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Submitted electronically

<http://www.ifac.org/publications-resources/proposed-strategy-2020-2023-and-work-plan-2020-2021>

Prof. Schilder
Chairman
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York
10017 USA

Dear Prof. Schilder

Comments on the IAASB's Consultation Paper: Proposed Strategy for 2020-2023 and Work Plan for 2020-2021

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national audit and ethics 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 the Republic.

We appreciate this opportunity to comment on the IAASB's *Consultation Paper: Proposed Strategy for 2020-2023 and Work Plan for 2020-2021*.

Our comments are presented under the following sections:

1. General comments; and
2. Request for specific comments and responses.

If further clarity is required on any of our comments, kindly e-mail us at imtegha@irba.co.za.

Yours faithfully



Bernard Peter Agulhas
Chief Executive Officer

GENERAL COMMENTS

1. The IRBA welcomes and supports the IAASB's *Proposed Strategy for 2020-2023 and Work Plan for 2020-2021*. We specifically support the IAASB's goal to achieve sustained public trust in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements, through the delivery of robust global standards that are capable of consistent and proper implementation.
2. We suggest that the IAASB should not over-emphasise scalability in its *Proposed Strategy for 2020-2023 and Work Plan for 2020-2021* as the requirements in the International Standards on Auditing (ISAs) are principles-based and, as such, should be applicable to any scenario. However, we acknowledge that scalability could be addressed in the application material to the ISAs as well as in implementation guidance should that direction be taken.
3. Auditor independence requirements have become vital due to the publicised corporate failures in some jurisdictions and the role of the auditors in those situations. To that end, we recommend that the IAASB in collaboration with IESBA, should strengthen independence requirements in ISQM 1¹, ISQM 2² and ISA 220³ with respect to the following:
 - a. the tone at the top, from a firm and an engagement perspective;
 - b. the exercise of professional scepticism during an audit; and
 - c. the need for the auditor to act objectively.
4. It is important that the IAASB's new or revised standards, for example ISQM 1, ISQM 2 and ISA 220, do not allow excessive discretion on the part of the audit firms. Auditors, in general, tend towards doing less audit work due to the commercial interests of their businesses. Therefore, there is a potential risk to the public interest if, for example ISQM 1 permits policies and procedures to become too discretionary in setting the level of compliance. Audits might therefore not be able to detect misstatements in the annual financial statements, leading to more corporate audit failures. This will also lead to difficulties for audit regulators to reliably measure the effectiveness of the firm's quality control system and identify deficiencies during inspections of audit files. As opposed to permitting excessive levels of discretion and judgement, the IAASB should ensure consistent application of the ISAs as this will in turn ensure consistency in the quality of the work performed by auditors.
5. Advancements in, and use of, technology have meant that the audit approach and procedures made possible by data analytics are not contemplated in the current ISAs. Auditors are now able to use data analytics for risk identification as well as in the performance of substantive procedures, and not only to identify trends as in the past. Therefore, we are supportive of the IAASB's initiative to commence a project on audit

¹ Exposure Draft, International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

² Exposure Draft, International Standard on Quality Management 2, *Engagement Quality Reviews*.

³ Exposure Draft, International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements*.

evidence, including how changes in the use of technology affect the gathering and evaluation of audit evidence.

6. The IAASB should also consider revisions to the requirements relating to the use of the work of management's expert as their use is expected to increase in light of the complexity of the technology in use as well as the subject matter. As the current requirements focus on assessing the objectivity and experience of a management's expert, this should be extended to, for example, the auditor having to look for contradictory evidence with respect to the assumptions used by a management's expert, as well as corroborating the management's expert's outcomes through the use of an auditor's expert.
7. We support the IAASB's post implementation review efforts. However, we suggest that this should not only cover new and revised ISAs but rather all ISAs in issue to inform future IAASB strategies and work plans. As the IAASB strategy is for four years, we submit that this is enough time to review all ISAs in order to inform the strategy that follows that review, as well as the work plan.
8. Further, the IAASB work plan should also be informed by research outcomes from the work being performed by the International Accounting Education Standards Board (IAESB). For example, the outcomes from the IAESB's (or its successor body's) behavioural competency project could inform the IAASB's professional scepticism project.
9. The IAASB handbook states the following regarding International Auditing Practice Notes (IAPNs): "... IAPNs do not impose additional requirements on auditors beyond those included in the International Standards on Auditing (ISAs), nor do they change the auditor's responsibility to comply with all the ISAs relevant to the audit. IAPNs provide practical assistance to auditors..." As part of the IAASB's rapid response to globally emerging or challenging issues, we suggest that the IAASB could also consider the use of IAPNs for topics such as the auditor's fraud considerations that are industry specific or for less complex entities. This could also include the auditor's going concern considerations that are industry specific. The IAASB has thus far only issued one IAPN (IAPN 1000⁴).
10. The complexity of the reporting environment has meant that audited annual financial statements, in some instances, form part of integrated reports (an example of extended external reporting), which also contain non-financial information as well as forward-looking information. This has led to an expectation gap as users perceive all the information in the integrated report as being externally/independently assured. To that end, while we applaud the IAASB for initiating a project on extended external reporting, we suggest that the IAASB should also consider an advocacy project to educate users of extended external reports about the different levels of assurance, or lack of assurance, that may exist on the financial and non-financial information in an extended external report. The user education project could be embarked on in collaboration with the

⁴ IAPN 1000, *Special Considerations in Auditing Financial Instruments*.

International Integrated Reporting Council and IFAC.

11. The advocacy project could also extend to educating users on the current requirements of the ISAs regarding the auditor's responsibilities in relation to fraud in an audit of financial statements. As the users' expectations and perceptions regarding the auditor's responsibility on fraud pose an expectation gap.
12. In addition, the IAASB could consider the outcomes from the International Accounting Standards Board's (IASB) *Discussion Paper: Disclosure Initiative – Principles of Disclosure* to inform its project on extended external reporting as the focus of the IASB's project is on improving communication in financial reporting. This topic overlaps between ISA 720⁵ and the IAASB's extended external reporting project.
13. While acknowledging the IAASB's resource constraints, we believe that IFAC and the Public Interest Oversight Board should consider alternative funding methods as well as ways to increase resources available to the IAASB to achieve the IAASB's goal of sustained public trust in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements, through the delivery of robust global standards that are capable of consistent and proper implementation.

REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

Comments are welcomed by the IAASB on whether:

Question 1

You agree with Our Goal, Keys to Success and Stakeholder Value Proposition (see page 6), as well as the Environmental Drivers (see page 7).

14. We agree with the IAASB's Goal, Keys to Success and Stakeholder Value Proposition, as well as the Environmental Drivers.
15. We agree that the IAASB should strengthen its coordination and cooperation with the International Ethics Standards Board for Accountants (IESBA) and the NSS, as part of its collaborative stakeholder value proposition. In addition, we suggest that the IAASB should continue to also strengthen its relationships with international audit regulators and oversight authorities that monitor the implementation of auditing standards and the impact on audit quality. The strengthening of the relationship could involve the IAASB strategy being directly responsive to the annual inspection findings survey⁶ conducted by the International Forum of Independent Audit Regulators (IFIAR), as well as to comment letters submitted by IFIAR. The IFIAR's annual inspection findings survey provides useful data points with respect to assessing audit quality.

⁵ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

⁶ <https://www.ifiar.org/activities/annual-inspection-findings-survey/>

Question 2

You agree with Our Strategy and Focus and Our Strategic Actions for 2020-2023 (see pages 8 to 13).

16. We agree with the IAASB's Strategy, Focus and Strategic Actions for 2020-2023 and also welcome public interest being made the focal point of the IAASB's strategy.

Question 3

You agree with the IAASB's proposed Framework for Activities, and the possible nature of such activities (see pages 11 and 12), as set out in Appendix 2 (see pages 19 and 20).

17. We agree with the IAASB's proposed Framework for Activities, and the possible nature of such activities, as set out in Appendix 2.

Question 4

You support the actions that have been identified in our detailed Work Plan for 2020-2021 (see pages 15 and 16). If not, what other actions do you believe the IAASB should prioritise?

18. We support the actions that have been identified in the IAASB's detailed Work Plan for 2020-2021. However, in light of current developments in the marketplace, we suggest that the IAASB should also consider prioritising, based on public interest, the revision of the following ISAs as part of its work plan for 2020-2021:
- a. ISA 330⁷, in response to the current revision of ISA 315⁸. In hindsight, the two ISAs should have been revised simultaneously as they entail the identification of risks in ISA 315, with the response to the risks being provided for in ISA 330.
 - b. ISA 240⁹, considering the recent high-profile corporate failures in some jurisdictions as well as the expectation gap between the work performed by auditors and what users expect and perceive to be the auditor's responsibilities in relation to fraud in an audit of financial statements.
 - c. ISA 550¹⁰, considering any differences between the applicable financial reporting frameworks (for example International Accounting Standard (IAS) 24¹¹ under IFRS) as well as laws and regulations regarding the definition of a related party.
 - d. ISA 620¹², as there may be an increase in the use of an auditor's expert due to developments such as advancements in, and use of, technology that includes robotics, cloud computing and new digital payment platforms. The IAASB may be able to address this issue through a staff paper. This is in addition to the IAASB's project on ISA 500¹³.

⁷ ISA 330, *The Auditor's Responses to Assessed Risks*.

⁸ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

⁹ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

¹⁰ ISA 550, *Related Parties*.

¹¹ IAS 24, *Related Party Disclosures*.

¹² ISA 620, *Using the Work of an Auditor's Expert*.

¹³ ISA 500, *Audit Evidence*.

19. We thought it worthwhile to share the following projects which the IRBA has prioritised as part of its standards setting work plan for 2019-2020 for your noting and consideration:

- a. Guidance for registered auditors when conducting joint audit engagements. A joint audit engagement is an audit of a legal entity by two or more audit firms to produce a single audit report, thereby sharing responsibility for the audit and the audit opinion. Several NSS members have already issued similar guidance in their jurisdictions, indicating that this could be a global as opposed to a jurisdictional issue.

We recommend that the IAASB consider this global trend and the needs being expressed by stakeholders. The issues to be considered include the sharing of audit evidence, retention of audit evidence, communication as well as the legal contractual considerations in a joint audit engagement.

In 2015, to address the threat associated with long audit firm tenure (i.e. threats to independence), the IRBA made the decision to require the mandatory disclosure of audit tenure, which is consistent with measures implemented in other jurisdictions. Further, for financial years commencing on or after 1 April 2023 an audit firm, including a network firm as defined in the IRBA Code of Professional Conduct for Registered Auditors, shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years (Mandatory Audit firm Rotation). If, at the effective date, the public interest entity has appointed joint auditors, and both have had audit tenure of 10 years or more, then only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required. We therefore expect growing interest in joint audit engagements in South Africa, and elsewhere in the world, with the related need for guidance.

- b. Guidance regarding the audit of transactions accounted for in terms of International Financial Reporting Standard (IFRS) 15, *Revenue from contracts with customers*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. In the past, the audit of revenue has been a common inspection finding, as such this is a proactive project in response to IFRS 15.
- c. Guidance on the auditor's responsibilities relating to fraud, economic crime, corruption and graft in an audit of financial statements. We are aware that at least one other NSS is at the initial stages of a project on fraud. This is also an issue that has been alluded to in the IAASB's *Proposed Strategy for 2020-2023 and Work Plan for 2020-2021*.
- d. Guidance to auditors in respect of the audit procedures to perform on transactions with parties that are not necessarily regarded as related parties in terms of the International Standards on Auditing, but which have some link to the audit client, and as a result may pose an audit risk requiring special or additional attention.
- e. An Audit Quality Indicators (AQI) project, which includes guidance and support for audit committees on the assessment of audit quality in the selection and appointment of audit firms.

20. We also recommend that the IAASB should include a placeholder in its work plan for 2020-2021 for non-authoritative guidance to address ISA implementation and application issues on an urgent basis. This will help ensure that national standard setters do not develop their own guidance for challenges that are being experienced on a global basis. In turn, this will ensure that the work plan is flexible in responding to emerging issues on a timely basis.
21. Further, the IAASB's finalised detailed Work Plan for 2020-2021 should take into account the finalised IESBA strategy and work plan 2019 -2023 (*Elevating Ethics in a Dynamic and Uncertain World*) issued in April 2019. The IRBA supports coordination between the IAASB and IESBA on the following projects as outlined in the IESBA strategy and work plan 2019-2023:
 - a. definitions of listed entity and Public Interest Entity;
 - b. materiality;
 - c. emerging or newer models of service delivery;
 - d. trends and developments in technology; and
 - e. the use of consistent terminology and definitions vis-à-vis the IAASB standards and the IESBA Code.

Question 5

There are any other topics that should be considered by the IAASB when determining its 'information-gathering and research activities' in accordance with the new Framework for Activities. The IAASB has provided its views on tentative topics to be included in its 'information-gathering and research activities' (see page 10).

22. We suggest that the IAASB should consider further exploring the use of transparency reports by audit firms to enhance audit quality. This could entail ISQM 1 having stronger requirements on transparency reporting as well as stipulating the content of the transparency report to ensure comparability by stakeholders, such as audit committees, that engage auditors.
23. Further the IAASB should consider the impact on ISA 720¹⁴ of any non-authoritative guidance issued on extended external reporting.

¹⁴ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.