval matrix.

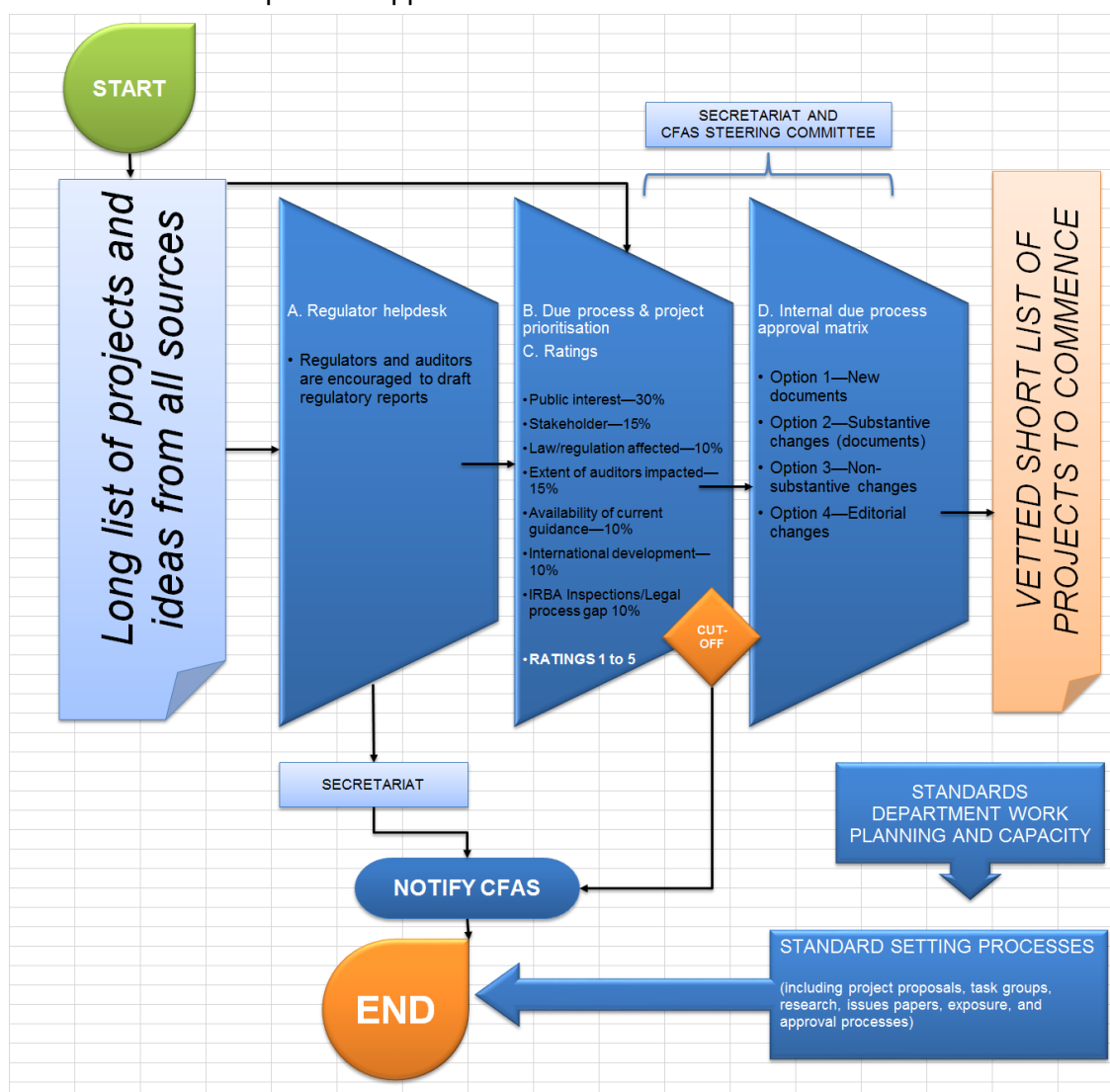


Diagram 3 – CFAS Process Flow Diagram

A. Regulator helpdesk: Approach for the drafting of regulator factual findings reports

3. The need arose to establish a new approach for dealing with numerous requests from regulators and/or auditors to assist with the drafting of factual findings reports for agreed-upon procedures engagements required by legislation.

Background

4. In the past, the Secretariat has received numerous requests for assistance with regulatory reports.
5. These reports are required by legislation (Acts and/or regulation) or by the regulators, where the legislation allows the regulators to prescribe reporting requirements.
6. Legislation may be poorly drafted, with the result that careful interpretation is required to understand what type of engagement the legislation and/or regulator requires and the desired level of assurance.
7. The Secretariat does assist the regulators and auditors with drafting the reports or convening task groups, where these are discussed. Often the reports have also been included in CFAS Work Programme.
8. The CFAS approved for issue the CFAS Due Process Policy in November 2013.
9. Regulatory reports are now required to follow a rigorous due process, starting with a task group, recommendation by the RIRSC¹⁶ and then approval by the CFAS.
10. In addition, the Secretariat has identified a further need to develop a system of prioritising projects.
11. Many of these projects are regulatory reports, of which several are agreed-upon procedures reports.

Significant issues

12. The following two cases resulted in the Secretariat considering a new approach with respect to the drafting of agreed-upon procedures reports required by legislation:
 - (a) African Bank Investments Limited (ABIL): The IRBA was asked to assist urgently with the drafting of an auditor report for agreed-upon procedures to be performed on instruments issued by ABIL. After a discussion with the SAICA task group that was formed, it was agreed that the FSB and auditors should negotiate the agreed-upon procedures and use the existing standard – International Standard on Related Services (ISRS) 4400, Engagements to

¹⁶ Regulated Industries and Reports Standing Committee, a standing committee of the CFAS.

Perform Agreed-upon Procedures Regarding Financial Information – to draft the report. The regulator will then prescribe which agreed-upon procedures the auditors need to perform, and the auditors will use the standard.

- (b) Strate: The IRBA was asked to approve the updates made to Strate's Circular *Agreed-upon Procedures for Registered Auditors: Reporting on Factual Findings in terms of the Central Securities Depository (CSD) Rules and the Financial Markets Act (FMA)*. The circular included the following paragraph: "The procedures to be performed have been agreed by the Participants, the Controlling Body of Strate and the Committee for Auditing Standards (CFAS) of the Independent Regulatory Board for Auditors (IRBA). The Circular has been approved by the Controlling Body of Strate, the Financial Services Board (FSB) and by the CFAS." After an internal discussion and a discussion with Strate, it was agreed that Strate and auditors should negotiate the agreed-upon procedures and use the existing standard, International Standard on Related Services (ISRS) 4400, to draft the report. This is effectively the guidance that is included in the circular. The Secretariat asked that the paragraph quoted above be removed. Strate (although not a regulator) will then require auditors to use the circular.

13. The above two examples illustrate the following issues:

- (a) Auditors use ISRS 4400 in many day-to-day circumstances without the need for further consultation with or guidance from the regulator. That is the value (and point of) a standard.
- (b) The CFAS Due Process Policy (for standard setting) is not designed to support ad-hoc requests.
- (c) The Standards Department work plan does not cater for the capacity that is needed to attend to such ad-hoc requests, without putting other projects in jeopardy.
- (d) The Secretariat cannot do reliable long-term planning if it is called upon to provide a platform for such agreed-upon procedures to be negotiated.

Approved process

- 14. Where regulators and/or auditors request regulatory reports to be newly drafted or amended, they may seek the advice of the Secretariat regarding which standard to apply (if the legislation and/or expectations are not clear). If the applicable standard is ISRS 4400, the auditors and regulators may decide on the agreed-upon procedures and use the existing standard without further significant involvement of the IRBA or the CFAS.
- 15. The factual findings reports are then issued by the regulator, with the requirement that the auditor uses that report.
- 16. There may be circumstances when the IRBA, through the CFAS, would get involved in providing a platform for the preparation of a regulator report. These may be when:
 - (a) The matter involves other stakeholders besides the regulator and auditors;

- (b) Where the project is seen to involve a wide range of auditors that the regulator may not easily be able to consult with; or
 - (c) Where a gap in legislation or poorly drafted legislation necessitates the IRBA's involvement.
17. This "regulator helpdesk" approach was approved at the November 2014 CFAS meeting.

B. Due process and project prioritisation

18. The need arose to establish a formal process to be used when prioritising projects (pronouncements and/or reports).

Background

19. In the past, the Secretariat accepted almost all projects that had been requested. These projects were in most cases added to the CFAS Work Programme and agenda. This resulted in an excessive workload, delays in project completion and projects that did not get started.
20. The CFAS approved for issue the *CFAS Due Process Policy* in November 2013.
21. The *CFAS Due Process Policy* for the development of pronouncements by the CFAS only contemplated the due process to be followed by the CFAS for the development of new standards, guides and practice statements (pronouncements).
22. The *CFAS Due Process Policy* did not cover the due process to be followed for:
- (a) Amendments to pronouncements; and
 - (b) The development of new/amended reports.
23. The Secretariat therefore developed a due process to be followed for these circumstances, and this was approved by the CFAS on 26 August 2014.
24. The Secretariat identified a further need to develop a system of prioritising projects.

Significant issues

25. A system of prioritising projects was required so as to manage the order of projects that will be proposed to the CFAS Steering Committee, as well as those to be added to the CFAS agenda as projects to be approved, and then in the CFAS and, if applicable, RIRSC work programmes¹⁷.

¹⁷ Note that some projects may also be taken off this list if it is determined that auditors and/or regulators can produce the reports based on an existing standard (refer to "Regulator helpdesk").

26. This allowed for an improved planning of resources, both in terms of the Secretariat's capacity and the workload of the committees.
27. The following factors have been determined as affecting the priority of a project:
- (a) The extent of **public interest** (Public or private publication of reports? Widespread user interest?)
 - (b) The **stakeholder/s** requiring the project.
 - (c) The **law/regulation** requiring the project and being **affected**.
 - (d) The **extent of auditors impacted** i.e. those who will use the pronouncement and/or report.
 - (e) The **non-availability of current guidance** on the topic previously issued, locally or internationally.
 - (f) Whether the project is a response to an **international development**.
 - (g) Whether the project identifies a **gap** highlighted through the **IRBA Inspections or Legal processes**.
28. The weighting of the various factors is proposed as follows:

Factor	Percentage
Public interest	30%
Stakeholder	15%
Law/regulation affected	10%
Extent of auditors impacted	15%
Availability of current guidance	10%
International development	10%
IRBA Inspections/Legal process gap	10%

29. The project is then rated between 1 and 5 per factor (refer to "*Definition of ratings*").
30. An overall score is calculated. It is accepted that the factors are subjective and the ratings would therefore need to be discussed and agreed upon internally by the Secretariat and then at the CFAS Steering Committee.
31. Examples: If faced with two choices, this is the thought process:

a) Key Audit Matters Project:

Factor	%	Rating	Reason	Weighting
Public interest	30%	5	Applicable to all listed companies	1.5
Stakeholder	15%	5	Public, JSE-listed entities, JSE-accredited auditors	0.75
Legislation/ regulation/auditing pronouncement	10%	5	New ISA will be prescribed in SA	0.5
Extent of auditors impacted	15%	4	On all JSE-accredited auditors	0.6
Non-availability of current guidance	10%	5	New topic; none	0.5
International development	10%	5	New ISA 701	0.5
Inspections/Legal process gap	10%	1	New standard, therefore not yet inspected; no legal cases	0.1
Score			HIGH PRIORITY	4.45

b) Report for an obscure regulation or Act of limited use

Factor	Percentage	Rating	Reason	Weighting
Public interest	30%	1	Applicable to a handful of film producers	0.3
Stakeholder	15%	1	One RA has approached the IRBA; can't establish which government department requires the report	0.15
Legislation	10%	1	Obscure Act	0.1
Extent of auditors impacted	15%	1	Five individual RAs	0.15
Non-availability of current guidance	10%	5		0.5
International development	10%	1		0.1
Inspections/Legal process gap	10%	1		0.1
Score			LOW PRIORITY	1.4

Conclusion: Project one is chosen. Once prioritisation has been decided, capacity considerations are taken into account.

Approved process

32. Projects scoring less than a threshold are taken off the “Projects to commence list” included in the CFAS Work Programme. Those projects just below the threshold may well be moved to the CFAS Work Programme, if the Secretariat has capacity in the future. Those projects with very low ratings and therefore very low priorities will be dropped.
33. Where projects are rated as high priority, but there is not enough capacity, reallocation of resources may be required.
34. This “due process and project prioritisation” approach was approved at the November 2014 CFAS meeting.

C. Definition of ratings

Public interest

1. The project has minimal impact on the public interest – unimportant.
2. The project impacts stakeholders (end-users) of private companies – slightly important.
3. The project impacts stakeholders in a specific industry/field – important – could be a listed entity or other.
4. The project impacts stakeholders of JSE-listed entities – very important.
5. The project impacts the general public (i.e. shareholders, users and investors).

Stakeholder

Note: Where the project impacts auditors directly, as in the case of SAAPS 3 for instance, the auditors are regarded as the stakeholders.

1. Stakeholder other than a regulator – impact low/ impacts few auditors.
2. Stakeholder other than a regulator – impact medium/impacts several auditors.
3. Stakeholder who is a regulator of a particular industry – impact medium/impacts numerous auditors.
4. Stakeholder who is a regulator of a particular industry – impact high/impacts many auditors.
5. Very important stakeholder who is a regulator (listed and unlisted) – high impact on the general public/impacts all auditors.

Law/regulation affected

1. No change in legislation – impact low.
2. Minor change in legislation – impact low.
3. Minor change in legislation – impact medium/high.
4. New or major change in legislation – impact medium.
5. New or major change in legislation – impact high.

Extent of auditors impacted

1. Few auditors.
2. Several auditors.
3. Numerous auditors and non-JSE accredited auditors.
4. Many auditors and JSE accredited auditors.
5. All auditors.

Availability of current guidance

1. Up-to-date auditor guidance/report issued by the IAASB.
2. Up-to-date auditor guidance/report issued by the IRBA.
3. Up-to-date auditor guidance/report issued by a regulator other than the IRBA or outdated guidance/report issued by the IRBA.
4. Industry accepted audit practice or outdated guidance/report issued by a regulator other than the IRBA.
5. No guidance/report available.

International development

1. No international development.
2. Revised international development – low impact.
3. New international development – low impact.
4. New/revised international development – medium impact.
5. New/revised international development – high impact.

IRBA Inspections/Legal gap

1. No inspections and/or legal findings.
2. Few or insignificant inspections and/or legal findings.
3. Few significant inspections and/or legal findings.
4. Many inspections and/or legal findings.
5. Many significant inspections and/or legal findings

D. Internal due process approval matrix

Background

35. The CFAS approved for issue the *CFAS Due Process Policy* in November 2013.
36. The *CFAS Due Process Policy* for the development of pronouncements by the CFAS only contemplated the due process to be followed by the committee for the development of new standards, guides and practice statements (pronouncements).
37. The *CFAS Due Process Policy* did not cover the due process to be followed for:
 - (a) Amendments to pronouncements; or
 - (b) The development of new/amended reports.
38. The Secretariat identified a need to develop a due process to be followed for these circumstances.

Significant issues

Internal Due Process Approval Matrix

39. An Internal Due Process Approval Matrix has been developed by the Secretariat and it contains the following options:
 - (a) Option 1: New documents;
 - (b) Option 2: Substantive changes (to documents);
 - (c) Option 3: Non-substantive changes (to documents); and
 - (d) Option 4: Editorial changes (to documents).
40. Option 1 includes the following documents:
 - (a) Standard;
 - (b) Guide/practice statement;
 - (c) Report; and
 - (d) Comment letter.

41. Options 2 to 4 include the following documents:
 - (a) Standard;
 - (b) Guide/practice statement; and
 - (c) Report.
42. The due process and approval considerations for each option and each document are set out in the matrices hereunder.

Definitions

43. In order to contextualise the *Internal Due Process Approval Matrix*, definitions for each of the options were developed:
 - (a) *New document* – A document developed and contemplated by the CFAS for approval for the first time.
 - (b) *Substantive changes* – Changes that arise from new or substantial changes to auditing concepts, IAASB pronouncements, CFAS pronouncements, legislation, regulations or a pronouncement where the status and authority per the *Status and Authority Policy* of the pronouncement has been changed.
 - (c) *Non-substantive changes* – Minor changes arising from such changes to auditing concepts, IAASB pronouncements, CFAS pronouncements, legislation, regulations or a pronouncement that has been updated for minor changes (other than editorial changes) in order to align drafting conventions. There should be no change implied in content or emphasis;
 - (d) *Editorial changes* – A change which requires no review and could never be subject to a dispute. The changes should only be superficial in nature. Some examples are:
 - Formatting (font, spacing, numbering of paragraphs, page numbers);
 - Typographical corrections; or
 - Inserting the predefined status and authority “block” per the *Status and Authority Policy*, or a copyright notice;
44. Where changes to a single document fall into more than one of the above categories – for example, editorial changes are made, while some substantive changes are considered – then the change to the document will be classified at the higher level.
45. It is proposed that the Secretariat (Standards Department) will apply this criteria and make an initial proposal regarding under which option each change falls.

46. It is understood that the decision on whether a document falls into option 2, 3 or 4 is subjective and is a matter of professional judgment.
47. As a result, the initial proposal made by the Secretariat will be documented in the project proposal¹⁸ that will be agreed to and approved by the CFAS Steering Committee, the IRBA CEO or the Director Standards, depending on the category of the change as described in the matrices below.
48. The categorisation of the change then gives rise to a due process and an approval matrix as described in the matrices below. This *Internal Due Process Approval Matrix* is designed to ensure a fair balance between the process and efficiency. Those changes with a progressively higher risk are subject to more extensive levels of due process.

Approved process

49. The Secretariat adopted the *Internal Due Process Approval Matrix* as a supplement to the *CFAS Due Process Policy for the Development, Adoption and Issue of Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements (CFAS Due Process Policy)* for use, and has now incorporated the *Internal Due Process Approval Matrix* as an appendix to the *CFAS Strategy for 2015-2019*.
50. This *Internal Due Process Approval Matrix* was approved at the November 2014 CFAS meeting.

¹⁸ A project proposal includes an objective; background; proposed actions; deliverables and anticipated time frames; project rating; option per the “Internal Due Process Approval Matrix”; and the CFAS Steering Committee action requested.

Option 1: New Documents

Level	Standard	Guide/Practice Statement	Report	Comment Letter
IRBA Board	Approve	Note	–	–
CFAS	Approve ED and final document and recommend final document to the IRBA Board for approval	Approve ED and final document and recommend final document to the IRBA Board for noting	Approve	Approve the establishment of a Task Group Note
CFAS SteerCom	Approve project proposal	Approve project proposal	Approve project proposal	–
Standing Committee (SSC, PSSC and BAC)	Review and approve	Review and approve	–	–
RIRSC	Review and approve report contained therein	Review and approve report contained therein	Review and approve	–
Task Group	Develop	Develop	Develop	Develop
Secretariat	Support and coordinate development	Support and coordinate development	Support and coordinate development	Support and coordinate development
Director: Standards	–	–	–	Approve submission
IRBA CEO	–	–	–	Note

Option 2: Substantive Changes

Level	Standard	Guide/Practice Statement	Report
IRBA Board	Approve	Note	–
CFAS	Approve ED and final document and recommend final document to the IRBA Board for approval	Approve ED and final document and recommend final document to the IRBA Board for noting	Approve
CFAS SteerCom	Approve project proposal	Approve project proposal	Approve project proposal
Standing Committee (SSC, PSSC and BAC)	Review and approve	Review and approve	-
RIRSC	Review and approve report contained therein	Review and approve report contained therein	Review and approve
Task Group	Make changes	Make changes	Make changes
Secretariat	Make changes	Make changes	Make changes
Director: Standards	–	–	–
IRBA CEO	–	–	–

Option 3: Non-substantive Changes

Level	Standard	Guide/Practice Statement	Report
IRBA Board	Note	–	–
CFAS	Approve and recommend to the IRBA Board for noting	Note changes made	Note changes made
CFAS SteerCom	Advised of approved project proposal	Advised of approved project proposal	Advised of approved project proposal
Standing Committee (SSC, PSSC and BAC)	Review and approve	Note changes made	Note changes made
RIRSC	Review and approve report contained therein	Note changes made to report contained therein	Note changes made
Task Group	–	–	–
Secretariat	Make changes	Make changes	Make changes
Director: Standards	Recommend project proposal	Recommend project proposal	Recommend project proposal
IRBA CEO	Approve project proposal	Approve project proposal	Approve project proposal

Option 4: Editorial Changes to Documents

Level	Standard	Guide/Practice Statement	Report
IRBA Board	–	–	–
CFAS	Note changes	Note changes	Note changes
CFAS SteerCom	–	–	–
Standing Committee(SSC, PSSC and BAC)	–	–	–
RIRSC	–	–	–
Task Group	–	–	–
Secretariat	Make changes	Make changes	Make changes
Director: Standards	Approve project proposal	Approve project proposal	Approve project proposal
IRBA CEO	–	–	–

Appendix 5

Format of the CFAS Work Programme

51. The CFAS Work Programme (WP) is an annual plan that is divided into quarters and it is prepared and agreed to at the commencement of the IRBA financial year
52. The WP comprises the following spreadsheets:

(a) ***WIP reconciliation***

The WIP reconciliation spreadsheet is a reconciliation of the projects that are a work in progress at the beginning of the quarter (the closing projects from the previous quarter) to the closing projects in progress at the end of the quarter. The calculation is: Opening WIP + new projects – completed projects – removed projects = closing WIP. The reconciliation is presented per committee/standing committee (CFAS, RIRSC, <IR>SC, PSSC, SSC and BAC¹⁹).

This spreadsheet also lists projects still to commence, projects awaiting legislation and/or regulator, and projects completed in the prior period, also per committee/standing committee.

The totals on this spreadsheet summarise the subsequent spreadsheets.

(b) ***Performance reporting for the quarter***

Refer to the section “*CFAS Performance Measurement*” for more information on this. It lists the various projects completed during the quarter, per committee/standing committee.

A summary of performance for all quarters is provided at the end of the spreadsheet.

(c) ***Projects in progress***

This lists the various projects in progress, per committee/standing committee. This spreadsheet is divided into quarters, with the first quarter being the current one and the next three quarters indicating the project plan. This plan will align with the project proposal, which was approved by the CFAS Steering Committee, unless a change in the timeline and completion date is authorised by the CFAS (authorised changes are captured in the minutes). The

¹⁹ RIRSC – Regulated Industries and Reports Standing Committee; <IR>SC – Integrated Reporting Standing Committee; PSSC – Public Sector Standing Committee; SSC – Sustainability Standing Committee; and BAC – Broad-Based Black Economic Empowerment (B-BBEE) Advisory Committee.

spreadsheet includes information such as the professional manager responsible for the project; the date the project commenced; the expected output (e.g. standard, regulatory report); the planned completion date per project proposal; the authorised revised completion date; and a status update.

(d) ***Completed/removed projects***

This is a list of both removed and completed projects for the current quarter and for prior quarters.

Removed projects are those that were previously on the CFAS Work Programme but have been abandoned for a reason that is noted in the minutes.

Once completed, projects are moved to this spreadsheet and recorded for the year.

(e) ***Prioritised projects still to commence***

The inclusion of any project on the final CFAS Work Programme for 2015-2016 is subject to a recommendation by the CFAS Steering Committee and approval by the CFAS, following views obtained during consultation. Refer to the section “*Determining the CFAS Work Programme from the CFAS Strategy*”.

“Placeholders” are retained for projects that are not yet scheduled as they are not yet definite, and these include various IAASB projects such as comment letters, which will automatically be included in the CFAS work programme. Similar “placeholders” are kept for prioritised <IR>SC projects, PSSC projects, projects awaiting legislation or regulation and that are now able to commence, and critical projects identified by SAICA project groups (of international and public interest importance).

Once the Secretariat has capacity, projects move from the “projects still to commence” spreadsheet to the “work in progress and performance” spreadsheet.

(f) ***Projects awaiting legislation and/or regulator***

Projects may be important but not commence due to legislation that has not been finalised or regulators that are still to provide some sort of information. These projects are not removed, but a list of them is maintained. Once the information is obtained or the legislation is finalised, each project is rated and then the normal CFAS process is followed.

Appendix 6

CFAS Performance Measurement

53. One of the strategic focus areas/objectives of the IRBA is to develop and maintain auditing standards that are internationally comparable.
54. The IRBA is required to report quarterly on this to National Treasury using the following format:

Measurable objective	Output	Outcomes	Measurable indicator	Performance targets	
				2015/2016	Status for the three months ended xxxxx 2015
Standards and Guidance issued	Issued auditing pronouncement, auditor reports and comment letters	High-quality audits	Target dates for issuing audit pronouncements, audit reports and comment letters as per the CFAS Project Timetable, adjusted on a quarterly basis	85%	xxx%

55. The spreadsheet “Performance reporting for the quarter”, included in the CFAS Work Programme, is used to perform this calculation.
56. Only completed output is measured against output that was planned for that quarter. The only output that is measured is documents. The documents that may result at various stages of a project include the following:
- Comment letter
 - Discussion paper
 - Exposure draft
 - Standard
 - Guide
 - Circular
 - Regulatory report
57. It is important to note that only one or two outputs, or even no outputs, may have been planned for the quarter. This does not mean that no work was planned and performed, but rather that other work such as task group meetings or research was planned and undertaken during that time.
58. Also, the CFAS Work Programme may be adjusted at quarterly CFAS meetings for the following reasons:
- New projects, as per the above process.
 - Projects cancelled.

- Scope of the project is changed.
 - Project deadline extended – which would be under exceptional circumstances that are beyond the control of the CFAS.
59. Performance is measured as percentage of documents completed of documents planned. Therefore, that the denominator may change during the year, as documents planned may change.
60. The quarterly performance calculation is approved by the CFAS (evidence of this would be in the minutes of that meeting). The Director Standards signs the performance calculation.