



The Director: Standards
The Independent Regulatory Board for Auditors
P O Box 8237
Greenstone 1616
South Africa

24 February 2012

Dear Ms van Esch,

Proposed South African Standard on Assurance Engagements (SASAE) 3502, Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification Certificates

We appreciate the opportunity to comment on the Committee for Auditing Standards (CFAS)' Proposed SASAE 3502, Assurance Engagements on B-BBEE Verification Certificates.

For the purposes of this letter "PwC" shall mean PricewaterhouseCoopers Inc., a company registered in South Africa, and does not extend to other member firms of PricewaterhouseCoopers International Limited. This response summarises the views of PwC Inc. following consultation with PwC directors and staff.

Overall comments

We are largely in support of providing additional guidance to B-BBEE approved registered auditors, which we believe will enhance the quality of B-BBEE assurance engagements undertaken by these registered auditors, and contribute to a level of consistency in the performance of these engagements.

Our comments in response to the specific questions posed in the exposure draft and our additional comments in principle are set out below. We have also provided specific detailed comments and suggestions for the CFAS to consider.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Michiel Engelbrecht (011 797 4421).

Yours faithfully,

Michiel Engelbrecht
Director
PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc, 2 Eglin Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa

T: +27 (11) 797 4000, F: +27 (11) 797 5800, www.pwc.co.za

Executive: S P Kana (Chief Executive Officer) T P Blandin de Chalain D J Fölscher P J Mothibe S Subramoney F Tonelli

Resident Director in Charge: E R Mackeown

The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.

Reg. no. 1998/012055/21, VAT reg.no. 4950174682



Response to specific questions

<i>Question</i>	<i>Response</i>
<p>1. Do respondents believe proposed SASAE 3502 achieves an appropriate balance between improving the consistency and quality of B-BBEE assurance engagements and the potential cost of such engagements as a result of work effort required by the standard?</p>	<p>It is our view that providing additional guidance to B-BBEE approved registered auditors, will enhance the quality of B-BBEE assurance engagements and contribute to a level of consistency in the performance of these engagements. However, performing any engagement in compliance with prescribed standards increases the cost of that engagement.</p> <p>For a registered auditor who performs the audit of an engagement, and who is appointed as the B-BBEE approved registered auditor, we believe that potential cost savings can be achieved through leveraging off work performed on the audit.</p> <p>One must also consider the indirect costs of complying with the proposed SASAE 3502. The proposed standard requires ISQC1 compliance by the B-BBEE approved registered auditor’s firm, which we would expect to be subject to review by the IRBA. The IRBA currently performs ISQC1 reviews on firms engaged in higher risk engagements. However, the IRBA will need to widen the scope of their reviews to include smaller firms with B-BBEE approved registered auditors. Firms are liable to pay the IRBA a fee for these inspections, resulting in an additional cost being incurred by the firm, which may not have previously been subject to firm review.</p>
<p>2. Do respondents agree with the factors to be considered by management when choosing whether to have a reasonable or limited assurance engagement? If not, what other factors should management consider?</p>	<p>Yes, we agree with the factors to be considered.</p>
<p>3. Do respondents agree with the general approach taken in the proposed SASAE 3502 to limited assurance engagements on B-BBEE Verification Certificates, as outlined above? In particular: 3.1. Do respondents agree that for such engagements a risk assessment is necessary in order to obtain a meaningful level of assurance; and</p>	<p>Yes, we support a risk based approach.</p>
<p>3.2. In responding to the assessed risks, do respondents agree that the standard should direct the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks having regard to the level of assurance? An alternative may be to specify only certain types of procedures (such as inquiry and analytical procedures)</p>	<p>Yes, Responding to risks identified is an area of professional judgement for the B-BBEE approved registered auditor. It may be necessary for the B-BBEE approved registered auditor to perform further substantive procedures in response to a risk of material misstatement.</p>



as the primary means of obtaining evidence.	
4. If the general approach to limited assurance engagements on B-BBEE Verification Certificates is adopted in the final SASAE, do respondents agree with the specific differences between limited assurance and reasonable assurance engagements on B-BBEE Verification Certificates noted in the proposed SASAE?	Yes.
5. Do respondents agree with the use of the columnar format with the letter – L (limited assurance) or – R (reasonable assurance) after the paragraph number to differentiate requirements that apply to only one or the other type of engagement?	Yes.
6. Do respondents believe more guidance needs to be included in the proposed SASAE to assist readers in understanding the differences between limited assurance and reasonable assurance engagements on B-BBEE Verification Certificates and, if so, what should be included in that guidance?	No.
7. Do respondents agree with the requirements and guidance in the proposed SASAE for a limited assurance engagement regarding the summary of procedures in the B-BBEE approved registered auditor’s limited assurance report? In particular, will the proposed SASAE lead to reporting procedures with an appropriate amount of detail to effectively convey to users the level of assurance obtained by the B-BBEE approved registered auditor?	Yes. The CFAS may consider expanding on the bullet point “Performing such additional procedures as we considered necessary;” to more specifically described the additional procedures performed.
8. Do respondents agree with the requirements and guidance in the proposed SASAE for a limited assurance engagement describing the point at which additional procedures are required?	Yes. We consider it appropriate to perform additional procedures where risks of material misstatement are identified.
9. Do respondents agree with the related requirements concerning the B-BBEE approved registered auditor’s response when there are matters that cause the B-BBEE approved registered auditor to believe the scores determined for individual scorecard elements may be materially misstated?	The actions required from the B-BBEE approved registered auditor where a misstatement is identified should be clarified. The B-BBEE approved registered auditor should request management to adjust the information for the material misstatement. If management refuse to make this adjustment the B-BBEE approved registered auditor should consider withdrawing from the engagement.
10. Do respondents agree with the form and content of the illustrative assurance reports included in Appendix A to the proposed SASAE?	Refer to our specific detailed comments on the illustrative assurance reports, included below.



<p>10.1. Do respondents agree that a full reasonable assurance or limited assurance report is provided to the measured entity, together with the signed B-BBEE Verification Certificate and detailed Analysis of scores determined for the individual scorecard elements?</p>	<p>Yes, we support the inclusion of the full report.</p>
<p>10.2. Do respondents agree that the full report may be inspected at the offices of the measured entity on request?</p>	<p>Yes.</p>
<p>10.3. Do respondents agree with the Summary of work performed included in the illustrative limited assurance report?</p>	<p>Yes. We are also of the view that the reasonable assurance reports should contain a summary of the work performed. In terms of paragraph 5 of the proposed standard, these engagements are being undertaken in accordance with SASAE 3502 in addition to ISAE 3000. ISAE 3000 requires the summary of work performed to be included in both reasonable and limited assurance reports and thus to comply with this standard the illustrative reasonable assurance reports should also contain a summary of work performed. The discussion on page 8 of the proposed standard headed “<i>The B-BBEE approved registered auditor’s reasonable and limited assurance report</i>” should also be revisited to align with ISAE 3000 requirements.</p>
<p>10.4. Do respondents agree that a summary of the B-BBEE approved registered auditor’s conclusion shall be included on the face of the B-BBEE verification Certificate?</p>	<p>Our preference is that the full report be provided rather than an extract thereof. This will better align the B-BBEE verification certificates with current practice on other certificates issued by registered auditors.</p>
<p>10.5. Do respondents agree with the “Restriction on liability” paragraph included in the assurance report?</p>	<p>Yes.</p>
<p>11. Preparers, Users, Government Departments and Assurance Providers: Recognising that Small and Medium-Sized Practices who are B-BBEE approved registered auditors may be asked to provide B-BBEE Verification Certificates to Large measured entities, Qualifying Small Enterprises and Exempt Micro Enterprises, the CFAS invites comments on the scalability of the requirements and the form and content of the illustrative assurance reports.</p>	<p>We consider that a baseline standard (the proposed SASAE 3502) is required in the performance of all B-BBEE Assurance Engagements, regardless of the size of the measured entity or the approved registered auditor. We do not consider it appropriate to establish different criteria for different service providers, as this would impact quality and consistency of certificates delivered.</p>
<p>12. Transitional provisions: Recognising that the DTI’s Statement 005 requires B-BBEE approved registered auditors to comply with</p>	<p>We do not anticipate significant difficulties in the application of Appendices 2 to 8 of the Verification Manual as a transitional arrangement, where the</p>



<p>guidance or notices issued and or prescribed by the dti and the IRBA in the performance of B-BBEE assurance engagements the IRBA welcomes comments on any difficulties anticipated in applying the transitional arrangements, requiring consideration of the guidance for Verification Agencies in Appendices 2 to 8 of the Verification Manual, adapted as necessary to meet the requirements of SASAE 3502.</p>	<p>practical examples provided in those appendices are relevant to the B-BBEE approved registered auditor’s engagement.</p>
<p>13. Effective Date: Recognising that the proposed SASAE 3502 is a new subject specific assurance standard developed specifically to meet the needs of B-BBEE approved registered auditors, when providing assurance on B-BBEE Verification Certificates issued by them. Following publication of the National Treasury’s Preferential Procurement Policy Framework Act, No 5 of 2000 and Regulations Pursuant thereto effective from 7 December 2011, an annual demand for thousands of valid B-BBEE verification certificates is anticipated, many of these are expected to be sought from B-BBEE approved registered auditors. Consequently, it is anticipated that an appropriate effective date for the SASAE will be within 3 to 6 months after issue of the final SASAE but with earlier application permitted. The CFAS welcomes comment on whether this will provide a sufficient period to support effective implementation of the SASAE.</p>	<p>Members of the B-BBEE approved registered auditor’s assurance team will need to be skilled to ensure they have the necessary competence to perform these engagements. This training process can only take place once the proposed standard has been finalised. We anticipate that it will be difficult to train assurance teams in such a short time.</p>

Principle comment

We understand that the IRBA are currently debating the advisability of issuing South African specific assurance standards. In reviewing the proposed SASAE 3502 we considered whether the guidance for B-BBEE approved registered auditors should be issued as a South African specific standard or would the issue of a “Guide to B-BBEE approved registered auditors” be sufficient?

In evaluating this question we considered the fact that the proposed SASAE 3502 would only be applicable to registered auditors until such time, in the future, that the IRBA were assigned the responsibility of regulating other B-BBEE verification service providers. We acknowledge that the long term expectation is that the IRBA will regulate all B-BBEE verification service providers. On the effective date, however, the proposed standard will only apply to registered auditors who already have a detailed knowledge of the international standards on assurance engagements, particularly ISAE 3000. Thus, at this point, a guide for registered auditors may be sufficient.

We recommend that the CFAS reconsider the issuing of guidance to B-BBEE approved registered auditors as a South African specific standard and debate issuing the contents of this proposed standard, as a guide.



Detailed comments and suggestions on specific paragraphs

<i>Reference to paragraph(s)</i>	<i>PwC comment</i>	<i>PwC proposal</i>
11 (d) (iv)	<p>The B-BBEE approved registered auditor, of an exempt micro-enterprise (EME) may express one of three conclusions on the information provided by management. One of the conclusions expressed includes the scenario “where the financial statements of the EME for the financial period have been independently reviewed by the registered auditor;”</p> <p>In terms of the Companies Act, 2008 an independent review engagement is not limited to being performed by a registered auditor and may be performed by persons qualified to be appointed as an independent accounting professional.</p>	<p>The paragraph should be updated to refer to an independent review being performed by an independent accounting professional (which would include a registered auditor).</p>
15 – 21	<p>It is unclear as to what the preconditions for the engagement are i.e. are they limited to par 18? Or do they encompass par 16 and par 18? Par 18 lists matters for consideration, which are not necessarily the preconditions for the engagement, however these matters are listed under the heading “Preconditions for the Engagement”.</p>	<p>Only those paragraphs constituting the preconditions for the engagement should be included under that sub-heading, while other guidance should be re-headed appropriately.</p>



<p>19</p>	<p>Paragraph 19 provides that if the preconditions for the engagement are not present, but law or regulation requires the B-BBEE approved registered auditor to accept the engagement, he/she will not include any reference within the assurance report to the engagement being conducted in accordance with ISAE 3000 or any other ISAEs.</p> <p>We are uncertain as to when the situation would arise, in which a law or regulation would require the B-BBEE approved registered auditor to accept the engagement even though the pre-conditions for the engagement are not present.</p>	<p>We recommend that the proposed standard be amended to provide specific guidance of the situation in which a law or regulation would still require the B-BBEE approved registered auditor to accept the engagement, even though the pre-conditions for the engagement are not present.</p>
<p>21</p>	<p>The explanatory memorandum to the proposed standard states that "management of the measured entity is responsible for deciding whether they require limited or reasonable assurance on their B-BBEE Verification Certificate".</p> <p>However, this responsibility is not assigned to management in paragraph 21, which deals with the "Responsibility of management", in the "Acceptance and continuance" section of the proposed standard.</p>	<p>Paragraph 21 which deals with the "Responsibility of management", in the "Acceptance and continuance" section should deal with management's responsibility for deciding whether a limited or reasonable assurance engagement is required. This will achieve consistency with the requirements in the explanatory memorandum.</p>
<p>32</p>	<p>Includes a reference to "companies limited by guarantee". This category of company is no longer relevant in terms of the Companies Act, 2008.</p>	<p>The reference to "companies limited by guarantee" should be deleted or updated as appropriate.</p>
<p>47</p>	<p>The cross-references in this paragraph to paragraphs "44L or 45R" are incorrect.</p>	<p>Cross-references should be updated to refer to paragraphs "45L or 46R"</p>
<p>59 and 64</p>	<p>Generally, we noted inconsistencies in the reference to the B-BBEE approved registered auditor, who is also sometimes referred to as the registered auditor or approved registered auditor. These inconsistencies are evident in paragraphs 59 and 64.</p>	<p>References to the "B-BBEE approved registered auditor" should be consistently applied.</p>



<p>66L and 69R</p>	<p>The assumption made in these paragraphs is that limited assurance engagements are performed for clients whose annual financial statements are required to be reviewed and reasonable assurance engagements are performed for clients whose annual financial statements are required to be audited. The explanatory memorandum indicated that the level of assurance is a decision for management. Therefore, we consider it possible for a measured entity, whose annual financial statements are required to be audited, to elect a limited assurance engagement in respect of B-BBEE assurance. Similarly, a measured entity subject to review may elect a reasonable assurance engagement.</p>	<p>The table including paragraphs 66L and 69R should be supplemented to take into consideration, the additional scenarios which may arise, for example, where a limited assurance engagement is undertaken on a measured entity whose financial statements have been subject to independent review.</p>
<p>75</p>	<p>The current wording is confusing. “When the work of another B-BBEE approved registered auditor is to be used, the B-BBEE approved registered auditor shall be satisfied that work is adequate for the approved registered auditor’s purposes.”</p>	<p>We suggest that the wording be updated to first and subsequent B-BBEE registered auditor, as follows: “When the work of another B-BBEE approved registered auditor is to be used, the <u>first</u> B-BBEE approved registered auditor shall be satisfied that work is adequate for the <u>other B-BBEE</u> approved registered auditor’s purposes.”</p>
<p>A2</p>	<p>The word auditor has been omitted from the following paragraph: “In such circumstances, the B-BBEE approved registered must ensure that the requirements of ISQC 1 are applied by the multi-disciplinary engagement team in the conduct of B-BBEE assurance engagements.”</p>	<p>We suggest amending the paragraph as follows: “In such circumstances, the B-BBEE approved registered <u>auditor</u> must ensure that the requirements of ISQC 1 are applied by the multi-disciplinary engagement team in the conduct of B-BBEE assurance engagements.”</p>



<p>A50</p>	<p>Note 16 defines the term “accounting professional” in a footnote to the document as “An accounting professional is defined in Regulation 26(10(d) of the Companies Act, 2008 as “a registered auditor, a CA (SA), or person qualified to be the accounting officer of a Close Corporation in terms of the Close Corporation Act”. The wording of this definition is not aligned to the definition of an independent accounting professional in Regulation 26 to the Companies Act, 2008.</p>	<p>The definition of an accounting professional should be aligned to the wording of the definition in Regulation 26. Furthermore, as the term “accounting professional’ is used in more than one place in the document (for example repeated in Appendix 5) we recommended that the definition is removed from the footnote and included in the definition section.</p>
<p>A50</p>	<p>The paragraph states that “The Companies Act, 2008 provides for companies that meet certain criteria, to have their financial statements audited, independently reviewed, or to be exempt from audit and review, where these are independently compiled by an accounting professional”. In terms of Section 30 the Companies Act, 2008 a company may qualify for an exemption from independent review due to the fact the all beneficial interest holders of the company are also directors. This is not, however an exemption from audit. Furthermore the exemption is not dependent by how the financial statements have been compiled. Thus a company whose financial statements are internally compiled may still qualify for an exemption from independent review.</p>	<p>We suggest the following wording: “The Companies Act, 2008 provides for companies that meet certain criteria, to have their financial statements audited, independently reviewed, or to be exempt from independent review.”</p>
<p>Appendix 1 - 4</p>	<p>The illustrative reports deal with management’s responsibility for the preparation and presentation of the scorecard, however the illustrative engagement letter clarifies that the directors are responsible for the preparation and presentation of the Scorecard in accordance with the Codes of Good Practice. The reference to management, in the illustrative reports, is incorrect.</p>	<p>The illustrative reports should be amended to refer to the directors.</p>



Appendix 1 - 4	The illustrative reports refer to the B-BBEEE approved registered auditor’s responsibility to conduct the engagement in accordance with SASAE 3002. These references should be to the proposed SASAE 3502.	References to SASAE 3002 should be updated to refer to SASAE 3502.
Appendix 5	We are uncertain as to the type of engagement to be undertaken in terms of Exempt Micro Enterprises (EMEs). For the other assurance engagements, whose illustrative reports are set out in Appendices 1 – 4, full assurance reports explaining the procedures performed and conclusions reached are required to be provided to the measured entity. In appendix 5 we deviate from this convention and list the procedures performed at the back of the certificate.	<p>The proposed standard should clarify the engagement to be undertaken in respect of EMEs i.e. an assurance engagement or agreed upon procedure (AUP).</p> <p>If it is determined that the engagement is an assurance engagement further guidance should be provided on the procedures to be performed and the report should follow the drafting conventions of the other appendices.</p> <p>However, if the engagement is considered to be an AUP (more likely) we recommend that an engagement letter for agreed upon procedures on EMEs is drafted and included in an appendix to the proposed standard and that the wording in appendix 5 clarifies the requirement to perform an AUP.</p>
Appendix 5	Conclusions 1 -3 address the situations “where an audit of the financial statements has been performed by a registered auditor”; or “where an independent review of the financial statements has been performed by an accounting professional or a registered auditor”; or “where neither an audit nor an independent review of the AFS has been performed and the financial statements have been compiled by the	Illustrative wording addressing the appropriate conclusion where the financial statements are internally compiled, as defined in the Companies Act, 2008 and the company is not subject to audit or independent review, should be included.



	<p>Accounting Officer or a registered auditor or an accounting professional”.</p> <p>Appendix 5, however, does not address the situation where the financial statements are internally compiled, as defined in the Companies Act, 2008 and the company is not subject to audit or independent review.</p>	
--	---	--