

Template for Respondents

Respondent Information

Respondent type	Individuals and Others
Organisation Name	<i>Responding as the Cape Society of Chartered Accountants Discussion Group</i>
Full Name	Drafted by Michael Bourne
Job Title	Semi-retired RA
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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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><u>Please provide your reasons</u> -- yes further information on the scope of audit will be helpful to readers of audit reports to help them obtain a greater understanding of what was done on the audit</p> <p><u>and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.</u> -- benefits are greater understanding of the nature and scope of work done whilst <u>drawbacks</u> are that it may confuse the reader</p> <p><u>as well as any suggestions you may have.</u></p> <ol style="list-style-type: none"> As a priority the required scope of audit should be re-evaluated by the legislators, regulators, institutes and standard setters. Merely elaborating on the work done under the current scope requirements will not address the quality of assurance given. For example should the auditor examine and provide limited assurance on corporate governance code compliance disclosures by the directors. Or should the auditor be required to review and evaluate all internal controls? Should directors provide assurance as to the efficacy of all internal controls? etc If more disclosure regarding the scope of work done is to be given then there will need to be clear guidance given to the auditors on what is required and what is not required. Otherwise there could be selective disclosures. 					

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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please provide your reasons yes it would be helpful to disclose the overall materiality applied

and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder. benefits -- would include a better appreciation by the reader of financial statements of the extent to which the auditor regarded an error in the financial statements affecting the decisions of a reasonable user of the financial statements

drawbacks – knowing the materiality level may give rise to management and the directors managing the results in such a way as to ensure that the total impact of errors is just below the materiality level

as well as any suggestions you may have. –

1. There should also be a requirement for directors to disclose the level they regarded as material when drawing up the financial statements
2. There will be a need to explain what the auditor used as a basis for determining planning materiality and final materiality eg PBT ? turnover? Total assets?
3. It would be important for the auditor to explain the concept of qualitative materiality and how the concept is applied
4. If Reportable Irregularities are mentioned in the audit report then the basis on which the auditor concluded that an irregularity was material

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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"/>

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 this is not useful. It may only serve to confuse the reader.

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"/>
<p><u>Please provide your reasons and where applicable,</u> yes it is important that the reader understands that the audit was designed to express a reasonable assurance opinion on the financial statements and only to that extent does the auditor contemplate the risk of fraud which is material to the financial statements. The other frauds and irregularities are not planned to be detected given the limited nature of work done. The reader needs to understand this.</p> <p><u>indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, benefits –</u></p> <ol style="list-style-type: none"> 1. greater understanding of what the audit is designed to detect and what it is not. 2. Such an understanding may lead to a further discussion among stakeholders and regulatory bodies to expand the scope of audit work to incorporate certain additional risk areas <p><u>suggestions you may have.</u></p> <ol style="list-style-type: none"> 1. The auditor could disclose an explanation of what was done to ensure that there is no fraud or irregularities in the KEY AUDIT MATTERS disclosed in the report 2. As a matter of urgency the scope of audit work in private sector auditing should be re-evaluated . In South Africa the public sector audit standards may give a basis for considering whether additional audit or compliance tests should be done and reported on like it is done in public sector audit reports in South Africa. 					

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"/>
<p><u>Please provide your reasons</u> --- yes this would be helpful</p> <p><u>and indicate where applicable, what the benefits and drawbacks of such disclosures would be to you as a stakeholder, benefits --</u> a better appreciation will be given to the reader of the audit report as to what was done to evaluate managements going concern assessment.</p>					

In doing so it will help the reader obtain a better appreciation of the risk of the entity not continuing in the foreseeable future.

Drawbacks -- none

as well as any suggestions you may have.

1. In the first instance management should be required to provide detail on why they have concluded that an entity is a going concern
2. Provide the assumptions which the management used to draw that conclusion
3. Auditor to provide disclosure of the work the auditor carried out and any other assumptions and bases upon which the auditor based the auditors conclusion.

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 type="checkbox"/>

Please provide your reasons maybe...instinctively the auditor should make a positive statement however this needs to be made on the fact that the auditor has reviewed the detailed evaluation prepared by management. The auditor is not privy to all the plans both formal and informal which management may be contemplating.

and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.

it is implied that the auditor concurs with the going concern conclusion unless of course the auditor disagrees or believes that there are significant uncertainties in which latter case there would be a qualification of the auditor report or an emphasis of matter which refers to the significant uncertainties disclosed by the directors . So a drawback could be that the auditor makes a positive statement about the future viability of the company when later decisions (which are out of the control of the auditor) are made which affect the viability of the entity concerned.

as well as any suggestions you may have.

If an auditor is to make a positive statement in the audit report it can only be made in the context of the evaluation carried out by the directors or management. The auditor would have to say in the report that his or her positive statement is made on the understanding which the auditor has of the assumptions made and the plans for the future which are known to him or her.

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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 yes by disclosing the procedures carried out the reader will be able to make their own assessment of the material uncertainties

and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, by disclosing the procedures carried out the reader will be able to make their own assessment of the material uncertainties

drawbacks -- none

as well as any suggestions you may have.

1. The auditor can explain why the auditor did not believe an audit report qualification was more appropriate
2. Guidance should be developed to aid the auditors in determining the work which would be expected to be carried out on the significant uncertainties .

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	<input type="checkbox"/>	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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					
<p><u>please provide your reasons</u> yes because it would focus the mind of the auditor on justifying the conclusion reached</p> <p><u>and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.</u></p> <p><u>Benefit</u> would be a more robust consideration by the auditor of whether there are in fact material uncertainties which in turn could lead the auditor to change his or her mind on the most appropriate wording for the audit report</p> <p><u>Drawbacks</u> Would increase the risk to the auditor by making a positive statement of this nature.</p> <p><u>as well as any suggestions you may have.</u></p> <ol style="list-style-type: none"> 1. The Committee for Auditing Standards should develop guidance for auditors. 2. The IRBA should promote the development of legislation to introduce Limited Liability Partnerships for South African audit firms as was strongly recommended by the World Bank many years ago. This will reduce the perception of practice risk albeit only slightly. 					

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"/>
<p><u>Please provide the details and where applicable, the benefits and drawbacks of disclosure of such matters, as well as any suggestions you may have.</u></p> <p>Clarification of the period over which a going concern assessment is being done and reported on .</p> <p>Is it just 12 months? Or beyond that date if circumstances change?</p> <p>From the date of the balance sheet date or from the date of the auditors report?</p>				

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"/>
<p><u><i>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.</i></u></p> <p>Other public interest entities should be included but not all those listed in the IRBA list of PIEs. Careful consideration should be given to unlisted PIEs of large or complex nature in which the public have a material interest.</p>				

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 type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><u><i>please provide your reasons</i></u> yes provided the outcome of audit procedures are well explained by the auditor</p> <p><u><i>and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder.</i></u></p> <p>benefit is that the reader gets a better appreciation of how the KAMs were audited no drawbacks</p>					

as well as any suggestions you may have.

none

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 type="checkbox"/>	<input type="checkbox"/>	<input checked="" 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.

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"/>	<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.

No but the auditor could make a positive statement to the effect that the engagement team and the firm and the audit partners involved were compliant with the IRBA Code of Professional Conduct and Companies Act sec 90. Just that would be appropriate.

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.

If not in the auditors report then it would need to be a legislative requirement or a requirement of the IFRS.

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, yes maybe however what if the entity does not agree ?

indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder,

The entity’s directors might not agree with the auditor . Example is educational institutions like universities.

as well as any suggestions you may have.

Greater clarity and stakeholder involvement in determining which entities are PIEs. The IRBA's list of PIEs is set down by IRBA and not aligned to PIEs as defined in foreign jurisdictions. It is a lengthy list inclusive of entities some of which are controversially included as PIEs.

The IRBA list is not mandatory for entities' directors and management to comply with unless it is introduced into the legislation. For example for companies PIEs should be defined in the Act and detailed in the Regulations.

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 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.

No the matter should be fully described and explained in the body of the financial statements and its notes.

The auditor then examines and reports on those disclosures and concludes whether they fairly present .

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?

If the adjustments were material then if they are regarded as KEY AUDIT MATTERS then the auditor can disclose what was done

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 type="checkbox"/>	<input checked="" 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.

See response to question 16. The existing reporting standards are adequate.

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	<input type="checkbox"/>	<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.

NOTE there appears to be an error in the way question 18 is posed. Is this what was meant?.....

Do you believe the disclosure **in the auditors report** of the threshold of unadjusted **misstatements in the financial statements** would be useful in further enhancing transparency by auditors?

OR

Are you asking what the threshold is for placing an error on the schedule of unadjusted errors and whether that should be disclosed? (typically 2 to 5% of planning materiality)

Yes however before this is required the IRBA should develop guidance for auditors on how such disclosure should be made in the audit report. If not then disclosure of unadjusted errors could give rise to incorrect understandings on the part of the reader of the financial statements . For example how prior year reversing errors are assessed.

As far as the threshold for placing an error on the schedule the IRBA should set a guideline above which the auditor should explain why a higher threshold was used. For example the guideline should be say 5% of overall planning materiality or no more than 2% of PM etc.

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> It would add unnecessarily to the cost of audit . It is of most importance in public interest entities				
Materiality <i>Refer to section A</i>	X				
	<u>Comments:</u> All readers should understand the parameter used				
Performance materiality <i>Refer to section A</i>					X
	<u>Comments:</u> Explained above				

Enhancing the disclosure of the audit effort related to irregularities, including fraud <i>Refer to section B</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<u>Comments:</u>				
Enhancing the disclosure of the audit effort related to going concern <i>Refer to section C</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<u>Comments:</u>				
Auditor's report disclosures arising from prior year misstatements <i>Refer to section G</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<u>Comments:</u>				
Disclosure of the reporting threshold unadjusted misstatements <i>Refer to section H</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<u>Comments:</u>				
<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> _Set out 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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<u>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.</u>				

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 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 ISAs dealing with reporting standards should contain the requirements

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.

Guiding principles should be developed first.

Then the requirements for auditor reporting can be developed thereafter.

However before you can do that the re-evaluation of the scope of the audit itself should be conducted and finalised. Tampering with the auditor report in and of itself will not address the perceived deficiencies in the small number of audits which appear to have failed.

So questions such as the following should be addressed

1. Who should develop the corporate governance codes which directors need to ensure they comply with?
2. Should auditors review and report on disclosures relating to corporate governance code compliance disclosures?

3. Should the auditor test compliance in certain defined areas ? for example should the auditor test and report compliance with JSE regulations ?
4. Should SOX 404 reporting be required by directors?
5. Should auditors evaluate and report on internal control efficacy assurances made by directors?
6. Should auditors follow an internal control evaluation methodology for all significant processes in entities? Or is a mixture of account balance substantive audit work and control evaluation still be allowed?
7. Should the auditor conduct certain additional procedures to evaluate the risk of fraud in organisations ?
8. Etc etc