

31 March 2023

The Director Standards
Independent Regulatory Board for Auditors (IRBA)
PO Box 8237
Greenstone, 1616
South Africa

By e-mail: standards@irba.co.za

Dear Imran,

Deloitte comments on the proposed revised: Due Process Policy for the Development, Adoption and Issue of Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (Revised November 2022)

We thank you for your invitation of 22 November 2022 to provide comments on the proposed revised Due Process Policy for the Development, Adoption and Issue of Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (Revised November 2022) ("Due Process Policy").

Deloitte fully supports the public interest objectives of the Committee for Auditing Standards ("CFAS") in the development, adoption, and issue of high-quality standards on quality management, auditing, review, other assurance and related services standards, and pronouncements, which are relevant, internationally comparable and issued by the IRBA. Whilst we are supportive of these efforts, we have included our comments and concerns on the detail of questions 1 and 2 by the CFAS in its invitation in Annexure A.

With reference to the IAASB Policy position of 2006 "*Modifications to International Standards of the International Auditing and Assurance Standards Board (IAASB): A Guide for National Standard Setters that Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications*" ("the Policy Position") we have the following principle observations:

- It is not clear why the CFAS finds it necessary to make limited modifications and why existing available mechanisms are not used to achieve the required results. We believe that existing mechanisms such as Practice Statements, Guides, Staff Practice Alerts and IRBA Rules can be utilized to achieve limited modifications. The Due Process Policy should explain the circumstances where these existing mechanisms are not the appropriate mechanism to affect a modification.
- The aim should be real limited modifications to the International Standards to ensure authentic continued reference to the International Standards as the applied framework. It follows that



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reference to “ISA” in audit engagements may not be misleading and that modifications are indeed limited.

- Closer alignment with the IAASB Policy Position terminology will be welcomed with reference to the use of “additions”, “deletions” in conjunction with “amendments”. In its current form a thorough comparison with the Policy Position is compromised.
- We support the inclusion of a Compelling Reasons Test (the “Test”) and agree that a set of criteria must be satisfied before modifications can be made to an IAASB Standard. The proposed test and proposed criteria may, however in its current format, not sufficiently equip the IRBA task group and CFAS to perform the required considerations objectively. We propose an objective mechanism for considering any proposed modifications to an International Standard and suggest that further work on this is required.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Carla Budricks at cbudricks@deloitte.co.za.

Sincerely,

Carla Budricks

Deloitte Africa Regulatory Lead

A. PROPOSED DUE PROCESS POLICY: REQUEST FOR SPECIFIC COMMENTS

1. Do respondents agree with the proposed due process followed for making limited modifications to the final IAASB Standard, in whole or in part, in particular:
 - i. The Compelling Reasons Test and the criteria that should be met before any modification is made to the final IAASB Standard, in whole or in part; and
 - ii. The impact of the modifications made on the effective date of the final IAASB Standard?If “not”, please provide reasons for your disagreement and suggestions for corrections and/or improvements.

i) **Compelling Reasons Test**

We support the inclusion of the Compelling Reasons Test (the “Test”) and agree that a set of criteria must be satisfied before amendments are made to an IAASB Standard. The proposed Test and proposed criteria may however in its current format not sufficiently equip the IRBA task group and CFAS to perform the required considerations objectively. We propose an objective mechanism for considering any proposed modifications to an International Standard. Paragraphs 42 and 43 appear to set out the scope of possible local modifications to an International Standard in its current format, instead of a Test. Paragraph 43 indicates when the Compelling Reasons Test should be performed but does not indicate what must be done to perform the Test. Improved alignment with paragraphs 8 and 9 of the Policy Position may assist to cure this concern.

Local exposure process

A transparent process to determine the appropriate stakeholders should be in place to ensure that the local exposure process is informed by participation of relevant stakeholders. A satisfactory due process is an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders as stated in the Policy Position. One could for example extend the consultation with stakeholder groupings to also include those that are impacted by a standard modification such as auditees and investor groupings opposed to engagement with only member bodies, auditors, and other regulators. The ultimate impact of a modified standard on affected stakeholders such as investors and auditees will require enhanced engagement to explain and translate the potential impact. Feedback on the potential impact should inform the Compelling Reasons Test.

Request to respondents

We propose that the request to respondents in the local exposure process should include the following:

- Questions regarding the necessity to eliminate options (alternatives) provided for in the final IAASB Standard.
- The request for respondents to provide an alternative that would ensure that the objective of the deleted requirement is met, where the deletion of a requirement of the IAASB Standard in its entirety, is suggested by respondents.
- Explanation why South African-specific questions are asked.
- A requirement for a respondent to explain the proposal for the amendment.
- A requirement for a respondent to explain a potential nexus with the applicable IRBA law or regulation.

Comments on criteria for consideration of proposed additions

Certain criteria in paragraph 45 needs further consideration and does not necessarily lead to objective determination if additions to the standards are needed. We elaborate on the following:

- Paragraph 45 (a): There appears to be an assertion that there is a nexus between regulatory findings and deficiencies in standards. There is no empirical evidence for this assertion, and we propose the removal of this criteria.
- Paragraph 45(d): *“The addition made to the final IAASB Standard does not result in a modified Standard that.....*
 - *is overly complex and confusing.*
 - *Inadvertently changes the meaning or intent of the final IAASB Standard or places more onerous requirements on registered auditors than necessary.”*It is not clear how “overly complex and confusing” and “more onerous than necessary” will objectively be determined and further consideration to this aspect is needed.
- Paragraph 46(b): Further work is needed on how the positive impact on the protection of the financial interest of the public will objectively be determined.

ii. The impact of the modifications made on the effective date of the final IAASB Standard

We agree that the task group and CFAS must consider the impact of the effective date of the modified standard. We propose that the CFAS includes in this consideration if a modified standard still conforms to IAASB’s International Standards if the modified standard will have an effective date later than the IAASB Standard.

2. Do respondents agree with the view that the scope of the amendments and/or deletions that may be made to the final IAASB Standard should be limited to inconsistencies/conflicts with only the IRBA’s legal and/or regulatory requirements? If “not”, please provide reasons for your disagreement and suggestions for corrections and/or improvements.

- Yes, we agree with the view that the scope of the amendments and/or deletions that may be made to the final IAASB Standard should be limited to inconsistencies/conflicts with only the IRBA’s legal and/or regulatory requirements. We however suggest that “the IRBA’s legal and regulatory requirements” are defined in the Proposed Due Process Policy.

3. Are there additional significant aspects that should be included in this proposed Revised Due Process Policy? If so, please list those aspects and provide suggestions.

We include the matters of principle in our cover letter for ease of reference:

- It is not clear why the CFAS finds it necessary to make limited modifications and why existing available mechanisms are not used to achieve the required results. We believe that existing mechanisms such as Practice Statements, Guides, Staff Practice Alerts and IRBA Rules can be utilized to achieve limited modifications. The Due Process Policy should explain the circumstances where these existing mechanisms are not the appropriate mechanism to affect a modification.

- The aim should be real limited modifications to the International Standards to ensure authentic continued reference to the International Standards as the applied framework. It follows that reference to “ISA” in audit engagements may not be misleading and that modifications are indeed limited.
- Closer alignment with the IAASB Policy Position terminology will be welcomed with reference to the use of “additions”, “deletions” in conjunction with “amendments”. In its current form a thorough comparison with the Policy Position is compromised.
- We support the inclusion of a Compelling Reasons Test (the “Test”) and agree that a set of criteria must be satisfied before modifications can be made to an IAASB Standard. The proposed test and proposed criteria may, however in its current format, not sufficiently equip the IRBA task group and CFAS to perform the required considerations objectively. We propose an objective mechanism for considering any proposed modifications to an International Standard and suggest that further work on this is required.