

11 September 2019

Submitted electronically to

<https://www.ifac.org/publications-resources/submit-comment?exposure-draft=275684>

Mr Willie Botha
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York
10017 USA

Dear Willie

Comments on the IAASB's Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*

1. The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national auditing standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa.
2. We appreciate this opportunity to comment on the IAASB's Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs* (Discussion Paper), developed by the International Auditing and Assurance Standards Board (IAASB).
3. Our comments have been prepared by the IRBA's Management Committee.
4. The IRBA (then the Public Accountants' and Auditors' Board) adopted the entire suite of the IAASB pronouncements in 2005 for use in South Africa. We continue to support and are committed to the effective and consistent implementation of the IAASB's International Standards on Auditing (ISAs) in South Africa.

5. Through the African Forum of Independent Accounting and Auditing Regulators (AFIAAR), and through direct initiatives of the IRBA, we promote and support the adoption of the ISAs for use in other African countries.

General comments

6. Capacity: The IAASB has many projects of significant public interest currently underway. These projects will be relevant to all audits (whether complex or less complex, or whether of large or small entities), and will occupy the attention of standard setters, regulators and practitioners for the foreseeable future. As the IAASB has already determined the projects which it will prioritise (viz. the three Quality Management standards, ISA 315 (Revised), ISA 600 (Revised), and its planned projects on audit evidence and technology), it will be important to determine whether it has capacity to embark on a further project which could potentially require substantial resources. The priority projects have a more direct relevance to current deficiencies in the audit market-place and address more directly the public expectations of auditors; they are therefore responsive to public needs and not what could be perceived as auditors' needs.
7. Global approach: The Discussion Paper describes the patch work of developments taking place in local and regional jurisdictions around the world, on this topic. Past experience with standard setting has shown us that as far as possible, the global coordination of activities produces credible results. Such results are usually robust and this can lead to rapid global adoption by stakeholders. For this reason, we support the need for any action on the topic of audits of less complex entities to be coordinated globally and we suggest that the IAASB maintain its global leadership role in accordance with its mandate.
8. Evidence-based research: In order to better understand the goals of this project, and what type of intervention is needed, we recommend that the IAASB undertake a structured and thorough evidence-based research and analysis. It is necessary to hear the experience and expectations of the users of financial statements, while also understanding how practitioner experiences vary across the world. Such research would enable the IAASB to obtain a clearer, evidence-based understanding of the root causes giving rise to the perceptions about the ISAs being complex, not scalable and not proportionate. Such research should focus on the public interest issues that arise, as well as how commercial considerations related to fees and competition between firms affect perceptions around the ISAs.
9. Potential risks: We are alert to the risks of developing a separate standard for audits of less complex entities (whether the standard developed is in or outside of the ISAs). In light of global priorities regarding the crisis the auditing profession faces and the full workload of the IAASB, we caution the IAASB about pursuing any substantial changes to the current ISAs relating to audits of less complex entities. Some of the risks that may arise include:
 - Widening the expectation gap of users of financial statements;
 - Fragmentation of the market where two types of audits may be available; and
 - Confusion amongst users of the financial statements.
10. Our experience in South Africa is that legislation has been very effective in imposing

appropriate thresholds for audits. Legislators are interested in reducing red tape for certain categories of entities and their audits, and are inclined to consider an appropriate dispensation for financial statements of entities of certain types and sizes to be reviewed, instead of being audited. We have found though that, despite this discretion to opt for an (independent) review (in terms of ISRE 2400 (Revised)) instead of an audit, preparers are hesitant to change. We suggest that the research mentioned in paragraph 8 above further understand the reasons why auditors/their clients may not take advantage of this discretion, as it may provide crucial insight into how the value of an audit is perceived and hence what potential interventions may be required.

11. It will therefore be useful to consider the actions that the IAASB proposes to take based on feedback that it receives from respondents to this Discussion Paper and the structured and any thorough evidence-based research and analysis.

Specific questions

12. In relation to your specific questions:
 - **Question 1:** We have no view yet on the IAASB's description of less complex entities;
 - **Question 2(a):** No particular issues to raise of relevance to this consultation, other than the above;
 - **Question 2(b):** No particular issues to raise of relevance to this consultation, other than the above;
 - **Question 3:** We believe that the Discussion Paper has addressed the relevant activities; and
 - **Question 4 and 5:** Refer to our overall comments.
13. Kindly e-mail us at nbester@irba.co.za or phone directly on +27 87 940 8862, if further clarity is required on any of our comments.

Yours faithfully

***Signed
electronically***

**Bernard Peter Agulhas
Chief Executive Officer**