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CFO FORUM SUBMISSION ON THE CONSULTATION PAPER – *ENHANCING DISCLOSURES IN THE AUDITOR'S REPORTS IN SOUTH AFRICA: ADDRESSING THE NEEDS OF USERS OF FINANCIAL STATEMENTS*

In response to your request for comments on Consultation Paper – *Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements*, attached is the comment letter prepared by the CFO Forum, an interest group of the South African Institute of Chartered Accountants (SAICA). We have included our responses to the specific questions raised in the Consultation Paper in Appendix A.

This comment letter results from deliberations of the members of the CFO Forum, a discussion group formed and attended by the Chief Financial Officers of major Johannesburg Stock Exchange (JSE) listed and larger state-owned companies – with members representing a significant part of South African business. The CFO Forum has broad sectoral coverage ranging from financial services, mining, retail, media, telecoms, medical services and paper & packaging. Its aim is to contribute positively to the development of South Africa's policy and practice on financial matters that affect business – such as government regulatory issues and initiatives, taxation, financial reporting, corporate law and governance, capital market regulation and stakeholder communications for enterprises.

We thank you for the opportunity to provide comments on this discussion paper.

Please do not hesitate to contact us should you wish to discuss any of our comments.
Yours sincerely

Jason Quinn
Chair of the CFO Forum

CFO FORUM SUBMISSION ON THE CONSULTATION PAPER – *ENHANCING DISCLOSURES IN THE AUDITOR'S REPORTS IN SOUTH AFRICA: ADDRESSING THE NEEDS OF USERS OF FINANCIAL STATEMENTS*

APPENDIX A: SPECIFIC COMMENTS

QUESTIONS TO STAKEHOLDERS

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	✓	✓	✓	✓	☐

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 inclusion of the scope may be useful with providing an understanding of what was included, the key focus areas, or the changes in audit focus. The scope of the audit work provided to the audit committee should be used as a basis of what is included in the audit report. The scope should not be overly detailed nor too generic, however it should not result in the auditors having to perform additional procedures to meet increasing user expectations. In addition, the inclusion of the audit scope may result in audits not being tailored to organisations but rather to comply with a general standard which could create additional risk.

As an audit can never provide 100% substantiation for all balances on the annual financial statements, this disclosure may provide useful insight to stakeholders and assist them in understanding the depth and breadth of the audit whilst highlighting to the reader the "risk-based approach" used.

For example, dual listed entities have audit report that already provides the information regarding the scope. It provides the user with valuable information regarding the level of the Statement of Financial Position and Statement of profit and loss included as part of the audit. They found that it improves the creditability of the outcome of the audit.

However potential drawbacks are as follows:

- It's unclear how much more value detailed scoping information would provide without formal assurances provided on those. For example, scoping debates on control vs. substantive approaches without a formal opinion on control effectiveness doesn't naturally increase level of confidence in the audit work.

- The appropriateness of the audit process is already discharged to the audit committee for oversight and without an appropriate level of detail and context accompanying further disclosure may impair the overall purpose of the financial statements.

Audit standards although applied specifically to individual entities, should have minimum quality assurances and guidelines that can be applied consistently which is not a matter for individual financial statements.

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	✓	✓	☐	✓	☐

<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>

Materiality level is a relative measure of the size and risk of a specific entity and not comparable in absolute terms. It can also be different and influenced by subjective matters as well as factors that auditors do not express an opinion on.

There is potential risk that users perceive materiality as an absolute comparability and a level of inherent risk which might not be the case. Information that should be included such as, factors that influence the determination of materiality, could however be useful and should be linked to qualitative scope factors. This can evidence or articulate the adaptability of the audit process to relevant matters impacting the financial statements.

There is also a challenge between quantitative materiality vs. qualitative materially with the latter far more difficult to standardize and evidence through disclosure alone and may require non-public relevant information to make meaningful.

For example, dual listed entities have audit report that already provides the information regarding the scope. It provides the user with valuable information regarding the level of the Statement of Financial Position and Statement of profit and loss included as part of the audit. They found that it improves the creditability of the outcome of the audit.

However, some of the constituents do not believe the inclusion of the entities materiality is useful. It is considered adequate if these matters are included in internal audit committee documentation and not made public, and that these matters would require the audit committee to apply themselves to ensure that they meet their responsibilities. The unintended consequence of including materiality or significant judgements may be detrimental if taken out of context or misinterpreted by uninformed users. There may also be pressure to lower materiality, therefore increasing both audit procedures and costs.

The audit reports should include details of the scope and materiality (but not performance materiality). Currently materiality threshold is applied as well as how it was determined, for. example a % of profit before tax.

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	☐	✓	☐	✓	☐

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.

A key concept for using performance materiality is to ensure that the scope of the audit is such that the auditor performs sufficient testing to reduce the aggregation risk of undetected misstatements to an appropriate level.

An auditor can also apply specific performance materialities to classes of transactions, account balances or disclosure. In principle the value in performance materiality is the allocation of values to all segments/units of audit across the entity or group. The user of the financial statements will therefore need exhaustive context and detail to be able to draw insights from the information. This level of disclosure will require significant volume that in turn will reduce the usability of the financial statements as a whole.

However, performance materiality is a concept understood only by users of financial statements with an auditing background. Outside the context of audit world, disclosing two different materiality numbers to users of financial statements will be confusing and will not add any additional value to understand the context to how the auditors arrived at certain solutions, an overview at what they looked at, an understanding of key audit focus areas. Disclosing materiality is therefore sufficient.

This information would also be useful to the general reader of the AFS.

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	✓	✓	✓	✓	☐

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 inclusion of procedures followed by auditors to detect irregularities may be somewhat useful. An explanation of the extent to which the audit was considered capable of detecting irregularities may provide users with context around the audit firms scope and responsibilities. In our opinion it is not the auditor's responsibility, but that of management to prevent and detect irregularities, including fraud due to the inherent limitations of audit procedures. The user expectations may always remain higher than that performed by the auditors even if additional disclosure is included in the audit report. It would be very difficult for an auditor to detect fraud especially where there is collusion of senior management. If additional audit procedures are required to detect fraud specifically (they may still not provide the necessary confidence in detecting fraud) however will increase the audit costs.

It must be noted that whilst this is useful information it is limited to what is disclosed in the Directors and risk management reports because the primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the board of directors with the oversight of the audit committee. The disclosure in the audit reports will therefore vary between entities depending on the extent of management disclosure. This will therefore be a limitation to ensuring audit reports have some level of consistency in their reports on how they addressed the detection of irregularities, including fraud.

In a highly regulated industry, there are often regulatory breaches and ongoing remediation. It might be valuable to consider a concept similar to the Financial Controls Attestation around disclosure by management to the audit committee and auditors where irregularities took place and remedial action are ongoing and therefore only requiring omissions to be highlighted by the auditors.

Alternatively, this could be provided as a positive type of attestation instead of explaining specific matters, this may achieve the same result with less content for the users to consume, resulting in concise and valuable insights.

However, these would provide a reader and user of the AFS with more comfort.

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	✓	✓	✓	✓	☐

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.

As part of the preparation of the financial statements, the board of directors is responsible for assessing the Company’s ability to continue as a going concern. Whether or not no material uncertainty exists on the going concern assumption it is management’s responsibility to provide disclosure justifying why the entity is a going concern. The audit report information with regards to going concern is always with reference to the disclosure provided in the financial statements by those in charge of governance. Their responsibility is to conclude on the appropriateness of the board of directors’ use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If there is material uncertainty the International Auditing Standards (ISAs) already mandates what should be expanded on in the audit report.

In some entities these levels of disclosure are relevant. For banks and other regulated financial entities these are technically complemented through assurances already provided under separate regulatory oversight. It would be useful for Audit to indicate some assurance level on Capital, Liquidity, and other ratios in the basis for their conclusions. However as previously noted, specifics become very challenging and the disclosures are often very technical and generic, and information provided will be targeted only to specific users.

The key benefit is that users of financial and integrated reports understand entity specific governance standards. The UK standard has set a good precedent in this regard.

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	✓	✓	✓	☐

<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>

The board of directors is responsible for assessing the Company's ability to continue as a going concern. Whether or not no material uncertainty exists on the going concern assumption it is management's responsibility to provide disclosure justifying why the entity is a going concern. The audit report information with regards to going concern is always with reference to the disclosure provided in the financial statements by those in charge of governance. It is therefore not their responsibility to have a positive statement that the entity is a going concern.

Going concern is predictive and it may be challenging to expect the auditor to give a separate opinion on this matter. Despite appropriate increased disclosure on the scope, procedures and judgements applied by the auditor in the process to conclude an opinion on the financial statements, it cannot be expected to provide sub-opinions on certain elements as the financial statements should be read as a whole and that is what the auditor should opine on.

However, the financial statements and the auditor's report should not be considered in isolation. The basis of preparation is already disclosed in the financial statements and therefore is already implied that the auditors agree that the basis of accounting is appropriate. In addition, auditors are already required to include an emphasis of matter point in their report if they don't agree with the going concern assessment. A positive statement is unlikely to add value to informed users but possibly to others.

The uncertainty of going concern is well captured in the example extracted below:

'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.'

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	✓	✓	✓	☐

<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>

We are not comfortable for an audit firm to disclosure their uncertainty regarding an entity not being a going concern. This could be taken out of context and misinterpreted by misinformed users. This may have a negative impact on the entity.

If there is material uncertainty the International Auditing Standards (ISAs) already mandates what should be expanded on in the audit report. The auditors responsibility is to conclude on the appropriateness of the board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Including the procedures specific to auditor's response to material uncertainty related to going concern is however limited to the level of disclosure on the area included by management so the request for expansion has its limitations. Management will not disclose assumptions or judgements that will disclose confidential, price sensitive or competitive advantage information.

It is also not exclusively an auditor's obligation to evidence independence and fees and forms part of an entity internal governance requirements.

Further, if the procedures and judgements as suggested in the audit scope and materiality section is included in sufficient detail, then there would be no need for this additional disclosure. There would be sufficiently clear disclosures relating:
1) There is uncertainty that the entity is a going concern.
2) There is already disclosure around how the auditor got to this conclusion.

The shareholder would therefore have been sufficiently informed that this is a highly risky investment. The auditor has performed procedures described and concluded that there is uncertainty. Therefore, any additional disclosure will not, and should not, provide any further comfort to shareholders.

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	✓	✓	✓	✓	☐

<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>

Users may place undue reliance on such a statement and not consider events or conditions that arose post the time the financial statements are authorised (i.e., events or conditions did not exist when the financial statements were authorised), that may result in going concern considerations. These conditions are most likely to be outside the audit firms and possibly even outside the entities control.

The board of directors is responsible for assessing the Company's ability to continue as a going concern. Whether or not no material uncertainty exists on the going concern assumption it is management's responsibility to provide disclosure justifying why the entity is a going concern. The audit report information with regards to going concern is always with reference to the disclosure provided in the financial statements by those in charge of governance. It is therefore not their responsibility to have a positive statement that they have 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. The statement is not aligned with their mandate to provide reasonable assurance and not absolute assurance.

It should however be clear that this is insight into the results of testing and not an opinion by itself.

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	✓	✓	✓	✓

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

None.

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	✓	✓	✓	☐

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.

This question should be broader than only KAMs. It is unclear if all the above and below questions relating to KAMs will be applicable to all entities or only listed entities or PIE's. It would be inappropriate to have all this additional disclosure for private entities and other smaller entities.

There is value in assessing improved disclosures for entities other than listed entities (medical schemes being a great example of relevant additional disclosure), but not for all entities. The cost associated with this level of disclosure for simple entities will far outweigh the benefit of such onerous disclosure. Principles should be defined that guide the auditor around the extent to which the users of the financial statements are at risk and therefore will benefit from additional disclosure.

We believe that this may be misinterpreted by the users or result in pressure being applied to the auditors to increase the number of KAM's unnecessarily.

The users of financial statements of unlisted entities are management, board of directors and their respective shareholders. The board of directors are generally a representation of the shareholders. KAMs for unlisted entities are communicated to the board of directors and management by the auditors, including their response to address these matters in the audit. To include it in the audit report for the same audience is repetitive. In addition, audit fees to be incurred for the unlisted entities could be extensive if this is mandated which will not be adding value as the information would have been already communicated to management and board of directors.

However, these would be useful, especially where entities are looking into buying shares in non-listed entities / businesses.

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	✓	✓	✓	✓	☐

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.

It would be useful for the user of the financial statements to understand what the outcome of the audit procedures were, however, there should be caution around overloading the users with excessive information. There is a real concern about the usability of the financial statements if these become too detailed and as such a suggestion is to provide some guidance around material adverse outcomes of procedures rather than all procedures.

The users of financial statements of unlisted entities are management, board of directors and their respective shareholders. The board of directors are generally a representation of the shareholders. KAMs for unlisted entities are communicated to the board of directors and management by the auditors, including their response to address these matters in the audit. To include it in the audit report for the same audience is repetitive. KAMs and the description of the outcome of audit procedures on them should remain mandatory for listed entities and other public interest entities.

We also believe this may be misinterpreted. Auditors often use their own models to audit certain provisions or judgmental balances. If these differences or Key Audit Matters were documented in the audit report, they may be misinterpreted without the necessary context which may be very difficult to explain in an audit report.

However, these would also be useful, especially where entities are looking into buying shares in non-listed entities / businesses.

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.	✓	☐	✓	☐

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.*

This provides users with specific information to independently inform auditor independence and allows for transparency in the Audit Committees governance standards with respect to this. Although, it must be noted that the bar for PIE entities is so low that it really is only very small entities that are referred to as not PIEs. The number of stakeholders is limited, and the risk is therefore reduced. Disclosure of this information in the financial statements further justifies that this responsibility was performed well.

Banks and other users may place reliance on audited financial statements to provide funding or for other reasons. Sight of the relationship between an audit client and audit firm would be beneficial.

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.	✓	✓	✓	☐

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.

It is the board of directors' responsibility (mandated to the audit committee) to ensure the external auditors are independent. The audit and non-audit fees are disclosed in the financial statements as part of the operating expenses. There is no added value in the auditors disclosing this information in the audit report as it is not their ultimate responsibility and is already disclosed in the financial statements. Therefore, it should be included as part of standard disclosure.

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	✓	✓	✓	☐

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.

Audit and non-audit fees
It is the board of directors' responsibility (mandated to the audit committee) to ensure the external auditors are independent. The audit and non-audit fees are disclosed in the financial statements as part of the operating expenses. The fees are presented and discussed with Audit committee on a regular basis. There is no added value in the auditors disclosing this information in the audit report as it is not their ultimate responsibility and is already disclosed in the financial statements. Auditors have their own internal processes to ensure their independence is not compromised by performing non-audit services and these already have limitations attached to them. Therefore, it should be included as part of standard disclosure.

PIE Calculation
Currently the auditors don't audit the PIE calculation. Therefore, this would require additional
procedures from the audit firms (resulting in increased costs). We don't believe the inclusion of the PIE in the audit report would have any added value to users.

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	✓	✓	☐	☐

<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>

This will be useful as it will explain the basis for which the audit report is prepared.

<u>If not, please provide reasons and suggestions on other appropriate mechanisms:</u>

No, the entity should perform this assessment (to understand the need for auditor rotation etc.) and could disclose it as such. The auditor report should be to indicate audit scope, judgements and procedures not to provide information on behalf of the company.

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				

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 provided by the company in the financial statements should provide sufficient
information on the restatement. It is important to note that the primary responsibility for disclosure to shareholders remains the responsibility of the entity and not that of the auditors. If the information disclosed is not sufficient then the auditor should amend its report, but the audit report cannot become the primary source of disclosure.

This will also provide useful information to users that audit procedures have been performed on the restatements disclosed.

However, some constituents don't believe it is necessary to describe this in the audit report as restatements are already disclosed in detail in the Annual Financial Statements. The auditors would be required to audit this disclosure by virtue of their audit work.

It depends if the restatement was a voluntary reclassification or a result of an error. For an error it would be useful to include the information regarding the reasons for the error, how detected and what was done to ensure this is not repeated.

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?

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	☐	✓	✓	✓	☐

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 believe this would be too much detail for an audit report. The additional disclosure should only be included to the extent the prior year misstatement is identified as a KAM. In the absence of that no further disclosure should be required. The requirements for disclosure of KAM and the procedures/observations during the audit are currently disclosed for PIE entities.

The purpose of financial statements or integrated reporting is not a case on audit appropriateness.

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 transparency by auditors? Refer to section H	☐	✓	✓	✓	☐

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 level of audit materiality is provided and disclosed, then by inference, the level of unadjusted differences will be below Audit materiality levels otherwise the adjustments will need to have been accounted for. Further as the distinction between judgemental and factual misstatements no longer exists, this disclosure has the potential to be misunderstood by the users of financial statements. It may also the lack the correct amount of detail to assist users in reaching informed conclusions.

The threshold of unadjusted misstatements is a concept understood only by users of financial statements with an auditing background. Outside the context of audit world, disclosing three different materiality numbers (including performance materiality) to users of financial statements will be confusing and will not add any additional value to understand the context to how the auditors arrived at certain solutions, an overview at what they looked at, an understanding of key audit focus areas. It may bring into disrepute the judgements applied during the audit without having all information available to the user who is not involved in the audit. Disclosing materiality is therefore sufficient.

It might be useful, but unadjusted misstatements need to be split between actual errors and judgemental differences, otherwise - this makes no sense at all.

Please refer to previous comments regarding materiality thresholds. We believe this will be misinterpreted by users of the financial statement.

Question 19

In relation to the matters described in sections A, B, C, G and H in the Consultation Paper, if

<table>
<tr><td colspan="6">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).</td></tr>
<tr><th>Details</th><th>All entities</th><th>PIEs only</th><th>Listed entities only</th><th>Other (Please explain)</th><th>Disclosure should not be made at all (Please explain)</th></tr>
<tr><td rowspan="2">Extending the disclosures of the audit scope
Refer to section A</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5"><u>Comments:</u>
PIE's and Listed entities, however It may be more beneficial to only include PIE's above a certain level
or size.</td></tr>
<tr><td rowspan="2">Materiality
Refer to section A</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5"><u>Comments:</u>
Materiality level is a relative measure of the size and risk of a specific entity and not comparable in absolute terms. It can also be different and influenced by subjective matters as well as factors that audit do not express specific an opinion on.

There is potential risk that users perceive materiality as an absolute comparability and a level of inherent risk which might not be the case. Information that should be included such as, factors that influence the determination of materiality, could however be useful and should be linked to qualitative scope factors. This can evidence or articulate the adaptability of the audit process to relevant matters impacting the financial statements.

There is also a challenge between quantitative materiality vs. qualitative materially with the latter far more difficult to standardize and evidence through disclosure alone and may require non-public relevant information to make meaningful.

Only required for PIEs. The users of financial statements of unlisted entities are management, board of directors and their respective shareholders. The board of directors are generally a representation of the shareholders.

Materiality for unlisted entities is communicated to the board of directors and management by the auditors. To include it in the audit report for the same audience is repetitive.</td></tr>
<tr><td rowspan="2">Performance materiality
Refer to section A</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5"><u>Comments:</u>
A key concept for using performance materiality is to ensure that the scope of the audit is such that the auditor performs sufficient testing to reduce the aggregation risk of undetected misstatements to an appropriate level.</td></tr>
</table>

	An auditor can also apply specific performance materialities to classes of transactions, account balances or disclosure. In principle the value in performance materiality is the allocation of values to all segments/units of audit across the entity or group. The user of the financial statements will therefore need an auditing background to be able to draw insights from the information. This level of disclosure will require significant volume that in turn will reduce the usability of the financial statements as a whole. Outside the context of audit world, disclosing two different materiality numbers to users of financial statements will be confusing and will not add any additional value to understand the context to how the auditors arrived at certain solutions, an overview at what they looked at, an understanding of key audit focus areas. Disclosing materiality is therefore sufficient.
Enhancing the disclosure of the audit effort related to irregularities, including fraud *Refer to section B*	<u>*Comments:*</u> The audit report should explain the extent to which aspects of the auditor's work addressed the detection of irregularities, including fraud. See response in point 2 above.
Enhancing the disclosure of the audit effort related to going concern *Refer to section C*	<u>*Comments:*</u> Whether or not no material uncertainty exists on the going concern assumption it is management's responsibility to provide disclosure justifying why the entity is a going concern. The audit report information with regards to going concern is always with reference to the disclosure provided in the financial statements by those in charge of governance. Their responsibility is to conclude on the appropriateness of the board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If there is material uncertainty the International Auditing Standards (ISAs) already mandates what should be expanded on in the audit report. See responses in point 2 above for areas around going concern that we do not agree with.
Auditor's report disclosures arising from prior year misstatements	<u>*Comments:*</u> The disclosure provided by the company in the financial

Refer to section G	statements should provide sufficient information on the restatement. It is important to note that the primary responsibility for disclosure to shareholders remains the responsibility of the company and not that of the auditors. If the information disclosed is not sufficient then the auditor should amend its report, but the audit report cannot become the primary source of disclosure. It will also provide useful information to users that audit procedures have been performed on the restatements disclosed to the extent that it is identified as a KAM.				
Disclosure of the reporting threshold unadjusted misstatements *Refer to section H*					
	<u>*Comments:*</u> The level of audit materiality is provided and disclosed, then by inference, the level of unadjusted differences will be below Audit materiality levels otherwise the adjustments will need to have been accounted for. Further as the distinction between judgemental and factual misstatements no longer exists, this disclosure has the potential to be misunderstood by the users of financial statements. It may also the lack the correct amount of detail to reach informed conclusions. The threshold of unadjusted misstatements is a concept understood only by users of financial statements with an auditing background. Outside the context of audit world, disclosing three different materiality numbers (including performance materiality) to users of financial statements will be confusing and will not add any additional value to understand the context to how the auditors arrived at certain solutions, an overview at what they looked at, an understanding of key audit focus areas. It may bring into disrepute the judgements applied during the audit without having all information available to the user who is not involved in the audit. Disclosing materiality is therefore sufficient.				
<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> Not applicable.					

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.	☐	☐	✓	✓

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 don't believe that the audit report should be expanded further. The balance between relevance, reliability of the audit and with the remaining content of the annual financial statements should be maintained.

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.	✓	✓	✓	☐

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.

To the extent of the answers above, we agree that there should be an ISA prescribed standard or rule to make it a requirement and to also apply consistency amongst entities.

Other constituents also suggest that particular sections of the detail proposed should be linked to risk, for example, where there is an emphasis of matter or qualification, then more detail can be provided. Further where risk has been identified as low, it may not be necessary to list all the laws are regulations unless there was significant non-compliance, then the detail should be disclosed. Disclosure should be based more on an exception and risk basis than as a standard requirement for all audits.

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.	✓	✓	✓	✓

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.

Not specifically, however there should always be a request for public comment which facilitates public engagement.