

31 January 2013

Attention: Mrs S D van Esch
The Director – Standards
Independent Regulatory Board for Auditors
P.O. Box 8237
Greenstone
1616

Dear Sandy

Proposed South African Preface to the Standards on Quality Control, Auditing, Assurance and Related Services Pronouncements

We appreciate the opportunity to provide comments on the Proposed South African Preface to the Standards on Quality Control, Auditing, Assurance and Related Services Pronouncements (proposed SA Preface). Below you will find our overall comments on the proposed SA Preface as well as our responses to the request for specific comments.

Overall Comments

The proposed SA Preface is concise and provides clear guidance regarding the status and authority of pronouncements. However, we are concerned with the use of the term Guide in the context of authoritative pronouncements as well as the clarity of the transitional arrangements. These concerns are discussed later within this letter.

Responses to request for specific comments

- 1. Do respondents agree with the proposed alignment of the status and authority of South African Standards and South African Practice Notes, with those of the IAASB Engagement Standards and International Practice Notes, adopted and prescribed by the IRBA for registered auditors?**

Yes.

- 2. Do respondents agree with the proposal that Guides issued in future by the IRBA, to meet legislative requirements of various regulators, may contain both authoritative and non-authoritative guidance?**

Yes – this approach seems to be the most appropriate solution assuming that the distinction between authoritative material and non-authoritative material within the guides will be clearly indicated. Furthermore, we believe the preface should discuss this distinction specifically i.e. how the

authoritative material and non-authoritative material can be identified, which would also ensure consistency in drafting such guides.

However, we are concerned with the use of the term “guide” as this may be misconstrued by practitioners as meaning non-authoritative guidance. It would be better to use a term such as “South African Practice Statement” which would indicate authority. We do not believe that practitioners actually read or understand whether a document is authoritative or not, and rely on the title of the document to provide them with such an indication.

Furthermore, we note paragraph 47 regarding the issuance of guidance jointly with the Auditor-General South Africa. This discussion is located under the non-authoritative section of the preface, which implies that such guides would be non-authoritative. This would create great confusion if such guides were considered non-authoritative but issued the same name as guides which are authoritative.

3. Do respondents believe the proposed transitional arrangements clarify the authority and status of the extant IRBA Pronouncements, pending the issue of the South African Preface and the review, and where appropriate, their revision and reissue or withdrawal?

No, we believe that the transitional arrangements could be clarified.

Paragraph 49 states “Until this process is completed, the extant Guides, SAAPs and Circulars have the status and authority indicated in the following paragraph”. Paragraph 50 then further describes the authority of items issued *after* the effective date. Should paragraph 50 not instead be referring to the extant pronouncements issued *before* the effective date?

It is recommended that this section of the proposed SA Preface distinguish more clearly between the characteristics of the extant pronouncements and the future revised pronouncements. Paragraph 50 seems to be forward looking by using the word *will*. It would be more effective to remove the word *will* to reflect the current status of the pronouncement.

For example, the extract from paragraph 50:

a. South African Engagement Standards developed by the CFAS and issued by the IRBA will be regarded as authoritative;

Could be drafted to read:

a. South African Engagement Standards developed by the CFAS and issued by the IRBA are regarded as authoritative;

Furthermore, we are concerned with the Guides which are currently in issue which do not clearly distinguish between authoritative and non-authoritative guidance and how practitioners should interpret these until such time as these guides are revised.

4. Other comments

We believe that most of the discussion in paragraph 6 to 12 is unnecessary and could be relocated to the Appendix. We believe that it is only necessary to state that the IRBA has adopted the IAASB International Standards on Quality Control, Auditing, Assurance and Related Services, and reference to the Board Notice 154 of 2010. The links to the handbooks are also useful.

We noted the following formatting and grammar issues:

- The heading above paragraph 6 should be entitled “Adoption of the IAASB International Standards on Quality Control, Auditing, Assurance and Related Services” since International Engagement Standards are only defined later in the document.
- Paragraph 13 – The second paragraph could be more appropriately worded as follows:
They do not override the local laws or regulations in South Africa that govern the audit of historical financial statements or assurance engagements on other information that are required to be followed.

- Paragraphs 24, 25 and 26 relate to all engagement types, but are located under the subheading “Other International Standards”. These should be relocated appropriately and reworded to include all International Engagement Standards.
- Paragraphs 27 to 29 are also inappropriately located as they also relate to all engagement types, but are sitting under the subheading “Other International Standards”.

Conclusion

Please do not hesitate to contact Natalie Klonaridis via email at nklonaridis@deloitte.co.za or telephonically on 083 391 7144 should you wish to discuss any of the matters included in our letter.

Yours faithfully,

George Tweedy