



Mrs Sandy van Esch  
Director of Standards  
Independent Regulatory Board for Auditors (IRBA)  
PO Box 8237  
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1616

24 February 2012

Dear Mrs Van Esch

**Proposed SAAPS 3 (Revised), Illustrative Reports**

The Auditor-General of South Africa would like to take this opportunity of submitting comment on the exposure draft referred to above.

We attach, annexed to this letter, our responses to the specific questions asked in the explanatory memorandum and to certain reports included in the SAAPS for your consideration.

Yours sincerely

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## SPECIFIC QUESTIONS

1. **Do you agree with the format of SAAPS 3 as set out in the significant matters (paragraph 1 above)? Yes/ No, if no explain why.**

We agree with the format.

2. **Do you agree with the two Appendices (paragraph 2 above) being included in SAAPS 3, and do you find them useful in determining which report is appropriate to apply in particular circumstances? Yes/ No, if no explain why.**

We do not agree with the left branch of Appendix I regarding going concern. If there isn't a material uncertainty regarding going concern, the auditor does not have any other responsibilities. If the financial statements indicate losses, adverse liquidity or an insolvent position it indicates to the auditor that a material uncertainty exists and the auditor should then follow the requirements of the standard as indicated by the middle branch.

3. **Do you agree with the scope of the South African guidance in Part A (paragraph 3 above)? Yes/ No, if no explain why.**

We do agree with the scope of the SAAPS but would like to include a decision tree on concluding on the audit opinion. In the public sector the auditor is faced with numerous material misstatements, often a combination of disagreement and limitation misstatements which makes it difficult to decide whether the opinion should be adverse or disclaimed.

4. **Should the guidance in Part B include other illustrative reports? If so please provide suggestions and examples (paragraph 3 above).**

We believe that there should be examples for prior year misstatements that are not resolved, but which are no longer applicable in the current year audit. For example management could not provide sufficient appropriate audit evidence for expenditure during the prior year audit. In the current year management provided all the necessary evidence for the current year's expenditure, but the prior year's evidence is still outstanding and management indicated that they are unable to provide it.

5. **Do you agree with the basis for including and excluding illustrative reports (paragraph 4 above)? Yes/ No, if no explain why and provide suggestions and examples.**

We agree with this basis.

6. **Please indicate the context in which your response is made:**

Our comments are in the context of the public sector and in general in terms of the auditing standards.

## COMMENT ON THE SCOPE OF THE SAAPS

1. Please amend paragraph 4 as follows: "...and the ISA 700 report to be used ~~where the Auditor-General of South Africa (AGSA) has opted not to perform the audit of a~~ for public sector entities described in terms of section 4(3) of the PAA, that the Auditor-General of South Africa (AGSA) has opted not to audit."

## COMMENTS ON PART A

### Introduction paragraph to South African guidance points 1-3

2. We believe that the words “the notes, comprising” are superfluous and should be deleted. This would be in line with the illustrative examples provided in the ISAs. If it is decided to retain this wording, please consider deleting “comprising a summary of significant accounting policies and other explanatory information” as this makes the paragraph unnecessarily lengthy.
3. We noted that the directors’ report has not been included in the introduction paragraph. We believe that the explanation provided for excluding the directors’ report in N12 is not clear enough and too late in the guidance, which could lead to auditors excluding the directors’ report when it should be included.

### Illustrative Auditor-General’s report point 3

4. The entity’s name that was audited should be included next to the appropriate addressee. I.e. “To [appropriate addressee]” of [name of entity]
5. The auditor’s reports on consolidated financial statements presented in the SAAPS differ from the example included by the AGSA. The AGSA example agrees with the illustration provided in ISA 600. Please consider aligning the other reports to ISA 600.

### Notes

6. Please amend the last paragraph of N1 as follows: “~~If applicable the~~ The report may be addressed to shareholders, trustees or other identified users in addition to Parliament or the provincial legislature. ~~(# where there are persons...financial statements)).”~~
7. Please include the following sentence at the end of N1: If the PFMA or MFMA is not applicable to an entity and the financial statements are not required to be tabled in Parliament or the provincial legislature, the auditor’s report should be addressed to the appropriate level of oversight, normally the responsible Minister.
8. Please include the following sentence at the end of N5: If the PFMA or MFMA is not applicable to an entity, the party responsible for the preparation of the financial statements in terms of the legislation that governs that entity should be inserted.
9. Please delete the second paragraph and the 5 bullet paragraphs in N6 regarding public sector entities and only keep the last paragraph referring to the AG Directive. The reason for this is that these might change in the near future. Please include the following words in the last paragraph: “The General Notice (Directive) issued by the Auditor-General of South Africa in terms of the PAA...”

## COMMENTS ON PART B

10. Please include “...and separate...” after the word “consolidated” throughout illustration 2.
11. In the “circumstances” block in illustration 6 the word “Ongewysigdemening” should be 2 words “Ongewysigde mening”.
12. The following words should be added to the 3<sup>rd</sup> paragraph of the auditor’s responsibility paragraph in illustration 20: “...on the consolidated financial statements and unqualified audit opinion on the separate financial statements. We also believe that the opinion paragraph should be shown as 2 separate paragraphs for qualified and unqualified with subheadings in the same manner as illustration 21.

13. The word “Include” in the basis for qualified opinion paragraph of illustration 23 should be changed to “Included”. This example also does not illustrate a disagreement misstatement and a limitation misstatement on one financial statement item that is material in total, as the heading indicates. This type of example is very relevant in the public sector and we would appreciate it if the example could include both types of misstatements.
14. Illustration 24 should either be a disclaimer of opinion or the first bullet in the circumstances block should state “...are deemed to be ~~both material and~~ but not pervasive...”
15. We do not agree with illustration 25 where modifications of different financial statement items are included in one paragraph. We believe that these modifications should be shown separately with an appropriate subheading. In the public sector there could be numerous modifications that would not be clear and understandable to the reader if included in one basis for modification paragraph.
16. The wording used in illustration 26 does not make it clear that the misstatements listed are individually immaterial. Although it might be appropriate in this example, we do not believe that each immaterial misstatement should be described in detail as this might draw unnecessary attention to specific misstatements that are individually immaterial. This might also not be possible in the public sector where there could be a number of immaterial misstatements. We would appreciate it if the example could include disagreement misstatements as well.
17. Illustration 29, the fourth bullet in the circumstances block should be deleted as it is a duplication of the third bullet.
18. The word “Onafhandelike” in the heading to illustration 30 should be “Onafhanklike”.
19. The word “Maatskapywet” in the heading to illustration 31 should be “Maatskappywet”.

## DECISION TREE

20. We would appreciate it if a decision tree could be developed similar to the one below that will assist auditors to conclude on the audit opinion to express.

