

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

Response ID:729 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: : The South African Institute of Chartered Accountants

Name or Person submitting Survey on behalf of the organization: : Willie Botha – Senior Executive Assurance and Practice

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

IFAC Member Body or Other Professional Organization

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?

4. IFAC Member Body or Other Professional Organization

IFAC Member Body, Affiliate or Regional 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

Please specify in the box below.

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.).

SAICA'S RESPONSE

We believe that the audit market will undergo change, thereby affecting the future needs of the IAASB's stakeholders. In relation to the current expectation gap that exists between what an audit is and what certain stakeholders perceive it to be, or what it should become, it is possible that such changes could even drive a "new look audit", as well as an increased focus on the use of other assurance, related and other services to supplement the evolving information needs of users. The changes in the audit market and stakeholder's needs can already be seen in the current projects undertaken by the IAASB, including the establishment of working groups to explore:

- Emerging developments in the need for assurance of integrated reporting and other emerging forms of external reporting, and the subsequent commencement of a project in developing non-authoritative guidance to enable more consistent and appropriate application of ISAE 3000 (Revised);
- Emerging developments in the effective and appropriate use of technology, including data analytics and how changes relating to data analytics could be made in the ISAs currently being revised; and
- Current use and practice relating to agreed-upon procedures engagements, including the need to revise ISRS 4400.

Although a focus on change and new and emerging areas is important with respect to the sustainability of audits, reviews, other assurance and related services engagements, it is equally important to continue to ensure that the audit of financial statements as it is known at present continues to be practiced in accordance with robust and high quality standards in the public interest, which will facilitate any transition that may be required in future in a responsive and responsible manner. The external audit, as part of the entire mix of assurance services and functions of entities / organisations (i.e. a combined assurance model), is important in contributing to the stability of markets which in turn support investment, growth and employment.

Other matters that we identified that may impact the future strategic environment of the IAASB are expanded on in the paragraphs that follow.

Current state of the profession

In South Africa, auditors and the work of the auditor is under more scrutiny as a result of a number of recent corporate events that have occurred, including auditors alleged involvement therein. This increased scrutiny is also being experienced globally, where audits are being performed in increasing complex environments and stakeholders call for more transparency. All professional organisations should focus on how to maintain and restore, where applicable, the trust in the auditing and assurance profession. To this end, we do not believe that the standards are fundamentally flawed; but rather that more efforts to support

the effective implementation of the standards may be required; i.e. in relation to the interpretation and application of the principles and requirements of the standards. This will also require a focus of whether the standards are sufficiently clear and drive consistent application by auditors.

In addition to the projects that the IAASB are currently busy with, SAICA believes that the IAASB should consider other ways of more directly addressing the audit expectation gap, for example interim interventions in terms of clarifying what an audit is and what some stakeholders may believe an audit should be. Such insights may serve the purpose of educating relevant stakeholders regarding the meaning and objectives of an audit, as well as (and possibly more importantly) providing a basis for meaningful debates regarding any changes that may be needed to ensure that the products of audit and assurance continue to evolve in order to stay relevant to the needs of users. In addition, an in-depth analysis of the root-causes of corporate and audit failures would contribute to a fuller understanding of the factors and influences at play, before amendments to current standards and, at jurisdictional level, changes to laws and regulations are made.

The auditing and assurance profession has seen renewed interest in the concept of audit-only firms. The IAASB should closely monitor developments in areas such as these that may have an impact on the environment in which the IAASB's standards are to be applied in future.

Professional skepticism

The results of external inspections findings globally suggest that the root cause of findings / deficiencies is often that practitioners do not appropriately apply professional skepticism. This may indicate either a lack of understanding of the concept of professional skepticism or that practitioners do not understand how and where professional skepticism should be applied or how to demonstrate its application, or both. The clarification of what is meant by professional skepticism, the required scope of its application by the practitioner as well as how the practitioner demonstrates the application of professional skepticism will go a long way in addressing identified audit quality concerns; i.e. enhancing audit quality in fact and in appearance.

The IAASB's approach to addressing professional skepticism as it has been articulated in its Planned Forward Agenda in Appendix 2 to this consultation, is appropriate and should continue. However, there is a sense that auditors need some more tangible guidance in relation to professional skepticism in order to underpin some of the topics or perspectives as mentioned in the previous paragraph.

Increased need for other assurance and related services

The experience of SAICA members indicates that there is an increase in the demand for other assurance and related services, either in response to specific or additional information needs of certain users, or as an alternative to an audit of financial statements.

In South Africa, the Independent Regulatory Board for Auditors (IRBA) is in the process of developing South African Assurance Engagements Practice Statement (SAAEPS) 1: Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria (Proposed SAAEPS 1). The Proposed SAAEPS 1 aims to provide practical assistance on ISAE 3000 (Revised) in dealing with certain aspects of the preconditions for sustainability assurance engagements. The current project of the IAASB in relation to the development of non-authoritative guidance to enable more consistent and appropriate application of ISAE 3000 (Revised) to emerging forms of external reporting is responsive to the increased need for other assurance engagements globally. As efforts to apply ISAE 3000 (Revised) to different subject matters and subject matters information grow, the need in terms of the interpretation and application of the requirements and application material contained therein will also increase.

This increased need goes beyond assuring emerging forms of external reporting. Where an audit is not required, other assurance and related services could be a cost effective alternative in enhancing trust and credibility of reported information, whether financial or non-financial.

The Discussion Paper: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards noted that hybrid engagements are being performed in some jurisdictions as a means of meeting the emerging needs of small and medium sized entities. From a South African point of view, we are seeing a growing need in regulation requiring increased accountability, which is contributing to the increased need for other assurance and related services, not only in relation to small and medium sized entities but across the board – all types and sizes on entities and across industries. Regulatory bodies are showing an increased interest in hybrid engagements and we believe that a consideration of these types of engagements may be fitting in certain circumstances. The Banks Act Regulatory Reports and Medical Schemes Reports (ISA 800 (Revised) and ISRE 2410 are examples of hybrid-type reports that have already been developed in South Africa.

To this end, the importance of the current project to revise ISRS 4400 is emphasised, since once the current challenges in the individual standards are addressed, the IAASB could also focus attention on the need for, and guidance regarding the use of the standards in hybrid engagements.

Data analytics

There is a general sense that the profession is probably behind the demand curve in relation to emerging technologies. As suggested in the title of the Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics (RFI) issued by the Data Analytics Working Group, this project was focused on the application and impact of data analytics in the audit of financial statements. Emerging technologies impacting audits of financial statements (and potentially other assurance and related services engagements) however go beyond data analytics and include block chain or distributed ledger technologies, cryptocurrency, cybersecurity and artificial intelligence.

We recognise the establishment of the Data Analytics Project Advisory Panel and their role in considering changes relating to the use of automated tools and techniques in audits and support the objectives identified in the establishment of this panel. We further support the views as expressed by respondents to the RFI for the development of additional guidance on applying the standards in light of all forms of emerging technologies.

The IAASB's approach to addressing data analytics through the work of the Data Analytics Task Force as it has been articulated in its Planned Forward Agenda in Appendix 2 to this consultation, is appropriate and should continue. However, there is a sense that auditors need additional guidance to understand the role and impact of emerging technologies on the businesses they audit and on the application of the current auditing standards in these circumstances, as well as using these technologies to perform a more efficient audit and enhance audit quality.

Audit of smaller and less complex entities

Information and input from our members, through various forums, tends to indicate that Small and Medium Practices (SMPs), including sole practitioners have serious constraints of resources, resulting in significant challenges in complying with certain requirements of the IAASB's standards. There have been suggestions that resources should be focused on providing additional guidance on how the principles and requirements of the ISAs (and other IAASB standards, for example ISQC 1) can be scaled, adapted and applied by SMPs and other firms involved in auditing smaller and less complex entities, rather than developing new or revising existing standards. It is often difficult for a stand-setter to address different and competing calls to address a particular area of concern.

SAICA is aware of and recognizes the IAASB's continuing efforts to address the needs of SMPs in the audit of smaller and less complex entities. This includes that scalability has been a strategic focus in each of the IAASB's current projects relating to the revision of certain ISAs. We are supportive of the move away from the concept of SMEs and SMPs auditing SMEs, to a more inclusive approach of all types of audit firms (i.e. not only SMPs) auditing smaller and less complex entities. This is more representative of the actual practice environment, for example, there are smaller entities can could still have complex businesses and complex financial statement items.

Efforts to draw-out and emphasize that the ISAs are applied in a scalable manner to the nature and complexity of an entity, as reflected in the auditor's risk assessment and risks response, should continue to receive attention. In addition, the proposed consultation document related to audits of small- and medium-sized entities / less complex entities as it has been articulated in the IAASB's Planned Forward Agenda in Appendix 2 to this consultation, is encouraging, since there is a need to more specifically consider a direct and fundamental response to these issues that have been raised and debated for many years. The responses to such consultation document could be a catalyst to advance the thinking around the challenges in this area.

The in-practice challenges of auditing smaller and less complex entities also link back to the general call for more efforts to support the effective implementation of the IAASB's standards. The IAASB should also consider how the IFAC SMP Committee can assist in addressing the challenges relating to smaller and less complex entities thereby potentially lightening the workload of the IAASB.

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) 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.

SAICA'S RESPONSE

We are in agreement with the challenges identified in Section II of the IAASB's consultation and we have also included specific comments in relation to a number of the identified areas in our response to question 1, above.

We note the inclusion of the challenge around finding ways to address issues in a timelier manner and in responding to this question would like to emphasise the importance of finding a solution to this challenge. Our experience indicates that the lack of timely response to changes in the business environment, such as emerging technologies as well as responding to changes in financial reporting, for example revisions to certain IFRSs, has led to a degree of criticisms of the profession.

As referred to in Section II, a solution to the challenge may be for the IAASB to follow a less formal or a more flexible approach than that required in issuing authoritative pronouncements that results in a shorter

turnaround time, such as the development of, for example, more International Auditing Practice Notes or Staff Questions and Answers or other staff publications (which could address the calls for interpretation and other types of implementation guidance).

With respect to additional matters that could be considered, refer to our response to question 1, above, under the heading "Current state of the profession".

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?

SAICA'S RESPONSE

The IRBA is the auditing regulator and standard-setter in South Africa, and SAICA is currently the only professional accountancy organisation that has been accredited by the IRBA. Projects that the IRBA are currently busy with include the following:

- Proposed SAAEPS 1, as referred to in our response to question 1, above, under the heading "Increased need for other assurance and related services". This project is the IRBA's response to feedback received that the Acceptance and Continuance – Preconditions for the Assurance Engagement phase of an assurance engagement on sustainability information reported in an entity's sustainability report, performed in accordance with ISAE 3000 (Revised), is challenging and is applied inconsistently in practice. This indicates the need for and continuing focus on projects relating to supporting credibility and trust in emerging forms of external reporting.
- Projects on Audit Quality Indicators (AQIs) and Audit Firm Transparency Reports. These projects take place at a time where there is also growing attention to the role of all stakeholders in the financial reporting supply chain, including audit committees as is evidenced by the IOSCO Consultation Report on good practices for audit committees in supporting audit quality. These projects are indicative of the types of audit-related developments that the IAASB should continue to monitor, since they may have an impact on the environment in which the IAASB's standards are to be applied in future.

The following are some completed publications that the IRBA has recently issued and that illustrate the need for additional interpretation of standards in certain instances, as well as responding to identified gaps where practitioners need to be aware of the audit implications of certain developments and where guidance from the IAASB was not forthcoming timeously:

- IRBA Staff Audit Practice Alert, Determining Other Information as Defined in ISA 720 (Revised) in the South African Context. This staff audit practice alert was developed in response to the interest raised around the determination of other information, as defined in ISA 720 (Revised)
- IRBA Staff Audit Practice Alert The Audit Implications of the Expected Credit Loss Model for the Auditors of Banks. This staff practice alert was prepared in response to the concerns raised around the audit implications of the expected credit loss model incorporated in IFRS 9, Financial Instruments.

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 : 20%

Audits and reviews of historical financial information : 35%

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 : 15%

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

Total : 100%

Comments: SAICA'S RESPONSE In assigning percentages to indicate the proportion of effort that the IAASB should allocate to each of the areas identified above, we considered audits and reviews of historical financial information together with the cross over topics, namely professional skepticism and matters relating to audits of smaller and less complex entities. This assumption should not be mistaken as indicating that the crossover topics do not affect the other areas but the audits and reviews of historical financial information is where the work on these areas will commence. Furthermore, the other areas are still evolving and the impact of the cross over topics on these is more uncertain at this stage. Our allocated work effort to audits and reviews of historical financial information together with the cross over topics accounts for 60% of the allocation. We have then allocated 20% to quality control. This project is fundamental to all areas and has therefore been considered in isolation. The remaining 20% has been allocated in equal proportion to Other assurance – EER engagements and Other assurance (other than EER engagements) and related services. Further notes regarding our proposed allocation: Quality control The current projects will address the concerns that have been expressed in relation to the standards on quality control, by creating a more robust quality environment and ensuring that audit firms and their staff fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements. In accordance with the IAASB's planned forward agenda, the quality control projects are expected to be completed in the first quarter of 2020. Once the new and revised standards are finalised, the IAASB's should turn their focus to implementation support and post implementation review. Audits and reviews of historical financial information It is our view that the existing standards are not fundamentally deficient. There is, however a need to ensure that the standards remain fit for purpose, high quality standards that ensure the continued relevance and value of the external audit and that the audit continues to be performed in the public interest. We have noted the projects that the IAASB plans to commence as projects are completed in 2018 and 2019, namely: • the project to revise ISA 600; • further explorations relating to a possible project on audit evidence; • the post implementation review of the auditor reporting standards; and • the ongoing exploration of matters relating to audits of SME's. In addition to the projects already identified by the IAASB, external inspections findings repeatedly indicate shortcomings in complying with seemingly basic yet fundamental audit principles. Common themes indicated by such inspections findings could be used as a reference point for the IAASB to determining other areas where clarity or revision of requirements or additional implementation guidance may be required. Furthermore, the IAASB could use these external inspections findings to complement their planned post implementation reviews. Other assurance – EER engagements and Other assurance (other than EER engagements) and related services Refer to our response to question 1, above, under the heading "Increased need for other assurance and related services". Professional skepticism Refer to our response to question 1, above, under the heading "Professional skepticism". Matters relating to audits of smaller and less complex entities Refer to our response to question 1, above, under the heading "Audit of smaller and less complex entities".

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	40%	60%	
Other assurance – EER engagements	10%	90%	
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.	30%	70%	

Comments: SAICA'S RESPONSE There is a clear indication from the IAASB that a response is required to the ongoing and increasing calls for more efforts focused at supporting effective global implementation of the IAASB's standards. In focusing on implementation activities, projects to revise existing or develop new standards will also inevitably arise (i.e. the one feeds into the other on a continual basis). With this in mind, we have assigned our weighting as indicated above. Also refer to our responses to questions 1 and 4, above, in relation to these topics.

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.

SAICA'S RESPONSE

It is our view that the current standards are conceptually sound. In relation to the review of extant standards, there is a need to revise these to incorporate the impact of emerging technologies. Furthermore, the IAASB should continue to be responsive to developments in business (for example, corporate and governance structures, business models, financial reporting standards, other non-financial external reporting) and to developments or challenges in practice (for example, the nature and sources of audit evidence in a changing environment, external inspections findings, and areas highlighted by implementation support and post-implementation reviews). As indicated in our response to question 1, above, it is expected that there will be a growing demand on other assurance and related services, including the specific information needs of specific users, for example, from regulators regarding compliance with laws and regulations and in supporting other information needs linked to mechanisms created in law or regulation (for example, submissions, filings and applications of different types).

In relation to the development of new or revised standards and/or implementation support, there is a need

for the IAASB to respond to the ongoing and increasing calls for more efforts focused at supporting effective global implementation of the IAASB's standards, as well as addressing issues in a timelier manner. The specific needs around the audit of smaller and less complex entities have also been highlighted in our response to question 1, above, including support for the IAASB's proposed consultation document in this regard.

Therefore, an appropriate balance between the efforts as indicated in points (a), (b) and (d) is required in determining the IAASB's focus; in other words, the future strategy would have to include all three. In light of this, we do not believe that a moratorium on developing new or revised standards (point (c)) is an appropriate option.

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.

SAICA RESPONSE

No other specific areas of potential focus in addition to those mentioned in our responses to questions 1 to 6, were identified.

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)?

SAICA RESPONSE

No further comments – all comments and matters of importance have been outlined above.