INDEPENDENT REGULATORY BOARD FOR AUDITORS

JUNE 2021 | COMMENTS DUE 15 SEPTEMBER 2021

Consultation Paper

Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements

WARNING TO READERS

The content of this Consultation Paper should not, under any circumstances, be used or relied upon. The CFAS is not committing to any specific outcomes of this Consultation Paper and is open to ideas on how to enhance transparency in auditor reporting and address the needs of stakeholders that may be in the public interest.

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ABOUT THE IRBA

The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS) approved this Consultation Paper - *Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements* (this Consultation Paper) for exposure for a period of 90 days for comment.

This Consultation Paper has been prepared by a CFAS Task Group, which comprised technical staff representatives from firms, the South African Institute of Chatered Accountants, the IRBA and other regulators in South Africa.

The IRBA's Legislative Mandate

The objects of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (the Act), are set out in Section 2 and are, inter alia:

c) To improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and
d) To set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession.

To give effect to the objects of the Act, Section 4 sets out the general functions of the Regulatory Board and these include that "the Regulatory Board must, in addition to its other functions provided for in this Act", take steps to meet certain specific requirements. These include Section 4(1), which specifies that the IRBA must:

c) "Prescribe standards of professional competence, ethics and conduct of registered auditors;" and
e) "Prescribe auditing standards".

To enable the IRBA to meet these requirements, Section 4(2)(a) states that the IRBA may "participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession".

Statutory Responsibility of the CFAS

The statutory responsibility of the CFAS is set out in Section 22(2) of the Act, which requires that it must assist the IRBA to:

a) Develop, maintain, adopt, issue or prescribe auditing pronouncements;
b) Consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and
c) Promote and ensure the relevance of auditing pronouncements.

GUIDE FOR RESPONDENTS

This Consultation Paper may be downloaded free of charge from the IRBA website on the exposure drafts page.

The CFAS welcomes comments on all matters addressed in the Consultation Paper. Comments, however, will be most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions, including the benefits and drawbacks. Also, when a respondent agrees with the proposals in this Consultation Paper, it will be helpful for the CFAS to be made aware of this view. Comments should be submitted by **15 September 2021.**

Respondents are requested to submit their comments electronically via Microsoft Forms. The comments can be submitted by clicking this link. Alternatively, respondents can submit comments in both Word and PDF formats to the Director Standards, Imran Vanker, at standards@irba.co.za. Should the latter be used, respondents should use the response template which can be accessed by clicking this link. All comments will be considered a matter of public record and will be posted on the IRBA website's exposure drafts page.

Should you have any queries, or experience any technical difficulties with downloading the documents, please e-mail standards@irba.co.za or contact the following directly:

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CONSULTATION PAPER

Introduction

1. The purpose of this Consultation Paper is for the IRBA's Committee for Auditing Standards (CFAS) to gather perspectives from stakeholders about the need and options for additional disclosures in the independent auditor's report for an audit of financial statements. The information collected will help make informed decisions about possible outcomes that arise from the consultation in the public interest.

2. At this stage, the CFAS is not committing to any specific outcomes of this Consultation Paper and is canvassing ideas on how to enhance transparency in auditor reporting and address the needs of stakeholders that may be in the public interest. This research and other other strategic considerations will inform the view about the matters that the CFAS or other IRBA structures need to address.

Background

New and revised Auditor Reporting Standards

3. Owing to a number of corporate failures and scandals in South Africa and some parts of the world, confidence in the auditing profession has been negatively impacted in recent years. Questions have arisen about whether auditors are doing enough when they perform audits of financial statements; and whether the contents of their auditor's report communication go far enough in meeting the needs of users of those reports. These include questions about the transparency of the auditors in relation to their independence and objectivity as well as conclusions on matters such as fraud and going concern.

4. In 2015, the International Auditing and Assurance Standards Board (IAASB) issued its new and revised Auditor Reporting Standards[1] , which became effective for the audit of financial statements for periods ending on or after 15 December 2016. Those Standards were prescribed for use in South Africa without any changes.

5. The new and revised Auditor Reporting Standards were a response to calls from investors and other users of audited financial statements for more informative and relevant auditor's reports, based on the work that was performed. The intended benefits, among others, were:

    - Enhanced communication between auditors and investors, as well as those charged with corporate governance;
    - Increased user confidence in auditor's reports and financial statements;

[1] The Auditor Reporting Standards comprise: ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements;* ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report;* ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report;* ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report;* ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance;* and ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information.*

- Increased transparency, audit quality and enhanced information value;
- Increased attention by management and financial statement preparers to disclosures referencing the auditor's report;
- Renewed auditor's focus on matters to be reported that could result in an increase in professional scepticism; and
- Enhanced financial reporting in the public interest.

6. With the changes introduced by those Standards, there have been calls (for example, in response to IAASB consultations on fraud and going concern) from various stakeholders such as investors, regulators and other users of financial statements for more information to be disclosed in the auditor's report on the audit of financial statements. They request these additional disclosures in the auditor's report as they believe, among other reasons, that these will provide additional transparency about the audit process and also be an indicator of the auditor's independence, therefore, impacting audit quality positively. Examples of these enhanced disclosures are:

    - Descriptions relating to going concern procedures and conclusions;
    - Audit materiality;
    - Audit scoping; and
    - Fees, including non-audit services fees.

Relevant auditor reporting developments since the issuance of the new and revised Auditor Reporting Standards

7. When the IAASB finalised the new and revised Auditor Reporting Standards, the Public Interest Oversight Board (PIOB), the IAASB's oversight body, expressed disappointment that disclosure in the auditor's report about going concern "did not go far enough". Since then, the IAASB has issued a Discussion Paper, ***"Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit".*** In it, the IAASB sought perspectives from all of its stakeholders across the financial reporting ecosystem on whether the International Standards on Auditing (ISAs) related to fraud and going concern need to be updated, to reflect the rapidly evolving external reporting landscape; and, if so, in what areas. Among other matters, the IAASB's Discussion Paper explores the different views about the auditor's responsibilities for identifying and addressing issues related to an entity's ability to continue as a going concern, including reporting on the entity's going concern status. Also, the paper highlights the matter that owing to high-profile corporate failures, some stakeholders are looking for enhanced procedures from the auditor with regard to the entity's ability to continue as a going concern. The proposed timelines of the IAASB's Going Concern and Fraud projects indicate that exposure drafts for these initiatives are expected to be issued by September 2022 and December 2022, respectively[2].

[2] Dates as reflected on the Going Concern and Fraud project timelines, respectively, per the IAASB website (Accessed 11 May 2021).
Going Concern project timeline. | *Fraud project timeline.*

8. The IAASB conducted a post-implementation review on the new and revised Auditor Reporting Standards (the Auditor Reporting PIR) in 2020. The Auditor Reporting PIR included a consideration of additional information communicated in the auditor's report (i.e. in addition to what is required by the new and revised Auditor Reporting Standards).

9. The IAASB received 28 responses to the stakeholder survey from South African respondents; and two South African papers were considered as part of the review of academic research. Based on the feedback received, as well as further monitoring activities and outreach, the IAASB's Auditor Reporting Implementation Working Group will develop recommendations arising from the PIR in Quarter 4 of 2021 for the IAASB's consideration[3].

10. The IAASB has approved a project proposal for the development of a separate standard for audits of financial statements of less complex entities (LCEs), to address issues and challenges related to complexity, understandability, scalability and proportionality for LCEs. This standard will cover the auditor's report issued on such engagements. Final approval of this standard is expected in December 2022. The CFAS will continue to monitor developments on this project (and possibly others), to determine any impact that this may have on additional disclosures in the auditor's reports issued in South Africa.

Developments by national standard setters around the world

11. Some jurisdictions have mandated additional reporting in the auditor's report. For example, the UK has issued ISA (UK) 570 (Revised September 2019), ***Going Concern***, that is effective for audits of financial statements for periods commencing on or after 15 December 2019. This standard requires the auditor to report on conclusions regarding going concern[4]. Also, in the UK, the auditor is required to explain the extent to which the audit was capable of detecting irregularities, including fraud, in the auditor's report[5].

Additional disclosures in South Africa

12. In South Africa, there is a precedent for additional disclosures in the auditor's report. For example, there is an IRBA Rule that requires the disclosure of audit tenure in the auditor's reports of Public Interest Entities (PIEs) – refer to paragraph 66 of this Consultation Paper for the definition of a PIE. With this rule, the IRBA made it mandatory that auditor's reports on annual financial statements shall disclose the number of years that the audit firm/sole practitioner has been the auditor of the entity (audit tenure). This rule applies to auditor's reports issued on the annual financial statements of all public companies as defined in the Companies Act of 2008 that meet the definition of a PIE as per the IRBA Code of Professional Conduct for Registered Auditors, and prescribed by the IRBA from time to time, for periods ending on or after 31 December 2015.

[3] Date and information as reflected on the Auditor Reporting Implementation Project timeline per the IAASB website Accessed 11 May 2021).

[4] ISA (UK) 570 (Revised September 2019), Going Concern, paragraph 21-1.

[5] ISA (UK) 700 (Revised November 2019) (Updated January 2020), Forming an opinion and reporting on financial statements, paragraph 29-1.

13. The Council for Medical Schemes requires auditors to disclose the number of years that both the audit firm and the engagement partner have been the auditor of a medical scheme in the auditor's report on annual financial statements of a medical scheme for periods ending on or after 31 December 2018.[6]

14. Where an auditor identifies non-compliance with laws and regulations that fall within the scope of the definition of a reportable irregularity, as defined in the Auditing Profession Act of South Africa, the Revised Guide for Registered Auditors: ***Reportable Irregularities in terms of the Auditing Profession Act*** requires the auditor to include the description of the reportable irregularity under the "Report on Other Legal and Regulatory Matters" section of the auditor's report, or to refer to the notes to the financial statements in which management has disclosed the reportable irregularity.

15. Further, the Auditor-General South Africa, through its powers and relevant directives, offers an auditor's report with a number of messages not typically found in private sector auditor's reports.

16. Some audit firms have disclosed information in their auditor's reports that goes beyond the requirements of the new and revised Auditor Reporting Standards. Examples are disclosures regarding the audit approach, materiality and observations of audit procedures performed in respect of Key Audit Matters.

17. What is evident, then, is that these enhancements are intended to serve the specific information needs that are of benefit to stakeholders, including investors, users of the financial statements and readers of the auditor's report.

18. It is, however, acknowledged that the inclusion of additional disclosures in the auditor's report could add complexity and volume to the report that might detract from the usefulness of the information. Such requirements would also add to the work effort required of the auditor in preparing the auditor's report. Therefore, balance is needed to ensure that additional disclosures do not overshadow the main purpose of the report: the expression of an opinion on the financial statements.

[6] Council for Medical Schemes Circular 38 of 2018.

Scope of the Consultation Paper

19. This Consultation Paper explores matters that could possibly be disclosed in the auditor's report, to enhance the transparency and independence of auditors.

20. Further, this Consultation Paper examines whether the inclusion of matters in the auditor's report, in addition to what is currently required by the ISAs and law/regulation, should be mandated. The ISAs permit the inclusion of Other Matter paragraphs in the auditor's report, provided that certain conditions are met[7]. An Other Matter paragraph is defined as a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report[8]. The auditor is therefore permitted by the ISAs to include certain matters, in addition to those that are required by the ISAs or laws/regulation, in the auditor's report, if considered necessary by the auditor.

21. In the following sections, we outline eight different additional disclosures that have been drawn from developments in other jurisdictions and auditor's reports that are in the public domain. For each type of enhanced disclosure, we describe the motivation, some benefits and drawbacks, where applicable; and there is also an illustration of the proposal, where applicable. Such additional and supplementary disclosures would include (not an exhaustive list) information about:

    - The materiality applied by the auditor.
    - The audit scope.
    - The audit effort regarding fraud.
    - Conclusions relating to going concern.
    - Whether the entity has been classified as a PIE.
    - Unadjusted audit differences.
    - Uncorrected prior year misstatements.

    Consideration is also given to the types of entities to which each of these additional disclosures should be applicable.

22. The examples in this Consultation Paper have been included to describe to respondents what the various disclosures being discussed could look like. The inclusion of these examples should not be interpreted as the CFAS endorsing the examples as being "best practice"; and the intention is not for these examples to be used as templates.

[7] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report,* paragraph 10.
[8] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report,* paragraph 7(b

A. Extending the Disclosures of the Audit Scope and Materiality

Audit scope

23. The ISAs do not require the auditor to disclose any specific details regarding the planning, scoping or the approach to the audit by the auditors in the auditor's report. However, some users of financial statements, such as regulators, continue to request more information about the scope of the audit. This is because they believe that this could be useful information, as it could give context to how the auditor arrived at a certain conclusion.

24. The ISAs do not define "audit scope". ISA 260, however, requires the auditor to communicate the planned scope and timing of the audit to those charged with governance[9]. The application material to this standard indicates that matters to be communicated may include, among others, how the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error; the auditor's approach to internal controls relevant to the audit; and where the entity has an internal audit function, how the external auditor and internal auditors can work in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance[10].

25. ISA 600 lists matters that are required to be communicated with those charged with governance of the group in addition to those required by ISA 260 and other ISAs[11]. This includes an overview of the type of work to be performed on the financial information of the components and an overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors of the financial information of significant components. ISA 300 requires the auditor to establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of an audit plan[12].

Materiality

26. The concept of materiality is applied by the auditor both in planning and performing the audit; in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements; and in forming an opinion in the auditor's report. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of the financial statements[13].

27. Materiality does not necessarily refer only to an amount, particularly in assessing uncorrected misstatements. The circumstances related to some misstatements may cause the auditor to evaluate them as material, even if they are below materiality. It is not practicable to design audit procedures to detect all misstatements that could be material solely because of their nature. However, consideration of the nature of potential misstatements in disclosures is relevant to the design of audit procedures

[9] ISA 260, ***Communication with those charged with governance,*** paragraph 15.
[10] ISA 260, ***Communication with those charged with governance***, paragraphs A11-A15.
[11] ISA 600, ***Special Considerations – Audits of group financial statements (including the work of component auditors),*** paragraph 49.
[12] ISA 300, ***Planning an audit of financial statements***, paragraph 7.
[13] ISA 320, ***Materiality in planning and performing an audit,*** paragraphs 2 and 5.

to address risks of material misstatement. In addition, when evaluating the effect on the financial statements of all uncorrected misstatements, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence[14].

Performance materiality

28. Performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. It also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures[15].

29. Performance materiality is used to assess the risks of material misstatement and to determine the nature, timing and extent of further audit procedures[16]. Performance materiality is about precision – a professional judgement based on the auditor's assessment of risk within an entity that is designed to reduce the risk of undetected material misstatement to an "appropriately" low level. The percentage reduction applied by an auditor to materiality to arrive at performance materiality can give readers insight into the level of risk perceived by an auditor (as distinct from materiality that is designed to reflect the external view of risk) or the level of error which might influence the economic decisions of users of financial statements. It may be possible, therefore, to conclude that the auditor perceives a higher level of risk of error when a lower percentage is selected[17].

Disclosure of audit scope and materiality in other jurisdictions

30. Some jurisdictions, such as the UK, require the auditor to disclose information about materiality for the audit of financial statements of certain entities in which Key Audit Matters have been communicated in the auditor's report. Specifically, the following are required:

- The threshold used by the auditor as being materiality for the financial statements as a whole.
- An explanation of the significant judgments made by the auditor in determining materiality and performance materiality.
- An overview of the scope of the audit, including an explanation of how such scope:
  - Addressed each Key Audit Matter relating to one of the most significant risks of material misstatement disclosed; and
  - Was influenced by the auditor's application of materiality.[18]

[14] ISA 320, ***Materiality in planning and performing an audit***, paragraph 6.

[15] Performance materiality is defined in ISA 320, ***Materiality in Planning and Performing an Audit***, paragraph 9.

[16] ISA 320, ***Materiality in Planning and Performing an Audit***, paragraph 11.

[17] This was discussed in the FRC's report, ***Extended auditor's reports: A further review of experience (January 2016)***, which reviewed the implementation of extended reporting in the auditor's report by auditors in the UK in the 2nd year in which extended reporting became effective.

[18] ISA 701 (UK), ***Communicating key audit matters in the independent auditor's report,*** paragraph 16-1.

31. In the Netherlands, the auditor is required to include information on materiality and the scoping of the group audit in the auditor's report issued on public interest entities or other listed entities[19].

32. In New Zealand, a joint review of the third year of the revised auditor's report by the External Reporting Board and the Financial Markets Authority, as detailed in the Enhanced auditor reporting: A review of the third year of the revised auditor's report May 2020, indicated that some firms disclose voluntary elements in auditor's reports that include the materiality threshold applied, materiality benchmark, rationale on the chosen benchmark, materiality value, materiality percentage and details of the audit scope.

Disclosure of the audit scope and materiality in South Africa

33. Our review of the auditor's reports of listed entities in South Africa has indicated that at least one firm discloses additional information in the auditor's reports of listed entities, and that includes the following:
    - The overall materiality and narrative thereon, for example, the rationale for the materiality benchmark used.
    - The group audit scope, including how it was tailored.

Why would an auditor disclose details regarding audit scope and materiality?

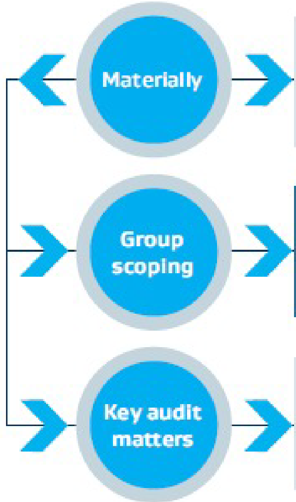
34. These disclosures could be useful information in an auditor's report, as they could give relevant users of the financial statements and readers of the auditor's report:
    - Context on how the auditor arrived at a certain conclusion.
    - An understanding of what the auditor looked at or what was included in the scope of the audit.
    - An understanding of changes in audit focus from year to year.
    - An understanding of the influence of environmental factors and risks on the auditor's scoping decisions. Disclosure of the scope of the audit could include a description of the components covered by the engagement, or the extent of the components selected (in a group audit), to get an appreciation of audit coverage.

[19] Dutch Standard 700, *Het vormen van een oordeel en het rapporteren over financiële overzichten,* paragraphs 29A and 29AA.

Example 1: Additional disclosure of the audit scope and materiality in South Africa[20]

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R1 100 million, which represents 1% of consolidated loss before tax.

Group audit scope

- We conducted full scope audit procedures at 12 business units and limited scope audit procedures at a further 11 business units.

Key audit matters

- Material uncertainty related to going concern; and
- Impairment assessment of property, plant and equipment, assets under construction and investments in subsidiaries.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality

R1 100 million.

How we determined it

1% of consolidated loss before tax.

Rationale for the materiality benchmark applied

We chose consolidated loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 1% which is less than the quantitative materiality thresholds used for profit-orientated companies in this sector, due to the impact of the volatile macro-economic environment and remeasurement items on the Group's results.

[20] This example has been extracted from the publicly available annual financial statements of the Sasol Limited Group for the year ended 30 June 2020.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In scope business units were identified based on scoping benchmarks such as the business unit's contribution to key financial statement line items (consolidated profit/loss before tax, consolidated turnover and consolidated total assets), risk associated with the business unit and known accounting matters related to the business unit. We conducted full scope audit procedures at 12 business units and limited scope audit procedures at a further 11 business units.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from other PwC network firms or other networks operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

The audits undertaken for group reporting purposes are in respect of the key reporting business units of the Group.

Example 2: Disclosure of the audit scope and materiality in the UK[21]

1. OPINION

In our opinion:

- **the financial statements of Marks and Spencer Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 28 March 2020 and of the Group's profit for the 52 weeks then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ('IASB');**
- **the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statement of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Statement of Cash Flows; and
- the related notes 1 to 31 and C1 to C7.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the period are disclosed in note 4 to the Group financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

The key audit matters that we identified in the current period were:

- disclosure of adjusting items;
- accounting for the UK store rationalisation programme;
- impairment of UK store assets;
- impairment of per una goodwill and brand;
- inventory provisions for UK Clothing & Home;
- recognition of leases under IFRS 16 Leases;
- accounting for the Ocado Retail Limited transaction; and
- the going concern basis of accounting.

Within this report, key audit matters are identified as follows:

Newly identified !

Increased level of risk

Similar level of risk

Decreased level of risk

MATERIALITY

The materiality that we used for the Group financial statements was £18.0 million (2019: £20.0 million) which was determined on the basis of considering a number of different metrics used by investors and other readers of the financial statements. These included:

- adjusted profit before tax;
- earnings before interest, tax, depreciation and amortisation; and
- revenue.

SCOPING

We have performed a full-scope audit on the UK component of the business, representing 95% (2019: 99%) of the Group's revenue, 93% (2019: 95%) of adjusted profit before tax, 92% (2019: 92%) of profit before tax, 82% (2019: 80%) of total assets and 90% (2019: 99%) of total liabilities. We perform analytical review procedures on the residual balances.

[21] This example has been extracted from the publicly available independent auditor's report of Marks and Spencer Group plc for the year ended 28 March 2020.

3. SUMMARY OF OUR AUDIT APPROACH CONTINUED

SIGNIFICANT CHANGES IN OUR APPROACH

We have changed the basis on which we have determined materiality in the current period to reflect the volatility in the results of the Group arising from the impact of Covid-19. For further details refer to section 6 of this report.

In 2020, we have reduced the scope of procedures performed in relation to the India and Ireland components. We have also identified Ocado Retail Limited ('ORL') as a new component. Refer to section 7 for further details of our approach to scoping the audit.

In the current period we have identified three new key audit matters related to:

- the going concern basis of accounting;
- the impairment of per una goodwill and brand; and
- the ORL transaction.

We have also determined that the valuation of the UK defined benefit pension obligation is no longer a key audit matter in the current year.

These changes and the reasons for identification of these areas as key audit matters are discussed further in section 5.

Example 3: Disclosure of performance materiality in the UK[22]

Performance materiality

What we mean

Having established overall materiality, we determined 'performance materiality', which represents our tolerance for misstatement in an individual account. It is calculated as a percentage of overall materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality of $1,000 million for Shell's financial statements as a whole.

Once we had determined our audit scope, we then assigned performance materiality to our various in-scope operating units. Our in-scope operating unit audit teams used this assigned performance materiality in performing their group audit procedures. The performance materiality allocation is dependent on the size of the operating unit, measured by its contribution of earnings to Shell, or other appropriate metric, and the risk associated with the operating unit.

Level set

In assessing the appropriate level of performance materiality, we consider the nature, the number and impact of the audit differences identified in 2019 as well as the overall control environment.

At the planning stage of the audit, which was at the very start of the pandemic, we set our performance materiality at 75% (2019: 75%) of planning materiality, namely $750 million (2019: $900 million). However, we noted that the developing macro-economic environment was creating heightened estimation uncertainty and an elevated risk of material misstatement of Shell's asset and liability carrying values. These factors had a pervasive impact on Shell's financial statements and increased the risk around key areas of accounting judgement. We also faced additional audit risk due to the fact that the entire 2020 audit was conducted under remote working conditions.

Consequently, we kept our planning and performance materiality under ongoing review. Whilst we confirmed that the overall materiality level of $1,000 million remained appropriate, in the second half of 2020, we revised performance materiality downwards to be 50% of planning materiality ($500 million). This decision was based on the following considerations:

- the potential impacts of remote working through the year-end close;
- the heightened estimation uncertainty;
- the potential impact on Shell's control environment of the restructuring programme (Project Reshape); and
- corrected and uncorrected errors.

The primary impact of reducing our performance materiality was a reduction in the testing thresholds that were assigned to our component teams, which led to larger sample sizes for the purposes of our substantive audit testing.

In 2020, the range of performance materiality allocated to operating units was $75 million to $325 million (2019: $135 million to $450 million). This is set out in more detail in section 6 below.

[22] This example has been extracted from the publicly available Independent auditor's report to the members of Royal Dutch Shell Plc for the year ended 31 December 2020.

Questions for Respondents

1) Do you believe that additional disclosures in the auditor's report about the scope of the audit would be useful in enhancing the understanding of the audit that was performed?

    a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
    b) If not, please provide your reasons as well as any suggestions you may have.

2) Do you believe that disclosing the materiality threshold applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit in the auditor's report, would be useful in enhancing the understanding of the audit that was performed?

    a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
    b) If not, please provide your reasons as well as any suggestions you may have.

3) Do you believe that the disclosure of performance materiality in the auditor's report would be useful in enhancing the understanding of the audit that was performed?

    a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
    b) If not, please provide your reasons as well as any suggestions you may have.

B. Enhancing the disclosure of the audit effort related to irregularities, including fraud

35. As the world is changing and fraud is becoming more prevalent, the IRBA would like to explore whether the auditor can disclose more with regard to transparency on fraud identified. More so, it would like to examine whether disclosing information about fraud identification and responses in the auditor's report would help reduce the expectation gap that auditors should detect fraud.

Audit effort related to irregularities

36. In the context of this section, irregularities refer to non-compliance with laws and regulations. ISA 250 deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements. Paragraph 11 of ISA 250 specifies the objectives of the auditor, and they are:

- To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statement;
- To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and
- To respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

37. Non-compliance with laws and regulations is defined as acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity[23]. The auditor is required to communicate, unless prohibited by law or regulation, with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential[24]. Section 360.4 of the IRBA Code (Revised November 2018), discusses the distinguishing mark of the accountancy profession, which is, its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the registered auditor are:

a) To comply with the principles of integrity and professional behaviour;
b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:

[23] ISA 250, ***Consideration of laws and regulations in an audit of financial statements,*** paragraph 12.
[24] ISA 250, ***Consideration of laws and regulations in an audit of financial statements,*** paragraphs 23-25.

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
(ii) Deter the commission of the non-compliance where it has not yet occurred; and

c) To take such further action as appropriate in the public interest[25].

Audit effort related to fraud

38. The auditor's responsibilities regarding fraud in the audit of the financial statements are limited to obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatements, whether caused by fraud or error[26], i.e. designing and performing audit procedures to identify and respond to risks of material misstatements, including those arising from fraud. Due to the inherent limitations of an audit, there is always the unavoidable risk that some material misstatements of the financial statements may not be identified[27], even though the audit has been properly planned and performed in accordance with the ISAs. Such inherent limitations include:

- Fraud, particularly fraud involving senior management or collusion.
- The existence and completeness of related party relationships and transactions.
- The occurrence of non-compliance with laws and regulations.
- Future events or conditions that may cause an entity to cease to continue as a going concern[28].

39. This approach and its results have led to differing views about the role of the auditor in detecting fraud as part of the financial statement audit. Some believe the auditor's responsibilities should be expanded to better detect fraud and undertake further actions in relation to fraud, to meet the evolving expectations of the public today. Others have highlighted that a financial statement audit can never be designed to identify all fraud, due to the nature of an audit and the inherent limitations of the procedures required to gather audit evidence when forming an opinion (such as using the concepts of materiality and selecting items for testing)[29].

40. The auditor's opinion on the financial statements provides reasonable assurance about whether the financial statements are free from material misstatements. This entails that misstatements that are not material to the financial statements as a whole, including those due to fraud, might not be picked up or could be considered to be irrelevant to the audit opinion and the users of financial statements.

[25] Section 360.4 of the IRBA Code (Revised November 2018).

[26] ISA 240, ***The auditor's responsibilities relating to fraud in an audit of financial statements,*** paragraph 5.

[27] ISA 200, ***Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing***, paragraph A54.

[28] ISA 200, ***Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing,*** paragraph A53.

[29] This matter was discussed in the IAASB's Discussion Paper, ***Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit.***

The auditor cannot reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.[30]

Developments related to irregularities and fraud in other jurisdictions

41. In the UK, auditing standards require the auditor's report to explain the extent to which the audit was considered capable of detecting irregularities, including fraud. The matters required to be set out in the auditor's report, in accordance with this requirement, may be useful to users of the financial statements, if they are explained in a manner that, for example:

- Enables a user to understand their significance in the context of the audit of financial statements as a whole. In determining those matters that are of significance, both quantitative and qualitative factors are relevant to such consideration.
- Relates the matters directly to the specific circumstances of the entity and are not, therefore, generic or abstract matters expressed in standardised or boilerplate language.[31]

IAASB developments relating to fraud

42. The IAASB's Discussion Paper, ***"Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit",*** is expected to result in an IAASB project that will commence later this year. As such, this Consultation Paper is not meant to explore whether the auditor's responsibilities relating to fraud should be expanded. It only looks at additional disclosures in the auditor's report, to explain the extent to which the audit was capable of detecting fraud and irregularities.

How the auditor may explain the extent to which aspects of the auditor's work addressed the detection of irregularities, including fraud

43. Examples of how the auditor may explain the extent to which aspects of the auditor's work addressed the detection of irregularities, including fraud, may include describing in the auditor's report:

- How the auditor obtained an understanding of the legal and regulatory framework applicable to the entity; and how the entity is complying with that framework.
- The laws and regulations the auditor identified as being of significance in the context of the entity.
- The auditor's assessment of the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur.
- The engagement partner's assessment of whether the engagement team, collectively, had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

[30] ISA 200, ***Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing,*** paragraph A47.

[31] ISA (UK) 700, ***Forming an opinion and reporting on financial statements,*** paragraph A39-2.

- Matters about non-compliance with laws and regulations and fraud that were communicated with the engagement team.
- The auditor's understanding of the entity's current activities, the scope of its authorisation and the effectiveness of its control environment, where the entity is a regulated entity.[32]

[32] ISA (UK) 700, ***Forming an opinion and reporting on financial statements,*** paragraph A39-3.

Example 4: Disclosure of fraud procedures in the UK [33]

11. EXPLANATION AS TO WHAT EXTENT OUR AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud.

The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Shell and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code, the US Securities Exchange Act of 1934 and the Listing Rules of the UK Listing Authority) and the relevant tax compliance regulations in the jurisdictions in which Shell operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices.
- We understood how Shell is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of Shell's Consolidated Financial Statements to material misstatement, including how fraud might occur, by embedding forensic specialists into our group engagement team. Our forensic specialists worked with the group engagement team to identify the fraud risks across various parts of the business. In addition, we utilised internal and external information to perform a fraud risk assessment for each of the countries of operation. We considered the risk of fraud through management override and, in response, we incorporated data analytics across manual journal entries into our audit approach. We also considered the possibility of fraudulent or corrupt payments made through third parties and conducted detailed analytical testing on third party vendors in high risk jurisdictions. Where instances of risk behaviour patterns were identified through our data analytics, we performed additional audit procedures to address each identified risk. These procedures included the testing of transactions back to source information and were designed to provide reasonable assurance that the financial statements were free from fraud or error. We also conducted specific audit procedures in relation to the risk of bribery and corruption across various countries of operation determined on a risk-based approach.

- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel, group management, internal audit and all full and specific scope management; review of the volume and nature of complaints received by the whistleblowing hotline during the year; and
- If any instances of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures, supplemented by audit procedures performed at the group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Question for Respondents

4) Do you believe that additional disclosures in the auditor's report that explain the extent to which the audit was considered capable of detecting irregularities, including fraud, would be useful in enhancing the understanding of the audit that was performed?
   a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
   b) If not, please provide your reasons and any suggestions you may have.

[33] This example has been extracted from the publicly available independent auditor's report to the members of Royal Dutch Shell Plc for the year ended 31 December 2020.

C. Enhancing the disclosure of the audit effort related to going concern

44. Some financial reporting frameworks contain an explicit requirement for management to assess the entity's ability to continue as a going concern, as well as provide certain disclosures with regard to the entity's going concern in the financial statements. Detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern may also be set out in law or regulation. There may also be no explicit requirement to make a specific assessment. However, where going concern is a fundamental principle in the preparation of the financial statements (i.e. assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business), management is still required to assess the entity's ability to continue as a going concern, as it underlies the basis of preparation.[34]

45. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and concluding on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities are in ISA 570 and the auditor is required to report in accordance with the requirements of this ISA in relation to going concern.

46. There are challenges about what the preparers of financial statements would prefer to disclose, compared to the specific requirements of paragraph 19 of ISA 570, which requires the following:

- If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances, but a material uncertainty exists, the auditor shall determine whether the financial statements:
    - Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
    - Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

47. These challenges relate to the extent of the disclosure of management plans and actions, as there is no guidance about the extent of the disclosure for the actions and plans taken by management.

48. An example of where an auditor has reported a material uncertainty related to going concern in terms of ISA 570 is as follows:

[34] IAASB's Discussion Paper - *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit.*

Material Uncertainty Related to Going Concern

We draw attention to Note 17 in the financial statements which indicates that the Company incurred a net loss of R3 million during the year ended December 31, 2020, and, as of that date, the Company's current liabilities exceeded its total assets by R1.5 million. As stated in Note 17, these events or conditions, along with other matters as set forth in Note 17, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.[35]

49. The above example does not give the user insight into what the auditor did in respect of the response described by management in the financial statements. Consequently, there is a growing call from various stakeholders regarding transparency about how the auditor responded in testing the appropriateness of going concern. The question then becomes whether this could reduce the expectation gap that is currently in the market regarding the work that the users believe the auditors might have undertaken in relation to performing audit work on going concern.

50. The UK Financial Reporting Council issued ISA ***(UK) 570 (Revised September 2019), Going Concern***, that is effective for audits of financial statements for periods commencing on or after 15 December 2019. This revised standard requires enhanced disclosure in the auditor's report, if the auditor concludes that the going concern basis of accounting is appropriate. The auditor shall include a section in the auditor's report with the heading "Conclusions relating to Going Concern", and incorporate, among other matters:

    a) An explanation of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; and, where relevant, key observations arising with respect to that evaluation;

    b) Where the auditor concludes that no material uncertainty related to going concern has been identified, a statement that the auditor has not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue; and

    c) A conclusion that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate.[36]

[35] Illustrative example 1 in ISA 570, ***Going Concern.***

[36] ISA (UK) 570 (Revised September 2019), ***Going Concern***, paragraph 21-1.

Example 5: Disclosure of conclusions on going concern in the UK [37]

3. CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements of the Group is appropriate. Our evaluation of the directors' assessment of the Shell Group and Parent Company's ability to continue to adopt the going concern basis of accounting included the following:

- we obtained an understanding of the controls over management's going concern evaluation. We then evaluated the design of these controls and tested their operating effectiveness. We tested management's controls over the review and approval of the business operating plan and the underlying economic assumptions;
- we assessed the information used in the going concern assessment for consistency with the operating plan and information obtained through auditing other areas of the business, obtained an understanding of the business planning process and challenged the central assumptions, including those relating to climate risk and the energy transition. We involved our economist to review Shell's global economic scenarios as well as their economic projections in 10 major countries;
- given that management prepare forecasts for other business purposes that go beyond March 31, 2022 (the going concern period), we have used such forecasts in our management challenge process and considered events and conditions beyond the period of management's assessment that may cast significant doubt over the entities' ability to continue as going concerns; and
- we conducted severe but plausible independent stress testing and a reverse stress test to determine the conditions under which Shell could potentially experience a liquidity shortfall. This included assuming lower Brent prices of $20/bbl for 2021 and 2022 and overlaying the assumptions that Shell will not achieve any further asset sales over this period, will not have access to new capital raising and no access to commercial paper programmes. Under this stress testing, we concluded that there would still be sufficient facilities available for Shell to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as going concerns until 31 March 2022.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant section of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's or Group's ability to continue as a going concern.

Questions for Respondents

5) Do you believe that disclosures in the auditor's report about how the auditor evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation would be useful in enhancing the understanding of the audit that was performed?

   a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
   b) If not, please provide your reasons as well as any suggestions you may have.

6) Do you believe that a conclusion (i.e. a positive statement) that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate should be included in the auditor's report?

   a) If so, please provide your reasons and indicate what the benefits and drawbacks would be to you as a stakeholder?
   b) If not, please provide your reasons as well as any suggestions you may have.

7) Where there is a material uncertainty related to going concern, do you believe that procedures specific to the auditor's response to the material uncertainty related to going concern should be disclosed in the auditor's report?

[37] This example has been extracted from the publicly available Independent auditor's report to the members of Royal Dutch Shell plc for the year ended 31 December 2020.

a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
b) If not, please provide your reasons as well as any suggestions you may have.

8) Where the auditor concludes that no material uncertainty related to going concern has been identified, would a statement that the auditor has not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue be useful to you as a user?

a) If so, please provide your reasons and indicate what the benefits would be to you as a stakeholder.
b) If not, please provide your reasons as well as any suggestions you may have.

9) Are there any other matters related to going concern that you believe should be disclosed in the auditor's report? If yes, please provide the details, together with the benefits and drawbacks of disclosure of such matters.

D. Extending the scope and disclosure of reporting on Key Audit Matters (KAMs)

What are KAMs?

51. KAMs are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. They are selected from matters communicated with those charged with governance.[38] ISA 701 requires the auditor to disclose each KAM in a separate section of the auditor's report; and the description of each KAM should show why the matter was considered to be one of most significance and how it was addressed.

Matters considered by auditors in reporting a KAM

52. The auditor applies professional judgement in identifying a KAM and is required to take into account the following:

    (a) Areas assessed to have a higher risk of material misstatement or significant risks identified.
    (b) Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.
    (c) The effect on the audit of significant events or transactions that occurred during the period.

53. KAMs are not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make or are otherwise necessary to achieve fair presentation, nor are they a substitute for the audit expressing a modified opinion.

Why are KAMs necessary?

54. The purpose of communicating KAMs is to enhance the communicative value of the auditor's report by providing transparency about the audit that was performed. KAMs provide additional information to intended users of financial statements, to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. KAMs also assist the users of the financial statements in understanding the entity and areas of significant management judgement in the audited financial statements. Through KAMs, users of financial statements will also have a basis to further engage with management and those charged with governance about certain matters relating to the entity in the audited financial statements, or the audit that was performed.[39]

When should KAMs be communicated in the auditor's report?

55. ISA 701 applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate KAMs in the auditor's report.

[38] ISA 701, *Communicating key audit matters in the independent auditor's report,* Paragraph 8.
[39] ISA 701, *Communicating key audit matters in the independent auditor's report*, paragraphs 2 and 3.

The standard also applies when the auditor is required by law or regulation to communicate KAMs in the auditor's report[40]. One such example is the Council for Medical Schemes (CMS) in South Africa. *Circular 65 of 2015: Auditor's Reports: Key Audit Matters* states that the CMS requires the auditors of medical schemes, in terms of Sections 36(5)(d) and 37(2), to report on KAMs in their audits of medical schemes' financial statements for the years ending 31 December 2016 onwards.

56. Internationally, New Zealand goes beyond reporting KAMs for listed entities only and requires all Financial Markets Conduct entities with a higher level of public accountability to disclose KAMs. Under their Financial Markets Conduct Act 2013, various types of entities are considered to have a higher level of public accountability. These include registered banks, credit unions, building societies, licensed insurers, issuers of equity or debt securities under a registered offer, and managers of registered schemes[41].

57. In the Netherlands, auditors are required to report KAMs in the auditor's report on public interest entities, other listed entities or when required to do so by law or regulation.[42]

58. In Spain, NIA-ES 701, the Spanish equivalent of ISA 701, applies to audits of entities where an audit is performed in terms of the Auditing Act 22/2015[43]. The Auditing Act 22/2015 requires all public interest entities, which include listed entities, credit institutions, insurance companies and financial brokerage companies, to undergo a mandatory audit and appoint a statutory auditor. In addition, companies that meet at least two of the following characteristics in two consecutive years are required to have their financial statements audited if:

(i) Assets on the balance sheet total exceed EUR2.85 million (approximately ZAR49.1 million);
(ii) Net turnover exceeds EUR5.7 million (approximately ZAR98.2 million); and/or
(iii) Average number of employees exceeds 50 for the financial year[44].

Question for Respondents

10) Do you believe that auditor's reports, other than on listed entities and where law or regulation requires the application of ISA 701, should disclose KAMs? You may consider the list below in answering this question:
- Other Public Interest Entities, as defined in the IRBA Code (Revised November 2018). (Also refer to paragraph 66 of this Consultation Paper for the definition of a Public Interest Entity).
- All entities.

Please explain your reasons for the answer to this question and specify the type of entity for which you believe the auditor's reports should disclose KAMs.

[40] ISA 701, ***Communicating key audit matters in the independent auditor's report***, Paragraph 5.

[41] According to the External Reporting Board and Financial Markets Authority New Zealand's jointly issued *Enhanced auditor reporting: Review of the third year of the revised auditor's report May 2020.*

[42] Dutch Standard 701, ***Het communiceren van kernpunten van de controle in de controleverklaring van de onafhankelijke accountant***, paragraph 5.

[43] NIA-ES 701, ***Comunicación de las cuestiones clave de la auditoría en el informe de auditoría emitido por un auditor independiente,*** paragraph 5.

[44] Article 263.2 of the Spanish Companies Act 1/2010.

When the auditor has communicated KAMs in the auditor's report: disclosing the outcome of audit procedures or key observations regarding those Key Audit Matters

59. In relation to Key Audit Matters, the discussion below applies to situations where the auditor has communicated KAMs in the auditor's report and has applied ISA 701.

60. Disclosure of the outcome of audit procedures performed in addressing the KAM is not a requirement in ISA 701. The amount of detail that can be provided in the auditor's report to describe how a KAM was addressed in the audit is a matter of professional judgment. The auditor may describe the following:

    - Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement.
    - A brief overview of the procedures performed.
    - An indication of the outcome of the auditor's procedures.
    - Key observations with respect to the matter.[45]

61. KAMs that have key observations or outcomes of the audit procedures performed could be more useful than those without, as the user is then able to identify what the auditor found after responding to the matters that were of most significance in the audit. Examples of key observations that auditors of entities listed on the Johannesburg Stock Exchange have included in the KAM section of their auditor's reports are as follows:

    - No material differences were noted.
    - We found management's model to be consistent with industry practice.
    - We did not note any aspect requiring further consideration in this regard.
    - We accepted management's assumptions as falling within acceptable ranges of our independent calculation.
    - Based on our work performed, we accepted management's basis for determining the incremental borrowing rate.

62. An insightful description of the auditor's observations regarding audit procedures performed in response to KAMs that have been described in the auditor's report could enhance transparency in auditor reporting.

63. In the UK, for audits of financial statements of PIEs, auditors, in support of the audit opinion, are required to provide:

    - A description of the most significant assessed risks of material misstatement (whether or not due to fraud);
    - A summary of the auditor's response to those risks; and
    - Where relevant, key observations arising with respect to those risks.[46]

[45] ISA 701, ***Communicating key audit matters in the independent auditor's report,*** Paragraph A46.

[46] ISA 701 (UK), ***Communicating key audit matters in the independent auditor's report,*** paragraph 13-1.

Example 6: Disclosure of key observations and outcomes on KAMs in the UK [47]

IMPAIRMENT OF PP&E (INCLUDING EXPLORATION AND PRODUCTION ASSETS AND REFINERIES) AND JOINT VENTURES AND ASSOCIATES (JVA) continued

Description of the key audit matter	Our response to the risk
Exploration and evaluation assets Exploration and evaluation (E&E) expenditures are capitalised on a project-by-project basis. E&E activity is inherently risky given the level of uncertainty considered in the run up to Final Investment Decision (FID). Where FID is not achieved, there is a significant judgement relating to the risk that certain E&E costs are not written off in the appropriate reporting period. Given the current environment, there is a heightened risk that projects will no longer proceed, in which case they may need to be written off. It is possible that a greater than usual number of projects will not proceed in the current environment. **Manufacturing, supply and distribution assets** In the event that there is a prolonged period of low refining margins, there may be a need to assess refineries for impairment. Auditing future refining margins is inherently complex as the margins are influenced by regional factors and there is limited external refining margin forecast data available.	**Exploration and evaluation assets** We performed a licence-by-licence risk assessment of Shell's E&E assets to identify assets with a significant risk of impairment. We assessed each significant licence area against the impairment criteria within IFRS 6, with a particular focus on those assets that were expected to be developed over the medium and long term, or those assets where the dominant commodity that will be produced is oil. We considered whether the development of E&E projects would be inconsistent with Shell's current strategy and may no longer be considered to be economic due to the impact of climate risk and the energy transition on oil and gas prices. **Manufacturing, supply and distribution** In addition to the procedures described above, the procedures we performed are described within the *Estimation of future refining margins to evaluate the recoverability of manufacturing assets* key audit matter below. The audit procedures were performed by our group engagement teams as well as our local audit teams in Australia, Brazil, Malaysia, Nigeria, Qatar, the UK and the USA, which covered 49% of PP&E and investments in joint ventures and associates across the Group. We also performed specified procedures over the recoverability of PP&E balances in Argentina, Australia, Brunei, Canada, Cyprus, Denmark, Egypt, Germany, Indonesia, Iraq, Italy, Kazakhstan, Malaysia, Mexico, the Netherlands, Nigeria, Philippines, Qatar, Russia, South Africa, Tanzania, Tunisia, Trinidad and Tobago and the USA which covered an additional 17% of PP&E and investments in joint ventures and associates across the Group.

Key observations communicated to the Shell Audit Committee

Oil and gas price assumptions
We obtained external evidence, including price forecasts by banks, brokers, consultants and published data from Shell's peer group, to support the reasonableness of Shell's price assumptions. Overall, Shell's assumptions for both Brent and Henry Hub lie comfortably within the benchmarks that we had identified. In the short-term, Shell's Brent price assumption is the most conservative compared to our sector benchmarks and Shell's forecast aligns broadly with the sector averages from 2023 onwards.

For Henry Hub, compared to the sector, Shell's forecast is below the average in the short-term, converging with the bank/broker, consultant and peer group averages by 2024.

Refining margins
Key observations in relation to refining margins are set out in the key audit matter below.

Impairment discount rates
Shell applied a discount rate of 6% to estimate the recoverable amount in impairment tests, with additional risking included in the cashflows. Whilst the risking of cashflows is highly judgemental, we were satisfied that the cash flows had been risked appropriately.

Production assets, including Joint ventures and associates
We reported that management's review to determine whether or not any indicators of impairment were present had considered all relevant information available at the end of each reporting period, including: the reserves and resources review process, the output of Shell's operating plan and strategic changes in Shell's intended future use of assets, including the refining portfolio, some of which were driven by the energy transition.

For the assets where management's impairment assessment resulted in an impairment charge, the charges were within an acceptable range. Also, we were satisfied that the impairment charges were recorded in the appropriate period.

Exploration and evaluation (E&E) assets
The E&E assets that were being carried were consistent with Shell's strategy and operating plan, including the impacts of the energy transition. We were satisfied that it remained appropriate to continue to carry the E&E assets whilst the technical feasibility and commercial viability of extracting commercial reserves were being assessed.

Manufacturing, supply and distribution assets
The significant reduction in future margin assumptions represents an impairment trigger, which resulted in Shell's entire refinery portfolio being tested for impairment. We reported that, in our view, management had performed extensive and rigorous impairment assessments covering 14 refineries. Management's forecasts included appropriate risking covering margin, availability and cost downside risks. We were satisfied that the risking had been applied appropriately across the portfolio of refineries. We reported that the outcome of the impairment assessments was consistent with our analysis of expected future refining margins, based on the configuration of each individual refinery, including the fact that refineries that are able to produce the most beneficial mix of products, in particular low density products, are expected to fare more favourably and therefore have a higher recoverable amount.

A pre-tax impairment charge of $4.8 billion was recorded. The impairment models were most sensitive to refining margins. A +/-10% change in the long-term refining gross margin across the portfolio would have had an impact of approximately $1.5-$2.5 billion of additional impairment or $1.7-$2.7 billion of impairment reversal.

Impairment disclosures
We agreed that the disclosure of the impairments recorded during the year, including sensitivity analysis, performed by the company was appropriate.

Cross-reference: See the Audit Committee Report on page 150 for details on how the Audit Committee considered impairments. Also, see Notes 2, 8 and 9 to the Consolidated Financial Statements.

[47] This example has been extracted from the publicly available independent auditor's report to the members of Royal Dutch Shell plc for the year ended 31 December 2020.

Question for Respondents

11) In your view, are descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters useful in understanding the KAM?

a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
b) If not, please provide your reasons as well as any suggestions you may have.

E. Disclosure of fees and non-audit services

64. The International Ethics Standards Board for Accountants (IESBA) released its revisions to the IESBA Code of Ethics (IESBA Code) pertaining to fee-related provisions of the Code in April 2021. The revised requirements in the IESBA Code state that in view of the public interest in the audits of PIEs, it is beneficial for stakeholders to have visibility of the professional relationships (other assurance services and non-assurance services provided to the client by the auditor) between the firm and the audit client that might reasonably be thought to be relevant to the evaluation of the firm's independence.

65. Revised paragraph R410.31 (of the Revisions to the Fee-related Provisions of the IESBA Code), to the extent that the audit client that is a public interest entity does not make the relevant disclosure, requires the auditor to disclose the following:

   a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.
   b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion.
   c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.
   d) If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

Question for Respondents

12) Do you believe it is beneficial to stakeholders to have visibility of the professional relationships between an audit firm and the audit client for audits of entities that are not PIEs?

   a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder. Also, please specify for which types of entities should the disclosure of such professional relationships be?
   b) If not, please provide your reasons as well as any suggestions you may have.

13) If the answer to question 12 is yes, do you believe this should be disclosed in the auditor's report? If not, please explain why and provide alternative mechanisms for such disclosure.

14) Do you believe the auditor's report is an appropriate mechanism to disclose the matters described in (a), (b), (c) and (d) in paragraph 65 in relation to fees?

a) If yes, please explain your reasons and indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.
b) If not, please provide your reasons and suggestions on other possible mechanisms to achieve such disclosure, including the benefits and the drawbacks.

F. Disclosure of the entity's classification as a public interest entity

66. A PIE is defined in the IRBA Code (Revised November 2018) as follows:
    a) A listed entity; or
    b) An entity:
        (i) Defined by regulation or legislation as a public interest entity; or
        (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator; or
    c) Other entities, as set out in paragraphs R400.8a SA and R400.8b SA.

67. Paragraph R400.8a SA of the IRBA Code requires firms to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and a wide range of stakeholders. Factors to be considered include:

    - The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions such as banks, insurance companies and pension funds.
    - Number of equity or debt holders.
    - Size.
    - Number of employees.

68. Paragraph R400.8b SA of the IRBA Code requires a registered auditor to regard the following entities as generally satisfying the conditions in paragraph R400.8a SA as having a large number and a wide range of stakeholders, and thus are likely to be considered as PIEs:

    - Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.
    - Banks, as defined in the Banks Act, 1990 (Act No. 94 of 1990); and Mutual Banks, as defined in the Mutual Banks Act, 1993 (Act No. 124 of 1993).
    - Market infrastructures, as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012). [48]
    - Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998), and the Short-term Insurance Act, 1998 (Act No. 53. of 1998), excluding micro lenders.

[48] Market Infrastructure is defined in the Financial Markets Act, Act No. 19 of 2012, as:
(a) A licensed central securities depository;
(b) A licensed clearing house;
(c) A licensed exchange; and
(d) A licensed trade repository.

- Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), that hold assets in excess of R15 billion.
- Funds, as defined in the Pension Funds Act, 1956 (Act No. 24 of 1956), that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- Pension Fund Administrators, in terms of Section 13B of the Pension Funds Act, 1956 (Act No. 24 of 1956), with total assets under administration in excess of R20 billion.
- Financial Services Providers, as defined in the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), with assets under management in excess of R50 billion.
- Medical Schemes, as defined in the Medical Schemes Act, 1998 (Act No. 131 of 1998), that are open to the public (commonly referred to as "open medical schemes") or are restricted schemes with a arge number of members.
- Authorised users of an exchange, as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012), who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- Other issuers of debt and equity instruments to the public.[49]

69. In January 2021, the IESBA released an Exposure Draft: *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code.* In this Exposure Draft, the IESBA consulted on whether firms should disclose if they treated an audit client as a PIE. Apart from the specific definition of a PIE in the IRBA Code and the proposed revisions by the IESBA in the IESBA Code, what the firm views as a PIE could require professional judgement to be applied. It would then add transparency in the auditor's report if the users are alerted to whether the entity was classified as a PIE or not and the rationale behind the classification.

70. Some audit firms, in their annual transparency reporting, have already disclosed audited entities that they consider to be PIEs.

71. There are differential requirements in the IRBA Code for entities that are classified as PIE, including additional requirements related to the independence of auditors. Therefore, being classified as a PIE plays an important role and has far-reaching implications for legislation; and for a regulator, it has implications on inspections and investigations. For example, in South Africa the PIE definition (as amended in the IRBA Code) is used to scope entities to apply our Mandatory Audit Firm Rotation and Audit Tenure rules.

[49] For the purposes of this section, "the public" shall mean the public in general or large sectors of the public, such as participants in Broad-Based Black Economic Empowerment schemes or participants in offers to large industry sectors that result in the debt or equity instruments being owned by a large number and wide range of stakeholders.

Question for Respondents

15) Do you believe the auditor's report is an appropriate mechanism to disclose whether an entity has been classified as a PIE or not?

    a) If yes, please explain your reasons, including the benefits and drawbacks.
    b) If not, please provide your reasons and suggestions on other possible mechanisms to achieve such disclosure, including the benefits and the drawbacks.

G. Auditor's report disclosures arising from prior year misstatements

72. The "corresponding figures" approach to the auditor's reporting responsibilities in respect of comparative information, i.e. where the auditor's opinion on the financial statements refers to the current period only, is generally applied in South Africa.

73. The auditor may identify material misstatements in the prior year financial statements in performing an audit. In some instances, the prior year auditor's report might not be reissued, and the financial statements may also not be reissued.

74. ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements,* states that under the corresponding figures approach, when prior period financial statements that are misstated have not been amended and an auditor's report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements, the auditor's report may include an Emphasis of Matter paragraph describing the circumstances and referring to where relevant disclosures that fully describe the matter can be found in the financial statements.[50]

75. The Public Company Accounting Oversight Board's (PCAOB) auditing standard, AS 2820: *Evaluating Consistency of Financial Statements*, requires the auditor to evaluate whether the comparability of the financial statements between periods has been materially affected by material adjustments to previously issued financial statements for the relevant periods. AS 2820 requires the correction of a material misstatement in previously issued financial statements to be recognised in the auditor's report on the audited financial statements through the addition of an explanatory paragraph[51]. The explanatory paragraph should include an appropriate title (immediately following the opinion paragraph) and should also include:

    1) A statement that the previously issued financial statements have been restated for the correction of a misstatement in the respective period; and
    2) A reference to the note disclosure describing the correction of the misstatement.[52]

76. The PCAOB standard does not require tailored disclosure in the auditor's report of how the auditor addressed the prior year material misstatements in the audit of the current period financial statements.

77. With regard to prior period errors and corrections, there might be a need for enhanced transparency in the auditor's report, for the users of financial statements to understand what the auditor did concerning material restatements and considerations regarding those corrections, including the audit procedures performed and conclusions thereon.

[50] ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, paragraph A6.
[51] AS 2820: ***Evaluating Consistency of Financial Statements,*** paragraph 9.
[52] AS 2820: ***Evaluating Consistency of Financial Statements,*** paragraph 16.

Questions for Respondents

For the purposes of answering these questions, assume that the correction of the material misstatement in the prior year financial statements has not been determined to be a Key Audit Matter in an audit where ISA 701 applies.

16) Do you believe that when prior period financial statements that are misstated have not been amended and an auditor's report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements, the matter should in all cases be described in the auditor's report?

   a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosure in the auditor's report would be to you as a stakeholder.
   b) If not, please provide your reasons as well as suggestions you may have.

17) Where such disclosure is made in the auditor's report, whether mandated or not, do you believe that tailored descriptions of the audit procedures performed, and key observations made by the auditor regarding prior year material misstatements, would be useful in enhancing the understanding of how the auditor addressed the matter?

   a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclo sure in the auditor's report would be to you as a stakeholder.
   b) If not, please provide your reasons as well as any suggestions you may have.

H. Disclosure of information regarding unadjusted misstatements

78. In the interest of transparency, some users of financial statements have raised questions regarding what the auditor determines as not being material to the decision-making of the users of financial statements. It could add more context and a level of comfort for the users of financial statements if the auditor indicated or described the threshold for reporting unadjusted errors or misstatements that were not corrected by management to the audit committee.

79. A misstatement is defined as a difference between the reported amount, classification, presentation or disclosure of a financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.[53]

80. In New Zealand, as described in the *Enhanced auditor reporting: A review of the third year of the revised auditor's report May 2020,* some audit firms disclosed, in the auditor's report, the threshold for reporting unadjusted errors to the audit committee. We also noted such voluntary disclosure in certain UK auditor's reports: The example below illustrates disclosure of this threshold.

Example 7: Disclosure of audit difference reporting threshold in the UK [54]

Audit difference reporting threshold
What we mean
This is the amount below which identified misstatements are considered to be clearly trivial. The threshold is the level above which we collate and report audit differences to the Audit Committee. We also report differences below that threshold that, in our view, warrant reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.
Level set
We agreed with the Audit Committee that we would report to the Committee all audit differences more than $50 million (2019: $60 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Question for Respondents

18) Do you believe the disclosure of the threshold of unadjusted misstatements in the auditor's report would be useful in further enhancing transparency by auditors?

a) If so, please provide your reasons and indicate what the benefits and drawbacks of such disclosure in the auditor's report would be to you as a stakeholder.
b) If not, please provide your reasons as well as any suggestions you may have.

[53] ISA 450, ***Evaluation of Misstatements Identified during the Audit,*** paragraph 4(a).

[54] This example has been extracted from the publicly available independent auditor's report to the members of Royal Dutch Shell plc for the year ended 31 December 2020.

I. Application of matters discussed to different types of entities

Question for Respondents

19) In relation to the matters described in sections A, B, C, G and H above, if applicable, would you please indicate for which types of entities these disclosures should be made? Your response should be in the format set out below (tick where appropriate and provide your reasons, including benefits and drawbacks, in the comment box).

Details	All Entities	PIEs Only	Listed Entities[55] Only	Other (Please explain)	Disclosure should not be made at all (Please explain)
Extending the disclosures of the Audit Scope *Refer to section A*					
	Comments:				
Materiality *Refer to section A*					
	Comments:				
Performance Materiality *Refer to section A*					
	Comments:				
Enhancing the disclosure of the audit effort related to Irregularities, including fraud *Refer to section B*					
	Comments:				
Enhancing the disclosure of the audit effort related to Going Concern *Refer to section C*					
	Comments:				
Auditor's report disclosures arising from Prior Year Misstatements *Refer to section G*					
	Comments:				
Disclosure of the reporting threshold unadjusted misstatements. *Refer to section H*					
	Comments:				

[55] Entities whose shares, stock or debt are quoted or listed on a recognised stock exchange or are marketed under the regulations of a recognised stock exchange or other equivalent body.

J. Additional queries to stakeholders

Questions for Respondents

20) Other than those proposals discussed in sections A to I, are there more matters that should be disclosed by auditors in the auditor's report for an audit of financial statements?
21)Should there be prescribed standards or a rule that will mandate additional disclosures in the auditor's report? If not, please provide your reasons.
22) Is there a need to develop a structure or framework within which to accommodate currently envisaged but also future changes to auditor's report contents? If not, please provide your reasons. If yes, what would be the elements of such a framework?

END