

Template for Respondents

Respondent Information

Respondent type <i>Please select the capacity in which you are responding.</i>	Government Organisation
Organisation Name <i>If you answered "Individual", please write "Private".</i>	Auditor General of South Africa
Full Name	Mariaan Henning
Job Title	Senior Technical Manager
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Question 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?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Scope of the audit. Refer to section A	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u><i>Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i></u>					
<p>We believe that the scope of the audit is already covered under the auditor's responsibilities for the audit of financial statements. In the Auditor-General's context, this is covered under the Auditor-General's responsibilities for the audit of financial statements and the introduction and scope for audit of pre-determined objectives and audit of compliance with legislation. More details of the scope of the audit are included in the AG Directive.</p> <p>But for the purposes of reporting templates as per SAAPS 3, including the scope of the audit might be more appropriate for listed companies and listed public entities.</p> <p>In addition, it may be more useful to include more information on the audit of the financial statements, such as the components that were audited, locations covered as well as describing the items audited from the financial statements.</p>					

There is a concern however that the audit report may be too long if there is a comprehensive description of the audit scope.

Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
Materiality threshold applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit. Refer to section A	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

We have two views on this matter, one being that, disclosure of materiality may assist users of the financial statements to better understand how the auditor determined materiality and will add to greater transparency in the auditor's reports.

The other view is that, the fact that materiality entails a form of judgement to be applied may open up unnecessary debates around assumptions used etc. Materiality is also not a

concept that may necessarily be understood by users outside of the finance world and may cause unnecessary confusion. In addition, there is a concern on the type of disclosure will be required where qualitative factors were considered, even though the amount was not material.

Furthermore, in the context of the Auditor-General, this could be complicated, specifically on compliance where materiality threshold could be different for each criteria. It will also result in more debate and disagreement with auditees as they will focus on quantitative criteria and not also qualitative criteria.

Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view

Performance materiality. Refer to section A	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

We do not believe it is important to disclose this in the auditor's report as this is a limit set by the auditor to manage the level of detection risk, and is more of an auditor determination as opposed to a user orientation. Including this in the auditor's report could possibly cause confusion as overall materiality is used as a benchmark when assessing of the effect of misstatements.

Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
Explanation of the extent to which the audit was considered capable of detecting irregularities, including fraud. Refer to section B	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as any suggestions you may have.

The issue of detecting irregularities, including fraud, is one of the biggest areas where the users of financial statements do not always understand the roles and responsibilities of the auditor. Some users have a misconception that if an auditee has a clean audit report (unqualified with no findings in pre-determined objectives and compliance with legislation) it may mean that there is no fraud at the entity. Users do not always grasp the inherent limitations that the auditors are faced with in assessing whether fraud has occurred. It would therefore be useful to clarify the extent to which the audit covers the risk of fraud and its detection.

With the extent of fraud and corruption that is occurring, it would also enable users to understand the extent to which the audit had identified the occurrence of fraud. It may also be important to highlight the fact that the auditor does not make legal determinations on fraud as this follows a legalistic process.

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Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
How the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern and, where relevant, key observations. Refer to section C	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons and indicate where applicable, what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

This is probably an area where many auditors have to do additional work and if it is clearly communicated, it will enhance the stakeholders' understanding. Including disclosures in this area will assist the users of the auditor’s report in understanding the approach that was followed as the user may not fully understand the summary paragraph in the current audit reports. Disclosure of the auditor’s assessment of management’s plans and tests that were undertaken to assess the feasibility of the plan is important for all institutions, especially public institutions.

There is also a concern that, in as much as this could add some form of value to the reporting it is not always straight forward, especially in terms of state owned entities (SOE’s) and all the complexities surrounding their assessments. It would perhaps be difficult to include sufficient details around the assessment in the audit report without it being quite lengthy.

Furthermore, in our environment there are many instances where the management’s assessment is not done or inadequate, and in those cases we would already qualify on going concern, in such instances, the disclosure may not be as useful or relevant since there would be no assessment to evaluate.

Question 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?

	Yes	Maybe	No	No particular view
Conclusion (i.e. a positive statement) that management’s use of the going concern basis of accounting is appropriate. Refer to section C	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

The presumption would always be that the use of the going concern assumption would be appropriate UNLESS something to the contrary is stated the audit report. We therefore do not think that it would add any value in including this information in the audit report.

Question 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?

	Yes	Maybe	No	No particular view
Procedures specific to the auditor's response to a material uncertainty related to going concern. Refer to section C	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

The disclosure of the auditor's procedures in response to the material uncertainty relating to going concern will enhance the user's understanding of the approach followed.

However, there is a concern that, there are sometimes multiple factors to consider and multiple procedures that are performed to form conclusions around the going concern assumption of some entities. It may be difficult to compress the messaging and disclosures in such a manner so as to allow sufficient details around the procedures performed in the audit report without it being quite lengthy.

Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
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. Refer to section C	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>	<input type="checkbox"/>
<p><u><i>please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i></u></p> <p>Although there is a reasonable expectation that the audit report would refer to a material uncertainty if it exists, and where it's not mentioned, there is no concern identified, users of especially the financial statements of our SOE's have a very keen interest in this area. A disclosure to the effect that no material uncertainties were identified could provide some comfort to these users. Such a disclosure will need to be carefully worded to prevent any possible misinterpretations.</p>					

Question 9

Are there any other matters related to going concern that you believe should be disclosed in the auditor's report?

	Yes	Maybe	No	No particular view
Any other matters related to going concern that you believe should be disclosed in the auditor's report. Refer to section C	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Please provide the details and where applicable, the benefits and drawbacks of disclosure of such matters, as well as any suggestions you may have.

No additional matters other than those already discussed in the questions above.

Question 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?

	Other PIEs	All Entities	No	No particular view
KAMs in auditor's reports other than on listed entities and where law or regulation requires the application of ISA 701. Refer to section D	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

please explain your reasons for the answer to this question and where applicable, specify the type of entity for which you believe the auditor's reports should disclose KAMs, as well as any suggestions you may have.

KAMs are intended to enhance the transparency about the audit that was performed and provide users with insight on the matters considered most significant on the audit. It may therefore be useful to extend reporting on KAMs to other PIEs.

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Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
Descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters. Refer to section D	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

We do believe that adequate descriptions of the audit procedures and observations with regard to KAM's may provide a good background to understanding what the key matters are and how they were assessed. We do however think that it may become a lengthy document in some instances as some KAM's require a greater extent of considerations etc. to be taken into account.

Question 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?

	Yes	Maybe	No	No particular view
Visibility of the professional relationships between an audit firm and the audit client for audits of entities that are not PIEs. Refer to section E.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder and specify for which types of entities should the disclosure of such professional relationships be. Also indicate any suggestions you may have.

Some audit failures may be attributed to “other relationships” not necessarily disclosed, if disclosed, it could perhaps improve transparency.

This disclosure could be considered for entities other than PIEs, if there are stakeholders outside of management who would be interested in this information.

Question 13

If the answer to question 12 is "yes" or "maybe", do you believe this should be disclosed in the auditor's report?

	Yes	Maybe	No	No particular view
Disclosure of professional relationships in the auditor's report. Refer to section E.	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder or provide alternative mechanisms for such disclosure.

The auditor's report may be an appropriate place to disclose these relationships, as it is available for all audits. If not disclosed in the audit report, another publicly available report would need to be issued by the auditors.

Question 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?

	Yes	Maybe	No	No particular view
Auditor's report an appropriate mechanism to disclose the matters described in (a), (b), (c) and (d) in paragraph 65. Refer to section E	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder or provide suggestions on other possible mechanisms to achieve such disclosure, including the benefits and the drawbacks.

The Revised Code on fees requires the auditors to make disclosure of fees for public interest entities to the extent that the client/auditee does not make this disclosure (in their financial statements or annual report). Where this is the case, the auditor's report seems to be an appropriate document where this disclosure can be made.

Question 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?

	Yes	Maybe	No	No particular view
Disclosure of whether an entity has been classified as a PIE or not in the auditor’s report. Refer to section F	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

This may provide better clarity of what a PIE is and what information was considered to classify an entity as a PIE. This may also promote transparency based on the size of the entity and users will be able to understand the relative importance of the entity and the level of accountability it has to funders, regulators and the state.

If not, please provide reasons and suggestions on other appropriate mechanisms:

N/A.

Question 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?

	Yes	Maybe	No	No particular view
Description in the auditor's report 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. Refer to section G	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

The disclosure may be good in terms of providing an understanding of the matters that were applicable and would make referencing more relevant and transparent. The limitation may just be the extent of issues that need to be reported and compressing them in such a manner that would still allow for useful information to be included in the report. In addition, this is

somewhat covered in emphasis of matter paragraphs. The details of the errors also need to be disclosed in the financial statements.

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?

Refer to part 1 of the question above.

Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
Tailored descriptions of the audit procedures performed, and key observations made by the auditor regarding prior year material misstatements. Refer to section G	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

The users of financial statements would more likely be interested in whether the prior year misstatement were corrected, not how the auditors confirmed that it was done.

Tailored descriptions may cause inconsistencies in reporting and audit teams may also deem this to be high risk in terms of quality reviews as any findings on these narratives may be classified as high risk during QC evaluations.

The extent of documenting procedures and observations may also be severe in some instances as some entities may have many items falling under this category.

Question 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?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
Do you believe the disclosure of the threshold of unadjusted misstatements in the auditor's report would be useful in further enhancing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

transparency by auditors? Refer to section H					
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Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

No, as those unadjusted misstatements that would have an influence on the decisions of the users of the financial statements would already have been included in the auditor's report. We do not see the benefit in disclosing items in the audit report that would not have an effect on the decisions made by users.

Question 19

In relation to the matters described in sections A, B, C, G and H in the Consultation Paper, 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 only	Other (Please explain)	Disclosure should not be made at all (Please explain)
Extending the disclosures of the audit scope <i>Refer to section A</i>	X				
<u>Comments:</u> Although we are of the view that the auditor's responsibilities somewhat covers the scope of the audit, if and where additional disclosures on the scope are made, they would probably be useful for all entities.					
Materiality <i>Refer to section A</i>			X		
<u>Comments:</u> As stated in question 2 above, there is a lot of judgement involved in determining materiality and there are also qualitative considerations, disclosure of such may unintentionally cause conflicts. It could perhaps be useful to disclose such in listed entities.					
Performance materiality <i>Refer to section A</i>					X
<u>Comments:</u> As indicated above, this concept is not user orientated, it may cause confusion.					
Enhancing the disclosure of the audit effort related to irregularities, including fraud <i>Refer to section B</i>				X	
<u>Comments:</u> In accordance with our response to question 4 above, enhanced reporting seems important to listed entities and PIEs and perhaps some entities in the public sector.					
Enhancing the disclosure of the audit effort related to going concern <i>Refer to section C</i>	X				
<u>Comments:</u> The additional disclosures on going concern may be useful for the users of financial statements for all entities, considering that there has been entities that have going concern issues in terms of the material uncertainties as well as inadequacy of the management's assessment and plans.					

Auditor’s report disclosures arising from prior year misstatements <i>Refer to section G</i>					X
	<u>Comments:</u> As stated in question 16 and 17 above, the disclosure in relation to restatement of corresponding figures is already covered in the emphasis of matter paragraph.				
Disclosure of the reporting threshold unadjusted misstatements <i>Refer to section H</i>					X
	<u>Comments:</u> As stated in question 18 above, this does not seem to be important to the users of financial statements.				
<u>Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</u> Refer to the comments above.					

Question 20

Other than those proposals discussed in sections A to I in the Consultation Paper, are there more matters that can be disclosed by auditors in the auditor's report for an audit of financial statements?

	Yes	Maybe	No	No particular view
More matters that can be disclosed by auditors in the auditor's report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons and where applicable, indicate what the benefits and drawbacks would be to you as a stakeholder, as well as any suggestions you may have.

We include a section in our audit reports at AGSA that reflects on significant internal control deficiencies that lead to material misstatement of the financial statements. We think this can be considered for inclusion as this information is relevant to inform the users of the causes of the misstatements and therefore what management should be held accountable to address.

Question 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.

	Yes	Maybe	No	No particular view
Prescribed standards or a rule that will mandate additional disclosures in the auditor's report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.

This may provide a more consistent approach in reporting items in the auditor's report

Question 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?

	Yes	Maybe	No	No particular view
A need to develop a structure or framework within which to accommodate currently envisaged but also future changes to auditor’s report contents.	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder and explain what the elements of such a framework would be. Also provide any suggestions you may have.

This may provide a more consistent approach in reporting items in the auditor’s report.

