13 April 2014

Submitted electronically to jamesgunn@ifac.org

Mr James Gunn

Technical Director

International Auditing and Assurance Standards Board

545 Fifth Avenue

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Dear James,

Comments on the Consultation Paper: The IAASB's Proposed Strategy for 2015 – 2019 and The IAASB's Proposed Work Program for 2015 – 2016

The Independent Regulatory Board for Auditors (IRBA) is both the Audit Regulator and National Auditing Standard Setter in South Africa. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic. Its statutory Committee for Auditing Standards (CFAS) is responsible for assisting the Board to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the IAASB Consultation Paper: *The IAASB's Proposed Strategy for 2015 – 2019 and The IAASB's Proposed Work Program for 2015 – 2016.*

Please accept my apologies for our late submission. I hope you will still be able to take account of our comments given the importance of determining the IAASB's proposed future strategy and proposed work plan being considered.

Our comments are presented in the following sections:

- General comments

- Specific comments and responses

If you have any questions or would like to discuss any specific comments, please contact Sandy van Esch on: +27 87 940 8871 or at svanesch@irba.co.za.

Yours sincerely,

Sandy van Esch
Director Standards

General comments

1. We support the proposed strategic objectives to be adopted for 2015-2019 as set out in the Proposed Strategy, namely to:

    (i)   "Develop and Maintain High-Quality ISAs that Are Accepted as the Basis for High-Quality Financial Statement Audits;

    (ii) Ensure that IAASB's Suite of Standards Continues to Be Relevant in a Changing World by Responding to Stakeholder Needs; and

    (iii) Collaborate and Cooperate with Contributors to the Financial Reporting Supply Chain to Foster Audit Quality and Stay Informed."

2. We believe these strategic objectives are relevant and provide a sound foundation for the development of ongoing work programs that are key to the development of robust standards in the public interest, that enhance audit quality. However, the rapid changes and globalisation of business, extensive use of technology, and increasing complexity and expanded use of estimates and fair value measurements in financial statements, has led to stakeholders questioning the relevance and value of an audit. It is unclear how the IAASB plans to respond to these challenges and emerging issues. Consequently the strategy needs to be more forward looking with a clear view as to what is to be achieved by 2019.

3. We agree that it is important for the IAASB to collaborate with stakeholders to improve audit quality and commend the priority to strengthen relationships with international audit regulators and audit oversight bodies that monitor implementation of the auditing standards and impact on audit quality. The audit regulators and audit oversight bodies may be able to provide insights on deficiencies identified in inspections to enable better understanding of the issues being faced by auditors and whether the root causes of such issues relate to deficiencies in standards or to other issues to assist the IAASB to address issues in the most appropriate manner.

4. Whilst acknowledging the IAASB's resource constraints, we believe that the proposed strategy should focus less on operational matters and more on the strategic challenges facing the profession in determining its work programs in light of the needs of stakeholders, and then determine the resources needed to complete the critical projects identified within the relevant time frame. We believe that IFAC and the Public Interest Oversight Board (PIOB) should consider the way in which the IAASB is funded and operationalised to consider ways in which its resources could be increased. Consideration also could be given to reaching out to National Standard Setters and international regulators and other relevant parties to provide assistance with certain standards setting activities.

5. We support the establishment of clear criteria for determining the priority projects included in the work program that best meet the strategic objectives. Such approach will enable stakeholders to better understand those projects the IAASB believes need to be undertaken and will provide insights into the compromises made due to constrained resources.

6. An effective work plan should support practitioners in the application and implementation of new and existing standards on a timely basis and in the public interest. We encourage the IAASB to look for ways of increasing the number of

projects it can undertake in the public interest, to address matters that have been identified as giving rise to significant concerns.

7.   The three areas of the proposed strategy do not include proposals in the work program to facilitate the implementation of the standards, to provide for the development of application guidance to assist practitioners regarding the work effort for an existing requirement that is not well understood and/or may not be applied consistently. National Standard Setters may develop local application guidance to address such aspects identified, for example, guidance on compliance engagements on supplementary information in regulatory returns sought from the auditors of regulated entities by regulators in many jurisdictions. Ideally such efforts should be co-ordinated internationally by the IAASB to avoid fragmentation of application of guidance using task forces made up of National Standard Setters and IAASB staff with appropriate input from audit regulators and audit oversight bodies.

Request for Specific Comments

The IAASB is particularly interested in respondents' views on:

(a)   Whether the strategic objectives identified are considered appropriate for the period 2015 – 2019. If not, please explain.

1.   We generally support the above proposed strategic objectives set out by the IAASB in its strategy consultation paper for the 2015-2019 period.

2.   We agree that the clarified ISAs and ISQC1 serve a fundamental role in underpinning audit quality and users' confidence in the audit of financial statements and financial reporting, however we are concerned that the projects identified to be addressed in the proposed work program for 2015-2016 are insufficient in order to achieve the first proposed strategic objective. The revision of ISA 600[1], in particular, is an example of a project that we believe requires urgent review and revision and which impacts globally on public interest.

3.   We agree that the IAASB suite of standards should remain relevant in a changing world and should respond to stakeholders needs, however we are concerned that the second proposed strategic objective, and in particular relating to developments such as increasingly complex information technology related business environments and innovative forms of reporting such as Integrated Reporting, have not received sufficient prominence in the proposed work program for 2015-2016.

4.   We are supportive of the IAASB's third strategic objective to collaborate and cooperate with stakeholders and in particular as it relates to continued liaison and further development of relationships with regulators and audit oversight bodies. We also suggest the IAASB explore ways in which the National Standards Setters may be able to assist with resources on IAASB task groups, for example, in responding to urgent implementation issues, while still following the IAASB due process.

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[1] ISA 600, *Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)*

5. We support the IAASB's mandate that is focused on serving public interest as well as the oversight mechanism of due process that is followed in setting standards.

(b) Whether the factors included in Appendix 2 on page 19 represents a reasonable basis for the IAASB to use in developing its Work Program beyond the Work Program for 2015 – 2016.

6. We agree that the factors identified in Appendix 2 provide a reasonable basis for the IAASB in developing its work programs for 2015-2016 and subsequently.

The IAASB is particularly interested in respondents' views on:

(a) The approach taken to the development of the Work Program for 2015 – 2016, in particular the IAASB's decision to focus on fewer projects towards the goal of their completion by 2017.

7. We are concerned that the proposed strategy will mean important issues will not be responded to on a timely basis. We are also concerned that at the international level the IAASB has no mechanism to address ISA implementation and application issues on an urgent basis which may result in local guidance developed by National Standard Setters that is uncoordinated internationally yet the issues may arise on a global basis.

8. This approach results in a short term work program that is focused only on making wholesale changes to standards as opposed to making improvements to parts of standards identified as leading to inconsistent interpretation of standards during the post-implementation review. Addressing these inconsistencies sooner rather than later is, in our view, key to meeting the first strategic objective.

(b) The appropriateness of the topics chosen as the focus for the Work Program 2015 – 2016 (see paragraph 4 of the Work Program and Table A on pages 26 – 29) in light of the strategic objectives set out in the IAASB's Strategy for 2015 – 2019.

9. Although we do believe that the projects (topics) identified in the IAASB's proposed work program for 2015-2016 are priorities, we have concerns that there are other, equally important projects that should also be addressed during this period. For example the project to review ISA 600 (Group Audits) and ISA 540 (Accounting Estimates), should be dealt with in the 2015 and 2016 period.

10. We believe that the Quality Control project (topic) identified in the proposed work program for 2015-2016 can be deferred to be addressed during the period "2017 and beyond". The newly developed IAASB *Framework for Audit Quality*, although not authoritative, can be used as further guidance in the interim.

11. We further believe that the proposed project (topic) on professional scepticism can be addressed through amendments to existing standards to incorporate guidance regarding a more robust consideration of professional scepticism.

12. We are also concerned that the IAASB proposed work program for 2015-2016 does not address its strategic objectives in a balanced way i.e. not favouring one strategic

objective above another. The first proposed strategic objective[2] receives greater prominence during the period 2015-2016 than the other two proposed strategic objectives[3].

13. Please refer to our response to question (c) below for those additional projects we believe should be addressed during this period.

(c)   Whether there is an action(s) or project(s) that has not been included in the Work Program for 2015 – 2016 that you believe the IAASB should address during that period. For example, should any of the topics in Appendix 1 (on pages 39 – 41) be prioritised sooner? If so, which initiative(s) identified in Table A (on pages 26 – 29) do you believe should be replaced by this action(s) or project(s). Please provide an explanation of your views.

14. Given the amount of time it takes for a project to be completed (estimated by the IAASB to be 36 months), we believe it is critical that the IAASB devote current resources to addressing how ISAs need to change in view of developments in IT and data analysis techniques. Leaving this work to 2017 and beyond is, in our view, too little too late.

15. The audit approach and procedures made possible by data & analytics techniques are not contemplated in the current ISAs yet they are key to enabling auditors to gain a deeper understanding of the entities they audit, the transactions entered into and the risks they face. They also provide an opportunity to improve the quality and reliability of audit evidence obtained. Waiting until 2017 to reflect these changes in standards will mean that the risk for the IAASB is that the ISAs will fall behind industry developments and will not continue to remain relevant.

16. We believe that the IAASB work program for 2015-2016 should include the following projects (topics) that, in our view, are required to be addressed more urgently so that the IAASB can meet its strategic objectives:

    (i)   In order to achieve the first proposed strategic objective by addressing those issues affecting the following ISAs and identified in the ISA Post-implementation Review, namely: ISA 600; and ISA 315 and ISA 540.

    (ii)   In order to achieve the first proposed strategic objective by addressing the IRBA's responses to the IAASB's Plan for a Post-implementation Review of the Clarified ISAs – ISA 600; ISA 315; ISA 230; ISA 320 and ISA 450; and ISA 620.

    (iii) In order to achieve the second proposed strategic objective, by addressing some of the other projects (topics) identified, more timeously – Increasingly complex information technology related business environments; and Innovative forms of reporting such as Integrated Reporting

17. In order to achieve the third proposed strategic objective by liaising with international regulators and audit oversight bodies and in particular regarding their inspection

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[2] *Develop and Maintain High-Quality ISAs that Are Accepted as the Basis for High-Quality Financial Statement Audits*

[3] *Ensure the IAASB's Suite of Standards Continues to be Relevant in a Changing World by Responding to Stakeholder Needs and Collaborate and Cooperate with Contributors to the Financial Reporting Supply Chain to Foster Audit Quality and Stay Informed*

findings for more information on audit quality deficiencies to help it better understand the issues being faced by auditors and whether the root causes of such issues relate to deficiencies in standards as opposed to other issues and therefore equip the IAASB to better address such issues in amendments to the existing suite of ISAs.

18. We suggest that the Board's time could also be more effectively utilised for the project on special audit considerations relating to financial institutions. This may necessitate the involvement of professionals with relevant experience, skills and expertise in the financial services sector being invited to be members of a working group that works with the Board.

19. We question whether the proposal to develop train the trainer materials and webinars relating to auditor reporting is the best use of staff time. It is not clear what this material will cover and how it will assist practitioners to implement the ISAs and improve audit quality.

(d) Whether there are alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for the IAASB efforts on a variety of important topics, in light of the constraints of available resources and the need for due process to be applied in the development or revision of standards.

20. We believe that the IAASB's oversight mechanism of due process that is followed in setting standards is of utmost importance and cannot be compromised.

21. However, we are concerned about the IAASB's proposed approach to devote a significant majority of its resources to progress certain ISA- and ISQC-related topics on an accelerated basis as well as the development of a strategy and work program built within the limits of its resource constraints, whilst not addressing the rapid changes in technology developments and emerging complexity of emerging issues.

22. We encourage the IAASB to work with National Standard Setters to obtain support for priority projects and to determine where assistance may be provided to IAASB task forces, for example with initial research on current projects or coordinating development and issuance of application and implementation guidance to address identified global issues.

23. Please refer to our earlier general and specific comments as to how we believe the IAASB may consider addressing its limited resource constraints, and the need to address an increased number of projects (topics) in the work program. We believe that IFAC and the Public Interest Oversight Board (PIOB) should consider the way in which the IAASB is funded and operationalised to consider ways in which its resources could be increased.

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