



Mr Imran Vanker
Director: Standards
The Independent Regulatory Board for Auditors

Email: standards@irba.co.za

31 March 2023

Dear Mr Vanker

Comment on the

- **Proposed Due Process Policy for the Development, Adoption and Issue of Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (Revised November 2022) (the “Proposed Revised Due Process Policy”), and**
- **Proposed Status and Authority of Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (Revised November 2022) (the “Proposed Revised Status and Authority of Auditing Pronouncements”)**

We appreciate the opportunity to comment on the Committee for Auditing Standards (CFAS) Proposed Revised Due Process Policy and Proposed Revised Status and Authority of Auditing Pronouncements.

This response summarises the views of PricewaterhouseCoopers Incorporated.

We have provided our views on the matters on which comments were specifically requested.

If you would like to discuss our comments further, please do not hesitate to contact Natalie Terblanche on (011) 797 5723 or Mohammed Adam on (011) 797 4837.

Yours sincerely,

Natalie Terblanche

Director

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090
Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za



REQUEST FOR SPECIFIC COMMENTS ON THE PROPOSED REVISED DUE PROCESS POLICY

Question

1. Do respondents agree with the proposed due process followed for making limited modifications to the final IAASB Standard, in whole or in part, in particular:

- i. The Compelling Reasons Test and the criteria that should be met before any modification is made to the final IAASB Standard, in whole or in part; and**
- ii. The impact of the modifications made on the effective date of the final IAASB Standard? If “not”, please provide reasons for your disagreement and suggestions for corrections and/or improvements.**

Response

As set out in paragraph 41 of the Proposed Revised Due Process Policy, the Compelling Reasons Test adheres to the principles set out in the IAASB’s Policy Position: *Modifications to International Standards of the IAASB - A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find It Necessary to Make Limited Modifications (July 2006)* (the “IAASB Policy Position”).

We are of the view that the Compelling Reasons Test and criteria that should be met before making modifications to the final IAASB Standards is not entirely aligned to the principles set out in the IAASB Policy Position for the reasons set out below:

<p>Section - Compelling Reasons Test for making modifications to the final IAASB Standards</p>	<ul style="list-style-type: none"> • The heading should make reference to ‘limited modifications’ as opposed to ‘modifications’. • It appears as if this section does not deal with the Compelling Reasons Test for making additions to a final IAASB Standard. We would therefore propose that the principles for making additions as set out in paragraph 40 are incorporated into this section. • Paragraph 42 is more aligned to the content in the previous section, i.e: ‘<i>Consideration of the final IAASB Standards issued for possible modifications to be made</i>’. We therefore propose that this paragraph be moved under this section.
<p>Paragraph 42</p>	<p>Reference to ‘could’ implies that this requirement is not prescriptive. We would propose that ‘could’ be replaced with ‘shall’ to align to the IAASB Policy Position.</p>
<p>Paragraph 43</p>	<p>We believe that the Compelling Reasons Test in paragraph 43 does not adequately set out Compelling Reasons to make a modification to an IAASB standard which can be consistently applied by the relevant task group for the reasons set out below:</p> <ul style="list-style-type: none"> • As it stands, paragraph 43 sets out when modifications <i>may</i> be made, rather than when modifications <i>should</i> be made. Putting this differently, paragraph 43 represents how the total

	<p>population of matters for modification would be identified, however, such population should still be subject to a Compelling Reasons Test that needs to be expanded upon in the proposed Due Process Policy. In further developing a Compelling Reasons Test, the following suggestions may be considered useful:</p> <ul style="list-style-type: none">○ In order for the relevant task groups in question to consistently apply the Compelling Reasons Test to different scenarios where modification is being contemplated, the Compelling Reasons Test outlined in the Due Process Policy needs to be explicit as to the circumstances where a modification is necessary. Such circumstances should, in our view, include objective evidence of a deficiency in the IAASB standard as applied in the local South African jurisdiction.○ The concept of objective evidence as referenced above will need to be brought into the Due Process Policy document - in order for the Policy to be consistently applied, it should outline guidance for the relevant task groups to understand what the threshold of evidence is for something to be considered a deficiency in the IAASB standards when applied in the South African context. It could also be useful for a task group to have guidance in the Due Process Policy on the persuasiveness of such evidence, for example, a modification proposed after extensive stakeholder engagement would be more likely to meet a Compelling Reasons Test than one with no stakeholder engagement. Similarly, a modification to align the standard factually with an existing IRBA law or regulation would hold more weight than a modification that is being proposed based on interpretation of an IAASB standard.○ The Compelling Reasons Test should distinguish between deficiencies in audit practice and deficiencies in the standards themselves. Our view is that the Due Process Policy is to apply only where there are deficiencies in IAASB standards when applied in the South African context, and practice deficiencies are to be dealt with through the regulatory processes already in place, or through other guidance mechanisms available to the IRBA.○ We also note a trend in recent IAASB standard setting practice to include specific references within new standards for jurisdiction specific customisation to standards. Given the rigourousness of the IAASB standard setting process, we believe that these aspects of standards, where the IAASB has specifically acknowledged jurisdictional difference, would hold more
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	<p>weight for consideration as a modification subject to the Compelling Reasons Test than other proposed modifications.</p> <ul style="list-style-type: none"> ○ In defining the Compelling Reasons Test, we also believe that consideration should be given to possible unintended consequences. The relevant task group should be required under the Due Process Policy to consider whether conforming amendments to other IAASB or IESBA standards, as a result of the modification being proposed, would also meet the Compelling Reasons Test. This is an important consideration, as a small change in one standard may have significant (and possibly unintended) consequences on another standard, which must be considered as part of due process for making any modifications to a standard. <p>Furthermore, the paragraph in its current form needs to provide clarity as to who performs the Compelling Reasons Test, i.e: the relevant task group. Should this be intended to be the relevant task group, we propose that paragraph 36 incorporate reference to performing the Compelling Reasons Test when the criteria in paragraph 43 are applicable.</p> <p>Accordingly, we, propose the following amendments:</p> <p><i>36. Following the issue of the final IAASB Standards, the relevant task group will consider:</i></p> <ul style="list-style-type: none"> <i>a. Whether the IRBA comments have been adequately addressed in the final IAASB Standard issued and the IAASB Basis for Conclusions;</i> <i>b. If there are reasons for the final IAASB Standard not to be adopted in South Africa;</i> <i>c. The effective date for implementation thereof; and</i> <i><u>d. Whether the criteria set out in paragraph 43 have been met for applying the Compelling Reasons Test; and</u></i> <i><u>e. If any consequential amendments may need to be made to other IRBA pronouncements.</u></i> <p><i>43. The Compelling Reasons Test for making <u>limited modifications to the final IAASB Standard is to be applied by the relevant task group</u> considered <u>where the relevant task group will consider whether the final IAASB Standard, in whole or in part:</u></i></p> <ul style="list-style-type: none"> <i>a. Is not consistent/conflicts with the legal and/or regulatory requirements of the IRBA; and/or</i> <i>b. Does not reflect existing and/or emerging principles and practices that are specific to South Africa, in respect of the engagements governed by the IAASB Standards.</i>
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Paragraph 44	Clarification should be provided in the Proposed Revised Due Process Policy as to what constitutes the legal and regulatory requirements of the IRBA (i.e: the Auditing Profession Act, etc).
Paragraph 45	<p>The criteria set out in paragraph 45 uses subjective language that we believe would be difficult for a relevant task group to apply consistently. While specific commentary is included below, as an overarching comment on all criteria, we would recommend that the criteria being proposed should be measured against the principles of relevance, completeness, reliability, neutrality and understandability. Specifically on the criteria set out in paragraph 45:</p> <ul style="list-style-type: none"> ● It is unclear from the different uses of ‘or’ versus ‘and’ in this paragraph whether all the criteria need to be applied, or whether the objective is met if one of the criteria applies. ● We believe section A should be removed as a criteria for the following reasons: <ul style="list-style-type: none"> ○ The term ‘addressing known deficiencies and/or areas of concerns’ is very broad. As noted in the commentary for paragraph 43 above, we would need to consider whether these represent deficiencies in practice or deficiencies in standards, and whether they meet a Compelling Reasons Test to propose the modification. If this has been considered, this criteria is no longer needed, as it would have been addressed already as part of the Compelling Reasons Test. ○ We do not agree with the inclusion of considering IRBA regulatory findings as a criteria for modification. In our view, IRBA regulatory findings would represent an input into the population to be considered for modification, after passing a Compelling Reasons Test, as opposed to criteria for a modification. ○ Furthermore, IRBA regulatory inspections are conducted on a risk based selection rather than a representative sample of all engagements conducted under IAASB standards. Therefore, we do not believe regulatory findings are appropriate criteria to drive modifications to IAASB standards, as it may lead to inappropriate focus on specific IAASB standards or certain types of engagements over others. Using regulatory findings as an input into the population of proposed modifications that are put through a Compelling Reasons Test is more appropriate than using regulatory findings as a criteria for modification. ● In section C, the terms ‘improvement in the quality of the audit’ and ‘enhances the value that stakeholders will derive’ are too subjective to enable consistent application. We believe that the subjectivity of these terms will lead to challenges within a single task group (i.e. task group members may differ in their interpretation of these terms, leading to them being unable to



	<p>derive a conclusion on a project) and also challenges with different task groups on different projects applying the criteria inconsistently, which can lead to technical inconsistencies in the standards themselves. We would recommend either removing this criteria, or linking it to objective evidence as measures of quality/value (with appropriate guidance on how to do this being included in the Due Process Policy as requested above).</p> <ul style="list-style-type: none"> • In section D, the terms ‘overly complex and confusing’ and ‘more onerous... than necessary’ are too subjective to lend themselves to consistent application, both within a single task group and when comparing work of one task group to another. • Using words like ‘meaning’ and ‘intent’ in Section D introduces subjectivity into the standard setting process which detracts from the application of due process.
Paragraph 49	<p>We believe that the effective date of a modified standard should be aligned with that of the final IAASB Standard to ensure we are applying the standard consistently with other countries.</p> <p>We do not consider option B under paragraph 49 to be acceptable, as this would preclude us as a jurisdiction from stating compliance with the ISAs in our audit reports, which will have a significant and negative effect on comparability of South African audit reports with those from other jurisdictions.</p> <p>We also do not support option c under paragraph 49, as it is unclear how that would be practically applied. This will bring the credibility of the standard setting process into question and why were the modifications not considered at the time of adoption of the standard.</p>

Question

2. Do respondents agree with the view that the scope of the amendments and/or deletions that may be made to the final IAASB Standard should be limited to inconsistencies/conflicts with only the IRBA’s legal and/or regulatory requirements?

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

Response

We agree that the scope of amendments and/or deletions that may be made to the final IAASB Standard should be limited to inconsistencies/conflicts with the IRBA’s legal and/or regulatory requirements. We recommend that the IRBA clarify what is meant by IRBA’s legal and/or regulatory requirements in paragraph 44, to be explicit as to what these include. Our current understanding is that these consist of the Auditing Professions Act No. 26 of 2005 Amended, and the IRBA Rules, but this understanding is not explicit in the Due Process Policy.



Question

3. Are there additional significant aspects that should be included in this proposed Revised Due Process Policy? If so, please list those aspects and provide suggestions.

Response

The proposed Revised Due Process Policy only covers standards on Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements that are issued by the IRBA. However, IRBA Rules and amendments to the Auditing Professions Act, which comprise the IRBA's legal and/or regulatory requirements and prompt the application of this due process are not included in the proposed Due Process Policy. In the interests of promoting consistency in processes, as well as cohesive application of the proposed Revised Due Process Policy, we would recommend that the promulgation of these rules and amendments be brought into the proposed Revised Due Process Policy, or if separate policies exist for these, that they are aligned with proposed Revised Due Process Policy.

Question

4. Are there any further matters that should be considered in the finalisation of this proposed Revised Due Process Policy? If so, please list those aspects and provide suggestions.

Response

Other than for the matters raised in (1) above, we do not believe that there are any further matters that should be considered. We do note, however, that the matters raised in (1) above may necessitate a second exposure period for the proposed Due Process Policy.



REQUEST FOR SPECIFIC COMMENTS ON THE PROPOSED REVISED STATUS AND AUTHORITY OF AUDITING PRONOUNCEMENTS

No	Question	Response
1	<p>Are there any aspects of this proposed Revised Status and Authority of Auditing Pronouncements with which respondents disagree? Please provide reasons for your disagreement and suggestions for correction and/or improvements.</p>	<ul style="list-style-type: none"> ● Paragraph 23 is duplicated below the table in paragraph 24. We therefore propose removing the following paragraph below the table in paragraph 24; <p style="margin-left: 20px;">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.</p> ● We also propose that the following paragraph be incorporated into paragraph 21 to ensure better readability: <p style="margin-left: 20px;">In terms of Section 1 of the Auditing Profession Act, No 26 of 2005, as amended (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.</p> ● We propose the following amendment to paragraph 29 and 30: <p style="margin-left: 20px;">29. South Africa Joint Guides may be developed and issued <u>jointly</u> by the IRBA and jointly with the Auditor-General South Africa for private sector auditors auditing in the public sector. When appropriate,</p>

		<p>additional considerations that are specific to public sector entities are included in <u>these South African Joint Guides</u> for subject-specific public sector topics. <u>These South African Joint Guides</u> issued have the same status as the <u>South African Guides</u> developed and issued by the IRBA.</p> <p>30. <u>South African Joint Guides</u> may also be developed and issued jointly by the IRBA <u>and jointly with</u> 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).</p> <ul style="list-style-type: none"> As it relates to paragraph 31, we propose the following amendments to the paragraphs included in the table as they are not relevant: <p>This Guide for registered auditors (“auditors”) <i><insert name of Guide></i> provides guidance to <i><specify if relevant></i> auditors in implementing the audit and review requirements in the relevant to meet the additional regulatory reporting requirements in the relevant <i><International Standard/s /South African Standard/s></i> to meet the additional regulatory reporting requirements in the <i><specify regulatory requirements></i>.</p> <p>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.</p>
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		<p>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.</p> <ul style="list-style-type: none"> • In relation to paragraph 34, we propose that clarification is provided as to who performs the periodic review.
2	<p>Are there any further matters that should be considered in the finalisation of this proposed Revised Status and Authority of Auditing Pronouncements? If so, please list those aspects and provide suggestions?</p>	<p>Other than for the matters listed in (1) above, no further matters are noted for consideration.</p>