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Mr. Willie Botha

Technical Director

International Auditing and Assurance Standards Board (IAASB)

529 Fifth Avenue

New York

10017 USA

Submitted electronically at www.iaasb.org and to WillieBotha@iaasb.org

Dear Sir

COMMENT LETTER ON THE IAASB'S EXPOSURE DRAFTS FOR QUALITY MANAGEMENT AT THE FIRM AND ENGAGEMENT LEVEL, INCLUDING ENGAGEMENT QUALITY REVIEWS

The South African Institute of Chartered Accountants (SAICA) is the home of the chartered accountants in South Africa – we currently have over 44,000 members from various constituencies, including members in public practice ($\pm 30\%$), members in business ($\pm 49\%$), in the public sector ($\pm 4\%$), education ($\pm 2\%$), and other members ($\pm 15\%$). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We welcome the opportunity to comment on the IAASB's Exposures Drafts for Quality Management at the Firm and engagement Level, including Engagement Quality Reviews (QM-EDs). We wish to express our appreciation for the work of the IAASB's Quality Control Task Forces (IAASB Task Force) in addressing the fundamental topic of quality management.

Accompanying this letter, please find comments prepared by SAICA on the QM-EDs-Quality.

Please do not hesitate to contact Hayley Barker Hoogwerf (HayleyB@saica.co.za) should you wish to discuss any of our comments.

Yours Sincerely

Signed electronically

Hayley Barker Hoogwerf

Acting Senior Executive, Assurance and Practice

SAICA'S Approach to Respond

1. With the pervasive effect that the IAASB's project on Quality Management will have on all practices utilising these standards, SAICA engaged with our members to encourage firms and practitioners to closely monitor the progress made and, in line with change management, be proactive in providing feedback to SAICA on any comments that they may have; even before the exposure drafts were officially issued for comment. To this end, SAICA established the SAICA Quality Control Reference Group (SAICA Reference Group) that met continuously throughout 2018 to study the IAASB's Issues Papers relating to Quality Management.
2. An internal Working Group studied and debated the QM-EDs and prepared initial thoughts and inputs pertaining to the questions posed.
3. SAICA participated in the IRBA Quality Control Task Group (IRBA Task Group) meeting where interested parties were invited to provide their views and comments in finalising the IRBA and SAICA comment letters. The IRBA Task Group comprised representatives from the IRBA, SAICA, academia and audit firms.
4. Included in this comment letter are the details of the discussions held by the SAICA Reference Group as well as the IRBA Task Group. The purpose of including such detail is not necessarily to provide a definitive conclusion on the matters noted but rather to point out areas of concern for further consideration by the IAASB Task Force.

Contents

5. The SAICA comment letter is structured in the following sections:
 - A. Overall Questions
 - B. General Questions

A. Overall Questions

1) Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?

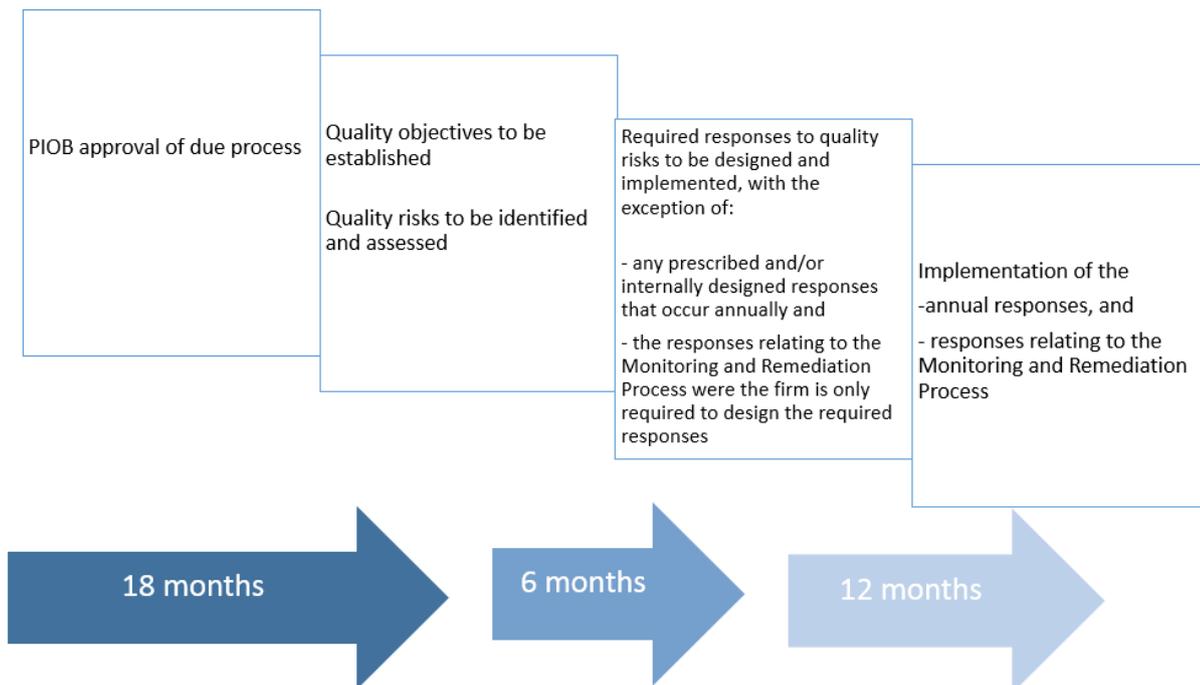
Response:

6. In considering our response to this question, it is firstly important to understand what firms will be required to have in place at the time that the QM-EDs become effective.
7. Paragraph 17 of ED-ISQM 1 states that *a system of quality management (SOQM) in compliance with this ISQM is required to be established*. As part of the SOQM, firms are required to be implement and perform certain responses annually¹.
8. Furthermore, in relation to the Monitoring and Remediation Process, firms are required to identify deficiencies and respond to these². Although ED-ISQM 1 is not prescriptive in terms of the timeframe allowed to respond to deficiencies, this process still requires the SOQM to have operated for a certain period of time to allow for the performance of any monitoring and related remedial action.
9. If the intention is for firms to have complied with all the proposed requirements of ED-ISQM 1, including annual evaluations and monitoring and remediation, the implementation period is effectively reduced by 12 months. The result is that firms then only actually having 6 months to design, implement and operate a SOQM. In highlighting this to firms, the view is that an 18-month implementation period is not a sufficient implementation period.
10. A practical solution to consider that, in our view addresses this concern while still maintaining an implementation period of 18 months is for ED-ISQM 1 to cater for a staggered approach to implementation; not in terms of implementing each component individually, as we recognise that with the high level of integration, this is not practically possible but rather in terms of the risk assessment process applicable to each component.
11. In terms of the effective date, ED-ISQM 1 could prescribe the following:
 - During the 18-month implementation period, a firm shall establish all the applicable quality objectives and identify and assess the related quality responses, such that these steps in the risk assessment process are complete by December 2021;
 - The next milestone for firms to achieve relates to the design and implementation of the responses. This will however exclude any prescribed and/or internally designed responses that occur on an annual basis as well as the responses relating to the Monitoring and Remediation Process. Here, we suggest that firms only be required have designed the required responses;
 - Once the firms SOQM has been operational for a period of 12 months, with the exception of the annual responses and the implementation of the responses relating to the Monitoring and Remediation Process, the final phase of the staggered approach would be the implementation of these annual responses, as well as the responses relating to the Monitoring and Remediation Process. The proposed staggered approach to implementation is illustrated in the diagram below:

¹ ED-ISQM 1, para. 33(d) relating to obtaining annual documented confirmation of compliance; ED-ISQM 1, para. 56 relating to the evaluation of the SOQM and ED-ISQM 1, para. 61 relating to obtaining information from the network

² ED-ISQM 1, para. 47-50

Response Template: Covering Explanatory Memorandum for Quality Management Exposure Drafts



1) In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

Response:

12. There is a sense that firms, especially the SMPs will wait until ED-ISQM 1 becomes effective before they even take note of the new and revised requirements. The sense is that they will further wait for IFAC Guidance (similar to the Guide to Quality Control for Small- and Medium-Sized Practices) in the hope that this will be the easy way out in implementing the new and revised requirements.
13. It will be useful for the application and explanatory material or even appendixes to be expand on the illustrative mapping by providing guidance on how the practical implementation of the requirements will differ in firms of different sizes and in different circumstances
14. A more specific suggestion noted during our outreach activities was that the IAASB should consider implementation guidance for small network firms that are geographically clustered together from an operational perspective to clarify how the clustered network firms would apply the requirement contained in paragraph 24(a)(iii) and identify personnel who have operational responsibility for the SOQM, compliance with independence requirements and the monitoring and remediation process.
15. Documentation and how firms demonstrate compliance with the proposed new and revised requirements is an area where firms feel particularly uneasy about. During our outreach activities, strong calls for a framework or a model relating to how SMPs could comply with the requirements were heard. Such a framework or model should include guidance that can be used in documenting the outcome of the risk assessment process. To this end, we recommend that the IAASB consider whether it is possible to develop such a framework or model to support firms in implementing the standards as intended.
16. The appendix included in the June 2018 agenda pack was found to be useful in understanding the eight components. The suggestion for the drafting of an appendix that includes a description of each of the eight components was a suggestion that was welcomed by the SAICA Reference Group. They suggested that the appendix include guidance or principles on how each of these elements will be practically implemented in the different circumstances that arise as a result of different firm dynamics.

Response Template: Covering Explanatory Memorandum for Quality Management Exposure Drafts

17. During our outreach activities, it was indicated that certain firms struggled working through, and understanding the requirements, particularly those as contained in ED-ISQM 1. Firms felt that the manner in which the Explanatory Memorandums was written and set out was easier to read and understand in comparison to the actual standards. The use of diagrams in providing visual representations to illustrate the requirements were also found to useful in providing clarity and focusing the firm's attention. It is therefore recommended that this information not get lost in the issue of the final standard but rather included in the application material or other accompanying implementation guidance.
18. SAICA recommends that the IAASB revise the IFAC Guide for Small-and Medium-Sized Practices to align with the new and revised requirements of the final quality management standards.
19. It is important that the appendixes and any other implementation guidance must be issued at the same time as the issue of the final quality management standards. This will enable the firms to use the standards, application and explanatory material and related appendixes as a complete package in designing and implementing the new SOQM.

B. General Questions

In addition, the IAASB is also seeking comments on the general matters set out below for all three EDs:

(a) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

Response:

1. Our comment letter includes practical challenges identified in adopting and applying the proposed new and revised requirements of the QM-EDs.

(b) Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.

Response:

2. It is our understanding that the Auditor-General of South Africa (AGSA) will be submitting a comment letter on the QM-EDs that will provide input from public sector auditors. In soliciting input to inform the SAICA comment letter, the focus was on auditors other than those engaged in the performance of public sector audits.

(c) Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.

Response:

3. The translation of the final ISQMs and ISA is not required in the South African environment and therefore we have no comment in response to this question.