

Status and Authority of Auditing Pronouncements

November 2013



Committee for Auditing Standards

**Status and Authority of Quality Control, Auditing,
Review, Other Assurance and Related Services
Pronouncements**

Independent Regulatory Board for Auditors
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This *Status and Authority of Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (“*Status and Authority of Auditing Pronouncements*”), was prepared by the Committee for Auditing Standards (CFAS) of the Independent Regulatory Board for Auditors (IRBA) and was approved for issue in November 2013.

This *Status and Authority of Auditing Pronouncements* is issued to facilitate an understanding of the status and authority of the auditing pronouncements developed, adopted, issued and prescribed by the IRBA.

The IRBAs legislative mandate

The objects of the Auditing Profession Act, 2005 (Act No 26 of 2005) (the “Act”) are set out in section 2 and include, inter alia:

- (c) *“to approve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*
- (d) *to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession;”*

To give effect to the objects of the Act, section 4 of the Act sets out the general functions of the Regulatory Board (the “IRBA”), including that *“the Regulatory Board must, in addition to its other functions provided for in this Act”* take steps to meet certain specific requirements. These include section 4(1) which specifies that the IRBA must:

- (c) *“prescribe standards of professional competence, ethics and conduct of registered auditors;” and*
- (e) *“prescribe auditing standards”.*

To enable the IRBA to meet these requirements, section 4(2)(a) states that *“the IRBA may participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession;”*.

The Committee for Auditing Standards

The statutory responsibility of the CFAS is set out in section 22(2) which requires that *“the committee for auditing standards must assist the IRBA to:*

- (a) *develop, maintain, adopt, issue or prescribe auditing pronouncements;*
- (b) *consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and*
- (c) *promote and ensure the relevance of auditing pronouncements by*
 - i. *considering the needs of users of audit reports;*
 - ii. *liaising with other committees of the Regulatory Board on standards to be maintained by registered auditors and by 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 consulting with professional bodies on the direction and appropriateness of auditing pronouncements; and*
 - iv. *consulting with professional bodies on the direction and appropriateness of auditing pronouncements.”*

The *Status and Authority of Auditing Pronouncements* may be downloaded free of charge in PDF format from the IRBA website at <http://www.irba.co.za>.

The IRBA does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in the IRBA auditing pronouncements, whether such loss is caused by negligence or otherwise.

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TABLE OF CONTENTS

STATUS AND AUTHORITY OF QUALITY CONTROL, AUDITING, REVIEW, OTHER ASSURANCE AND RELATED SERVICES PRONOUNCEMENTS

(Effective from 1 December 2013)

CONTENTS	Page
Introduction.....	5
Adoption of International Standards on Quality Control, Auditing, Assurance and Related Services.....	5
Adoption of the IESBA Code of Ethics for Professional Accountants.....	6
Authority of the IAASB's Pronouncements adopted and prescribed	7
Authority of Pronouncements issued by the IRBA.....	7
South African Standards.....	7
South African Practice Statements	8
South African Guides.....	9
IRBA Communiqués	11
Existing pronouncements	11
Language	11

Introduction

1. This *Status and Authority of Quality Control, Auditing, Assurance and Related Services Pronouncements* (“*Status and Authority of Auditing Pronouncements*”) is issued to facilitate an understanding of the status and authority of the auditing pronouncements developed, adopted, issued and prescribed by the Independent Regulatory Board for Auditors (the IRBA).
2. Auditing pronouncements are defined in section 1 of the Auditing Profession Act, No 26 of 2005 (“the Act”) as meaning “*those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board which a registered auditor must comply with in the performance of an audit*”¹ referred to hereafter as “*auditing pronouncements*”.
3. The statutory responsibility of the Committee for Auditing Standards (CFAS) is to assist the IRBA to develop, maintain, adopt, issue or prescribe auditing pronouncements, to consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and to promote and ensure the relevance of auditing pronouncements by developing and maintaining auditing standards which are internationally comparable².
4. The CFAS is committed to the International Auditing and Assurance Standards Board’s (IAASB’s) goal of global convergence to ensure International Pronouncements are generally accepted worldwide. Consequently, the CFAS seeks to ensure pronouncements developed and issued by the IRBA are consistent with the IAASB’s International Pronouncements that are to be applied by registered auditors (“auditors”) in South Africa. The CFAS acts in the common interest of the public at large to create the framework and principles that contribute to the protection of the public who rely on the services of auditors and to support auditors who carry out their duties competently, fearlessly and in good faith.
5. The *Status and Authority of Auditing Pronouncements* is to be read together with the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* published in the IAASB *Handbooks of International Quality Control, Auditing, Assurance and Related Services Pronouncements*, which are adopted and prescribed by the IRBA.
6. The *Status and Authority of Pronouncements* clarifies the status and authority of *standards, practice statements and guides* (“auditing pronouncements”) developed by the CFAS and issued by the IRBA.

Adoption of International Standards on Quality Control, Auditing, Assurance and Related Services

7. The Auditing and Assurance Standards Board of the PAAB, the predecessor to the CFAS, adopted the original text of the IAASB *International Standards on Quality Control, Auditing, Assurance and Related Services* (“the International Standards”) as the

¹ The definition of “audit” in section 1 includes engagements to audit or review financial statements and other assurance engagements.

² The Auditing Profession Act, 2005 (No 26 of 2005), section 4 and section 22(2) (a), (b) and (c).

standards to be applied by all auditors in South Africa from 1 January 2005. PAAB Circular B.1/2004, *Adoption of IAASB Standards by the Auditing and Assurance Standards Board* sets out the adoption process followed and the effective dates of all of the IAASB Engagement Standards. Board Circular B.1/2004, was withdrawn and replaced by Board Notice 128 of 2009, included in Government Gazette No. 32615 of 9 October 2009.

8. Following the promulgation of the Act, effective from 1 April 2006, the IRBA confirmed the adoption by the PAAB of the International Engagement Standards issued by the IAASB, as published in the successive IAASB *Handbooks of International Quality Control, Auditing, Assurance, and Ethics Pronouncements*, (the IAASB Handbooks) under copyright from the IFAC³. The continued adoption and prescription for use by all auditors in South Africa, is done in accordance with section 4(1)(e) of the Act, is effected by gazetting periodic IRBA Board Notices⁴.
9. By virtue of adopting the successive IAASB Handbooks under copyright from IFAC, the Board deemed them to have been prescribed without requiring publication of the entire Handbook⁵. The adoption and prescription is communicated to auditors by Board Notice⁶ from time to time. Board Notices will be issued and gazetted on this basis for so long as the IAASB Handbooks continue to be adopted and prescribed by the IRBA for use by auditors.
10. The above covers all the IAASB's *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*.

Adoption of the IESBA Code of Ethics for Professional Accountants

11. The development and maintenance of the *Code of Professional Conduct for Registered Auditors* ("the Code"), and *Rules Regarding Improper Conduct* ("the Rules") prescribed for auditors, is the responsibility of the Committee of Auditor Ethics (CFAE). The Code and Rules were approved by the Board and published by the IRBA, and gazetted as Board Notice 89 in Government Gazette No 33305 on 18 June 2010. The IRBA adopted the *IESBA Code of Ethics for Professional Accountants* (2009) under copyright permission from the IFAC⁷ and published it as the IRBA *Code of Professional Conduct*

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⁴ The IRBA Board Notices are available for download from the IRBA's website (www.irba.co.za).

⁵ The South African Institute of Chartered Accountants (SAICA) annually publishes the SAICA *Handbooks of Auditing and Financial Reporting Standards and Legislation Handbooks* (the "SAICA Handbooks"). The SAICA Auditing Handbook includes the IAASB Handbooks, under copyright permission from the IFAC, adopted and prescribed by the IRBA, for use in academic classrooms or for personal use of Chartered Accountants (South Africa) (CA (SA)), registered auditors and their audit firms. The SAICA Auditing Handbook also includes the other auditing pronouncements issued by the IRBA.

⁶ Electronic versions of the IAASB Handbooks are available for download from the IRBA's website (www.irba.co.za) and the IAASB website: (www.ifac.org/auditing-assurance/publications-resources).

⁷ Copyright © "This Code is based on Parts A and B of the Code of Ethics for Professional Accountants of the International Ethics Standards Board of Accountants (IESBA), published by the International Federation of Accountants (IFAC) in May 2013 and is used with permission of IFAC. Adaptations to Parts A and B are underlined and in italics in this Code." The SAICA Auditing

for *Registered Auditors*⁸ with additional requirements for auditors in South Africa. Subsequent amendments to the IESBA *Code of Ethics for Professional Accountants* are considered by the CFAE prior to adoption by the IRBA.

Authority of the IAASB's Pronouncements adopted and prescribed

12. The IAASB's pronouncements govern audit, review, other assurance, and related services engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit or review of historical financial statements, or assurance engagements on other information, required to be followed in accordance with IRBA auditing pronouncements. In the event that local laws or regulations differ from, or conflict with, the IAASB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB's Standards. An auditor should not represent compliance with the IAASB's Standards unless the auditor has complied fully with all standards relevant to the engagement.
13. The authority attaching to International Standards issued by the International Auditing and Assurance Standards Board is contained in the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* published in the IAASB *Handbooks of International Quality Control, Auditing, Assurance and Related Services Pronouncements*, which are adopted and prescribed by the IRBA.

Authority of Pronouncements issued by the IRBA

14. Section 44(2)(b) read with section 44(3)(a) and section 44(3)(f) of the Act provides that an auditor may not express an unqualified opinion on financial statements or any supplementary information unless, inter alia, in section 44(3):
 - a. "the audit was carried out free from any restrictions whatsoever and in compliance, so far as applicable, with auditing pronouncements relating to the conduct of the audit; and
 - f. that the auditor has complied with all laws relating to the audit of that entity."
15. Section 4(1)(c) and (e) of the Act require the IRBA to prescribe standards of professional competence with which auditors must comply in performing their duties as auditors, and to prescribe auditing standards.
16. The auditing pronouncements of the IRBA are developed and issued following the CFAS *Due Process Policy*⁹.

South African Standards

17. Where necessary, South African standards are developed to meet local requirements. South African Standards contain requirements and application material on a particular

Handbook includes the IRBA *Code of Professional Conduct for Registered Auditors* ("the Code"), and *Rules Regarding Improper Conduct* ("the Rules").

⁸ The IRBA *Code and Rules* are available for download from the IRBA website (www.iba.co.za).

⁹ The CFAS "*Due Process Policy for the Development, Adoption and Issue of Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*"

subject, whilst applying the principles in the relevant International Standards on a consistent basis.

18. Where issued, they may govern audits, reviews, other assurance and related services engagements and may include:
 - a. South African Standards on Auditing (SASAs) are to be applied in the audit of historical financial information.
 - b. South African Standards on Review Engagements (SASREs) are to be applied in the review of historical financial information.
 - c. South African Standards on Assurance Engagements (SASAEs) which are to be applied in assurance engagements dealing with subject matters other than historical financial information.
 - d. South African Standards on Related Services (SASRSs) which are to be applied to compilation engagements, engagements to apply agreed-upon procedures to information and other related services engagements as specified by the IRBA.
19. The IAASB's International Standards on Quality Control (ISQCs) are to be applied by registered auditors to engagements conducted in terms of South African Standards on *Auditing, Review, Other Assurance and Related Services* that are developed and issued.

South African Practice Statements

20. South African Practice Statements may be developed and issued by the IRBA to provide practical assistance to auditors in the implementation of relevant International or South African *Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*.
21. South African Practice Statements developed may be in respect of *Auditing, Review, Other Assurance and Related Services* (SAAPS, SAREPS, SAAEPS and SARSPS). They do not impose requirements on auditors beyond those included in the International or South African Standards or South African regulatory requirements, and do not change the auditor's responsibility to comply in all material respects with the requirements of the International or South African Standard/s or with South African regulatory requirements relevant to the audit, review, other assurance or related services engagement. When appropriate, additional considerations specific to public sector entities are included within the body of a South African Practice Statement.
22. An auditor is required to have an understanding of the entire text of every South African Practice Statement to enable the auditor to assess whether or not any particular South African Practice Statement is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard to which the South African Practice Statement relates, properly.

23. South African Practice Statements issued will contain the following wording to reflect their status and authority:

This South African <Auditing/Review/Other Assurance/Related Services¹⁰> Practice Statement (SAAPS/SAREPS/SAAEPS/SARSPS11) <insert name of SAAPS> provides guidance to registered auditors (auditors) in implementing the requirements of <the relevant International Standard/s / South African Standard/s - insert Name of Standard/s> when <insert scope of Practice Statement¹²>.

South African Practice Statements are developed and issued by the IRBA to provide practical assistance to auditors in the implementation of relevant International or South African *Standards on Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*. South African Practice Statements do not impose requirements on auditors beyond those included in the International or South African Standards or South African regulatory requirements and do not change the auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance or related services engagement.

An auditor is required to have an understanding of the entire text of every South African Practice Statement to enable the auditor to assess whether or not any particular South African Practice Statement is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard/s to which the South African Practice Statement relates, properly.

In terms of section 1 of the Auditing Profession Act, No 26 of 2005 (the Act), a South African Practice Statement is included in the definition of "auditing pronouncements" and in terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

South African Guides

24. South African Guides may be developed and issued by the IRBA to provide guidance to an auditor in meeting specific legislative requirements imposed by another Regulator.
25. Guides do not impose requirements on auditors beyond those included in the International or South African *Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* or South African regulatory requirements and do not change an auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance or related services engagement.
26. An auditor is required to have an understanding of the entire text of every Guide to enable the auditor to determine whether or not any particular Guide is relevant to an

¹⁰ Delete whichever is not applicable.

¹¹ Delete whichever is not applicable.

¹² For example, the nature or type of engagement that the Practice Statement relates to

engagement, and if so, to enable the auditor to apply the requirements of the International or South African Standards, to which the Guide relates, properly.

27. Depending on the nature of the topic(s) covered, a Guide may assist an auditor in meeting the subject specific regulatory requirements in the circumstances of the engagement:
- Obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
 - Making judgments about how to respond to assessed risks, including judgments about procedures that may be appropriate in the circumstances; or
 - Addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.
28. Joint Guides may be developed and issued by the IRBA jointly with the Auditor-General South Africa for private sector auditors auditing in the public sector. When appropriate, additional considerations specific to public sector entities are included In Joint Guides for subject specific public sector topics. Joint Guides issued have the same status as South African Guides.
29. Joint Guides also may be developed and issued by the IRBA jointly with the South African Institute of Chartered Accountants (SAICA) to provide guidance on the application of legislative requirements affecting both auditors and Chartered Accountants (South Africa).
30. South African Guides issued will contain the following wording to reflect their status and authority:

This Guide¹³ for registered auditors (“auditors”) <insert name of Guide> provides guidance to <specify if relevant> auditors in implementing the audit and review requirements in the relevant <International Standard/s / South African Standard/s> to meet the additional regulatory reporting requirements in the <specify regulatory requirements>.

Guides are developed and issued by the IRBA to provide guidance to auditors in meeting specific legislative requirements imposed by a Regulator. Guides do not impose requirements on auditors beyond those included in the International or South African Standard/s or South African regulatory requirements and do not change an auditor’s responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance services or related services engagement.

An auditor is required to have an understanding of the entire text of every Guide to enable the auditor to assess whether or not any particular Guide is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard/s to which the Guide relates, properly.

¹³ Adapt for Joint Guides where applicable.

In terms of section 1 of the Auditing Profession Act, No 26 of 2005 (the Act), a Guide is included in the definition of “auditing pronouncements” and in terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

IRBA Communiqués

31. Communiqués are regularly prepared by the IRBA Standards Department and e-mailed communications are issued to raise auditors’ awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct auditors’ attention to relevant provisions of the IAASB, IESBA or IRBA auditing pronouncements, or relevant legislative requirements.

Existing pronouncements

32. Existing auditing pronouncements issued include: South African Assurance Engagement Standards (SASAEs), South African Auditing Practice Statements (SAAPSs), Guides, and Circulars. These are reviewed periodically to ensure that their content remains relevant and responsive to legislative changes. The existing SASAEs, SAAPS and Guides have the status and authority of auditing pronouncements indicated above, albeit they may not contain the wording indicated in paragraphs 23 and 30 above.

Language

33. The official text of an IAASB International Standard, Practice Note, Exposure Draft or other publication is that published by the IAASB in the English language.
34. The official text of an IRBA Pronouncement, whether an IRBA Standard, Practice Statement, Guide, Exposure Draft or Communiqué, is that published by the IRBA in the English language.
