

17 February 2012

Attention: Mrs S D van Esch
The Director – Standards
Independent Regulatory Board for Auditors
P.O. Box 8237
Greenstone
1616

Dear Sandy

Proposed South African Auditing Practice Statement (SAAPS) 3 (Revised), Illustrative Reports

We appreciate the opportunity to provide comments on the proposed SAAPS 3 (Revised), Illustrative Reports. Below you will find our responses to the request for specific comments as well as other matters which we have identified for consideration.

Overall Comments

The practice statement is useful for practitioners and provides an extensive array of illustrative reports which address common issues identified in practice.

However, we do not agree with the deviation from the illustrative reports contained in International Standards on Auditing (ISA) 700, Forming an Opinion and Reporting on Financial Statements, and proposed International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements. The illustrative reports in SAAPS 3 differ from those in ISA 700 and ISRE 2400 in the initial paragraph as follows:

SAAPS 3:

“...and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.”

ISA 700 and ISRE 2400:

“...and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.”

Furthermore, we believe that the introduction should clarify that the illustrative reports contained in SAAPS 3 for engagements to review financial statements are based on the proposed revised ISRE 2400, Engagements to Review Historical Financial Statements. We noted that this is discussed on page 10 in the preamble to the illustrative report however, this point is not reiterated in the other illustrative reports contained in Part B and therefore may create confusion.

Responses to request for specific comments

1. Do you agree with the format of SAAPS 3 as set out in the significant matters?

We agree with the format of SAAPS 3 and believe that it will allow easy navigation for practitioners.

2. Do you agree with the two Appendices being included in SAAPS 3, and do you find them useful in determining which report is appropriate to apply in particular circumstances?

The going concern decision tree contained in Appendix I is particularly helpful and clarifies the correct report to be used. We believe practitioners will make extensive use of this decision tree.

The Companies Act table included in Appendix II is comprehensive and is also very informative and useful. However, this table is not in conformity with the purpose of SAAPS 3 i.e. to provide guidance to practitioners on reports, since it includes information such as the company secretary, audit committee and social and ethics committee. We are uncertain whether it is the intention of IRBA to include such information for informative reasons and perhaps it could be clarified by revising the title of the appendix which currently refers to “linking the Companies Act to audit and reporting requirements”.

We identified items that need to be corrected in the table which we have included under other matters identified below.

3. Do you agree with the scope of the South African guidance in Part A?

Yes, we believe that the scope of the South African guidance contained in Part A is adequate with sufficient explanatory material contained in the notes. We have identified a few matters for consideration which we have included below under other matters identified.

4. Should the guidance in Part A include other illustrative reports? If so please provide suggestions and examples.

No, we do not believe that the guidance in Part A should include additional illustrative reports. Furthermore, the illustrative reports contained in Part B provide an extensive, and possibly excessive, amount of guidance to practitioners.

5. Do you agree with the basis for including and excluding illustrative reports?

Yes, we agree that the illustrative reports included in the practice standard should not repeat those illustrative reports contained in the ISA’s. Furthermore, the circumstances of the illustrative reports which have been included address very common issues identified by practitioners on a regular basis. However, we believe that the illustrative reports lack an example of a report for circumstances where the annual financial statements are missing disclosures required by the Companies Act of South Africa, such as the director’s report.

6. Context in which our response is made:

We are a large firm.

Other matters identified

1. The introductory paragraphs in the illustrative reports in proposed SAAPS 3 refer to the page numbers of the audited financial statements. We further note that the specific reference to the directors' report has been excluded from the description of the statements and notes comprising the audited financial statements. Note 3 explains the reference to the page numbers, however it is not clearly explain or indicate that these page number references must incorporate the directors' report. Furthermore, we do not believe that note 12 clarifies that the directors' report forms part of the annual financial statements, as required by section 30(3)(b) of the Companies Act, 2008 and therefore is required to be audited in terms of section 30(2) of the Act, which refers to the audit of the annual financial statements.
2. We do not agree with the explanation in note 13 that the audit committee report is not a financial statement that is covered by the auditor's opinion. The audit committee report should be treated equally as the directors' report. As discussed in the paragraph above, the directors' report forms part of the annual financial statements which are required to be audited in terms of the Act. Section 94(7)(f) of the Act imposes the requirement for the audit committee report to be included in the annual financial statements.
3. The illustrative contents page on page 14 includes a statement as follows:

“The Financial Statements have been audited in compliance with the requirements of the Companies Act of South Africa...”

However, in instances where the financial statements have been audited or independently reviewed on a voluntary basis, this statement may be inappropriate. A note should be included to highlight this.

4. Note 14 on page 18 addresses the disclosure of the preparer or the person who supervised the preparation of the annual financial statements. We believe that a discussion that addresses which individual should be named where the annual financial statements were prepared by a firm of auditors or accountants should be included, as this will be useful for practitioners.
5. We have various comments regarding the Companies Act (“the Act”) table included in Appendix II as follows:
 - a. The incorrect accounting framework has been identified for the following categories of companies:
 - i. Private companies including Close Corporations who hold fiduciary assets in excess of R5 million.
 - ii. Personal liability companies who hold fiduciary assets in excess of R5 million.
 - iii. Non-profit companies who hold fiduciary assets in excess of R5 million.There is no separate category identified for these types of companies under Regulation 27 and therefore the required financial reporting standards depend on the public interest score and not the fiduciary assets held. Such companies may therefore fall under any of the following categories:
 - i. Public interest score greater than 350 – IFRS or IFRS for SME's.
 - ii. Public interest score between 100 and 350 or less than 100 and financial statements independently compiled – IFRS, IFRS for SME's or SA GAAP.
 - iii. Public interest score less than 100 and financial statements internally compiled – no financial reporting standards prescribed.
 - b. It is important to add a note that highlights that IFRS for SME's can only be applied if the company meets the scoping requirements set out in the IFRS for SME standard.
 - c. The Johannesburg Stock Exchange requires all subsidiaries of listed entities to be audited, regardless of whether they qualify for an audit under the Act. This fact should be highlighted in a note below the table.
 - d. A note should be added to the column “reportable irregularities report to” which explains the following:
 - i. The requirement to include the reportable irregularity in the auditor's report under “report on other legal and regulatory requirements” only applies to reportable irregularities reportable to IRBA and not those reportable to CIPC.

- ii. Where the company is audited voluntarily i.e. it is not required to be audited in terms of the Companies Act, the reportable irregularity identified must be reported to IRBA and not the CIPC.
 - e. A subsidiary of a company which is required to appoint an audit committee may fall under the audit committee of its holding company where that audit committee performs the functions required by the Act. This point should be included in a note below the table. The same applies to the social and ethics committee.
 - f. The information under the columns “company secretary” and “audit committee” relating to unlisted public entities is missing. These responses should be “yes” and “yes unless exempt in terms of the Bank Act” respectively.
 - g. It may be useful to include references to the section of the Act as follows:
 - i. A reference to the definition of independently compiled and internally compiled financial statements (Regulation 76).
 - ii. A reference for the exemptions to have the annual financial statements independently reviewed (Section 30).
 - iii. A reference to where the requirements to appoint a company secretary are located (Section 86).
 - iv. A reference to where the requirements to appoint an audit committee are located (Section 94).
 - v. A reference to where the requirements to appoint a social and ethics committee are located (Regulation 43).
6. We noted the following formatting related issues:
 - The title of the report on Page 12 should refer to the “financial statements”.
 - Page 7 point 8 refers to ISRE 2410 and ISA 810. The full names of the standards should be included.
 - The description of the circumstances relating to the illustrative report on page 78 repeats certain facts in the third and fourth bullet points.
 - Page 91 contains a block at the bottom which is cut-off on the page.
 - Page 92 second column heading is misspelt and should be “sub-categories”.

Conclusion

Please do not hesitate to contact Natalie Klonaridis via email at nklonaridis@deloitte.co.za or telephonically on 083 391 7144 should you wish to discuss any of the matters included in our letter.

Yours faithfully,

George Tweedy