

# Envisioning the Future—Survey on the IAASB’s Future Strategy

Response ID:750 Data

## 7. SECTION III: ABOUT THE RESPONDENT

### 1. From which perspective are you providing this feedback:

The view of an organization.

**Please Indicate:**

### 2. Please complete

Name of Organization: : Independent Regulatory Board for Auditors

Name or Person submitting Survey on behalf of the organization: : Bernard Peter Agulhas (Chief Executive Officer)

### 3. Select from the following options that describe your organization:

Other – Please specify

**Is this a/an:**

**Is this response on behalf of the global network?**

**Is this response on behalf of a regional or national firm?**

**Other Firm?**

**IFAC Member Body or Other Professional Organization**

**National auditing standards same as, or based on, the IAASB’s current International Standards on Auditing**

**Please specify which standards are used:**

**Other national standards same as, or based on, IAASB’s other standards (i.e., assurance, related services and reviews)**

**Please specify which standards are used:**

**Are you a listed or non-listed entity?**

**Small or Medium-Sized** The concept of ‘smaller or less complex entities’ varies country by country, but ordinarily exhibits one or more of the following characteristics:Concentration of ownership and management in a small number of individuals.One or more of the following:Straightforward or uncomplicated transactions.Simple record keeping;Few lines of business and few products within business lines;Few formal internal controls; Few levels of management with responsibility for a broad range of controls; orFew personnel, many having a wide range of duties.

**.Entity?**

**Please Indicate:**

**Do you apply International Standards of Supreme Audit Institutions (ISSAIs) for financial audits**

**Those Charged with Governance**

**Private Sector**

### 4. Please specify in the box below.

Regulator and national standard setter

Are you any of the following?

5. Please select the geographical region where you are based:

Africa-Middle East

## 8. SECTION IV - QUESTIONS FOR RESPONDENTS ABOUT THE IAASB'S STRATEGY FOR 2020-2023

6. 1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain, will impact the environment in which the IAASB's stakeholders operate, etc.).

We offer our views from each of the following perspectives:

a) Auditors' clients

In our view, technology is the priority, among what is already described above. We believe that evolving technologies, such as cryptocurrency, artificial intelligence or blockchain, have already impacted auditors' clients. Business models are changing, with a resultant increase in business risk and audit risk. Crypto assets and transactions may need to be audited. Preparers of the information that will be assured by the auditors will be impacted by evolving technologies. If preparers are finding it hard to keep up with the evolving technologies, this might impact the quality of the information that the auditors have to assure, therefore potentially increasing the amount of work and time the auditors will have to put in while preparing for and during the audit of the subject matter information. This may also potentially increase audit fees.

On the other hand, clients may request their auditors to perform other related services on this information (e.g. agreed-upon procedures) instead of an audit for other purposes, which may result in the demand for other services dominating stakeholders' needs.

b) Firms and practitioners

Auditors are required to keep up with the rapid developments in technology and innovation. As clients' businesses are evolving, this has an effect on the audit environment. Our view is that there might be a greater need for combined audit teams – i.e. the inclusion of specialists who are not auditors will likely be required. This may, in turn, result in an increased risk of lack of independence.

There might also be a need for robust risk assessments, as technology and innovation provide for new audit risks not previously identified and addressed by the auditors, which may increase the amount of time spent on each audit. Similarly, auditors are encouraged to use technology to increase audit efficiencies and possibly have an impact on audit quality. Our view is that assurance is needed on the firms' own data analytical tools if the output will be used as audit evidence. However, who will provide such assurance on the auditors' systems? Data analytics will also impact on the auditor's evidence-gathering processes.

There is a concern that auditors may have limited knowledge on how the work of these latest technologies, e.g. data analytics, can be appropriately integrated into the audit engagement. It must also be noted that our view is that small and medium practitioners (SMPs) may find it difficult to keep up with evolving technologies, due to the required personnel, expertise and monetary resources.

In South Africa, we have witnessed increasing fraud and corruption over the years, and the public is expecting the accounting and auditing professions to respond to this. As this is also a common trend throughout the world, our view is that the fraud standard should be strengthened, or implementation guidance provided.

There is a public expectation that information that registered auditors are associated with has been prepared with the highest skill and experience and that, automatically, the information can be relied upon for its intended use. The existence of these "expectation gaps" suggests that either:

- (i) The IAASB standards do not contain adequate material to support auditors in responding to the practical challenges affecting the auditors' clients;
- (ii) Registered auditors do not properly understand and adhere to the IAASB standards; or
- (iii) Some combination of a) and b).

Regarding what the needs may be for different types of evolving services in the future, there have been initial discussions in South Africa regarding the splitting of firms into audit-only firms and then separate firms providing the other services. The recent events in the accounting and auditing profession in South Africa have also raised concerns regarding the sustainability of auditing firms, due largely to some audit firms losing some of their audit clients and, consequentially, their revenue.

Audit firms should be cognisant of the emerging cyber security risks that can wipe out a company's or an audit firm's systems/servers instantly.

c) Regulators and national standard setters

The IAASB standards need to move at the same pace as the environment we operate in. Thus, it would be important to stay alert to evolving topics, e.g. technology and innovation. Projects that take longer than anticipated may lead to changes in legislation at a jurisdictional level.

As a regulator of registered auditors with a statutory objective to protect the public, we support initiatives that create an enabling environment for registered auditors to apply the IAASB standards and those that promote ease in understanding the IAASB standards. We suggest the use of tools/diagrams in the standards to facilitate clarity, better understanding and implementation of the standards.

We caution against projects that include complex rules that are often too difficult to administer. The standards can only be relevant if they are clear, understood and implementable. Complexity with certain elements of the standards creates lack of clarity.

**1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain, will impact the environment in which the IAASB's stakeholders operate, etc.). - Text Analysis**

**7. 2. Section II. Describes the additional challenges and opportunities that the IAASB has identified relating to its people, processes and technology, including possible changes that may arise from the MG consultation. In your view, as the IAASB develops its Strategy for 2020–2023, what are the:**

- (a) Key challenges and other factors that may impact the IAASB's activities and focus; and(b)**
- (b) Main opportunities for changing the way it undertakes its activities.**

***Your response may include views about the matters identified by the IAASB as set out in Section III, but any views about matters that have not been mentioned are particularly welcome.***

(a) We suggest that the IAASB takes into account the following factors that may impact the Board's focus in relation to its people, processes, technology and activities:

- Consider alternative staffing methods, e.g. seconding or volunteering of staff (from National Standard Setters, regulators, firms, academics, etc.), and using the expertise of others, such as retirees, while maintaining a core cohort to retain expertise and continuity;

- Consider hosting online meetings; and
- Recognise that the world is much more diverse than what the Board reflects. We noted in our comment letter to the Monitoring Group, on its Consultation Paper on Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest, that multi-stakeholder considerations could include the following:
  - o Improving representation from developing countries, as it appears that standards are primarily focused on large developed economies, and the perception is that they are not scalable enough.
  - o Consideration of gender diversity.
  - o Placing an imperative on the representation of SMPs.
  - o Representation from Those Charged with Governance.

Our view is that the IAASB should give due consideration to the timing of the projects when finalising the proposed strategy. This includes the capacity of the Board, staff and the capacity at the jurisdictional level in keeping up with the changes in the standards.

We welcome a carefully considered and coordinated consultative process on projects. Large projects that start with a survey usually yield better results as that allows the conversations to initiate at the jurisdictional level. That may also ease the pressure on the Board, Working Groups and respondents as the conversation matures.

(b) The main opportunity for changing the way the Board undertakes its activities is the use of already developed technology to host meetings online. This will eliminate travel time. It will also save costs with regards to hosting meetings and travel expenses, while also contributing positively to environmental considerations.

The necessary due care is required to allow for future projects to be evidence based. It is necessary to see how inspections experiences and research results are influencing the choices of the IAASB.

Our view is that better functioning governance of the IAASB structures (e.g. the Consultative Advisory Group) directly influences the IAASB. We also suggest that the groundwork should be performed more at the Task Group or Working Group level in order to allow for the Board and its members to focus more on the important tasks and projects.

**8. 3. Are there specific initiatives within the stakeholder group to which you belong, or of which you are aware, that you believe the IAASB should actively monitor in light of their potential to inform the IAASB's future agenda? If so, what are they, and why do you think they are relevant to the IAASB?**

The recent scandals involving accountants and auditors in South Africa have had a negative impact on the perception of what has until now been a trusted profession. The IRBA has commenced work on the Restoring Confidence in the Profession Project, which includes actions or tasks on:

- Approval of firm leadership, which influences audit firm governance and ultimately audit quality, independence and quality control;
- Focus on leadership and accountability;
- Audit quality indicators;
- Transparency reports;
- Real-time proactive monitoring and the remedial action process;
- Implementation support to operationalise standards; and
- A review of disruptive technologies.

The IRBA also plans to undertake an outreach to the stock exchanges in order to understand the role of auditors on price sensitive information (e.g. Stock Exchange News Service announcements) not subject to an audit or review. This includes secondary listings and share placements.

## 9. THE FOCUS OF THE IAASB'S ACTIVITIES IN 2020–2023

9. 4. Section II illustrates that the IAASB has, and will continue to, focus a significant part of its efforts in 2015–2019 on revising and developing standards addressing the audit of historical financial information and quality control. With respect to new standard-setting projects for the period 2020–2023, in light of where you believe IAASB actions are needed and to continue to serve the public interest, in your view what proportion of effort should the IAASB allocate to each of the following? (Allocation should total 100%)

Quality control : 25%

Audits and reviews of historical financial information : 25%

Other assurance- EER Emerging Forms of External Reporting (EER) refers to emerging forms of external reporting by entities that increasingly provide non-financial information that goes beyond the traditional (financial statement) focus on the entity's financial position, financial; performance and impact on its financial resources. engagements : 10%

Other assurance (and related services Related services pronouncements include: ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (currently being revised); ISRS 4410 (Revised), Compilation Engagements.) - other than EER engagements : 10%

Professional skepticism : 20%

Matters relating to audits of smaller and less complex entities : 10%

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Total : 100%

**Comments:** Quality Control • With the increased findings arising from inspections of engagements performed by firms, the projects on quality control should be completed sooner rather than later. Audits and reviews of historical financial information • Audit and reviews of historical financial information form the bulk of the public interest work. Focus on these standards should always be at a high level. Professional skepticism • Within a framework of effective professional skepticism, engagements performed by firms should result in high-quality engagements. The issues of professional skepticism and auditor behaviour continue to dominate global conversation from an IESBA and IAESB point of view. As such, our view is that a substantial amount of time/attention should be placed on this topic. Matters relating to audits of smaller and less complex entities • Although SMPs audit SMEs that are individually much smaller than public interest entities, the greater part of the economy in many countries is invested in SMEs. Other assurance (and related services) - other than EER engagements • Although the provision of other assurance is an expanding service, the greater part of the public interest does not currently lie here.

10. *Please provide relative %; for each option by category to total 100%*

	(i) Developing new or revised standards	(ii) Undertaking implementation activities	(iii) Apply efforts to both
Quality control	20%	80%	
Audits and reviews of historical financial information	20%	80%	
Other assurance – EER engagements	60%	40%	
Other assurance (other than EER engagements) and related services Related services pronouncements include: ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (currently being revised); ISRS 4410 (Revised), Compilation Engagements.	50%	50%	

**Comments:** Quality Control • We suggest that no further new standards be developed after ISQC 1 (Revised), ISA 220 (Revised) and ISQC 2 are issued. The IAASB should focus its work in this area on implementation support for current standards and developing frameworks for emerging forms of external reporting. Audits and reviews of historical financial information • The Board should revise a standard only if that is a high priority, high public interest project; and the Board should not develop new standards. If there is a perception that current standards do not meet current needs, or appear not to have the desired result of producing high-quality audits, the IAASB should rather focus on implementation support. Other assurance (and related services) - other than EER engagements • A multi-scope engagement standard or compliance engagement standard may be considered for development. As the "main" related services standard on agreed upon procedures is currently being revised, our view is that no further work here is necessary. The Board should consider providing implementation guidance for areas of perceived weakness. Other assurance – EER engagements • EER frameworks are not yet mature enough to allow for an authoritative assurance standard to be developed. The board's strategy specifically requires it to expand its scope beyond the audit of historical financial information to include emerging forms of external reporting.

**11. 6. In relation to the development of new, or the revision of extant, standards as noted in Question 5, and in keeping an open mind as to the impact of the evolving environment and the challenges and opportunities for the IAASB in 2020–2023, should the IAASB, in your view:**

- (a) Focus first on a strategic review of extant standards (for example, consider how the standards could be better structured or presented in light of evolving technologies) before prioritizing projects on new topics. Please provide an explanation for your view.
- (b) Prioritize projects on new topics (as determined by the consultation on the IAASB's future strategy and priorities). Please provide an explanation for your view.
- (c) During implementation of the current standards under revision (i.e., those standards that currently have a committed project plan in place), consider a moratorium on developing new or other revised standards? If so, how long should such a moratorium last? Please provide an explanation for your view.
- (d) Undertake other actions related to the development of new, or revision of extant, standards, and/or implementation support. Please describe what these actions should be and provide an explanation for your view.

- (a) No. Standards have undergone the clarification process relatively recently. Where evolving technologies impact a standard, the IAASB should consider providing implementation guidance instead.
- (b) Not necessarily. New projects should be considered together with existing projects.
- (c) No. This does not allow for any flexibility. Additionally, some further new standards may be required, e.g. refer to the comment on a multi-scope engagement standard or compliance engagement standard under point 5.
- (d) Yes. Consider all projects – both current and new – and apply a prioritisation to all. Develop a

prioritisation criteria with the aim of working on those projects with the highest public interest first. A faster process is needed to enhance relevance and meet stakeholder needs quicker. We also suggest that a post-implementation review on issued standards should be performed in order to understand the practitioners' issues (if any) with implementing the standards.

**12. 7. If there was a specific topic(s) that, in your view, should be the IAASB's priority(ies) when developing new, or revising existing, standards or related guidance for the period 2020—2023, what would it be, and why?**

**Where applicable, kindly indicate whether in your view the topic(s) (you have indicated) has particular relevance mainly for engagements for listed entities, small- and medium-sized entities (SMEs), or for entities of all sizes. Views in relation to matters of relevance to developing nations and the public sector are also encouraged.**

We noted in our comment letter to the Monitoring Group on its Consultation Paper that we agree with the key areas of concern, namely, the need for the standard-setting process to be independent of undue influence from the profession, the importance of standards being developed in the public interest, and that standards should be issued more timely.

In our view, the IAASB's priority(ies) (for entities of all sizes) when developing new, or revising existing, standards or related guidance for the period 2020-2023 should be:

- Streamlining the due process policy, and including a proactive rapid response mechanism. The Board should also attempt to have documents that follow the rapid response process to still follow full due process and be authoritative. A proactive standard setter is a relevant standard setter;
- Issuing guidance on recurring inspections findings, taking into consideration the IFIAR report and root cause analyses;
- Focus on leadership and accountability;
- Audit quality indicators;
- Transparency reports;
- Real-time proactive monitoring and the remedial action process;
- Implementation support to operationalise standards;
- Review of disruptive technologies;
- Ensuring there is continued engagement with the other standard-setting boards, especially the IESBA and the IAESB, and continued engagement with regulators, particularly the IFIAR;
- Addressing levels of assurance (i.e. reasonable versus limited assurance), as our view is that practitioners do not fully understand the differences between the two; and
- Root cause analysis at the Board level.

From a small- and medium-sized entities/practices perspective, specific focus should be on:

- Issuing guidance on the implementation of the ISAs for SMPs.
- As IFIAR inspections findings relate to the big six firms and PIE audits, some research may need to be performed to inform SMP needs from a standards perspective We are of the view that the subject is open to consideration.

**13. 8. Are there any other topics of interest or matters of relevance that you feel the IAASB should consider when conducting its strategic review, including those related to its the way that the IAASB undertakes its activities (e.g., changes to address matters highlighted in the MG review)?**

Yes. The IAASB may:

- Consider whether the standards are addressing the growing expectation gap regarding auditor responsibilities, especially in relation to fraud, going concern, sampling, materiality and non-compliance with laws and regulations. Consider how to respond to the public's expectations that auditors should

respond to the resilience and sustainability of their clients' businesses.

- Consider enhancing engagement and communication with stakeholders in the audit quality value chain, particularly in relation to audit committees.
- Consider how new projects will stand up to future challenges, e.g. the Key Audit Matters (KAM) project was extensive, but benefits have yet to be seen.
- Strategically need to think about how to be more inclusive and expand its reach beyond the 128 countries. It needs a model that promotes inclusiveness and fairness, and also makes members feel empowered.
- Consider that investors use other information in addition to historical financial information to take decisions. The IAASB needs to consider how to remain relevant in terms of expanding its assurance standards to these other areas, taking into account the legislative requirements by corporate laws across the globe, as these may need to be updated if one wants to add these assurance services to the statutory requirements.
- Consider the need for standard-setting to be research based, i.e. standard-setting to be influenced by research performed on audit failures, inspections findings and experiences, and common issues identified from regulators not participating in the IFIAR survey (findings on non-GPPC firms).