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Mr Imran Vanker
Director: Standards
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16 September 2021

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Per email: standards@irba.co.za

Consultation Paper: Enhanced Auditor Reporting

Dear Mr. Vanker

Thank you for the opportunity to provide comment on the consultation paper: Enhanced Auditor Reporting. Our comments are structured in two parts; Part A addresses a short introduction which provides some comments relevant to all the questions you have asked (for avoidance of repetition) whilst Part B conforms to your requested format with our detailed answers to your specific questions. These are also informed by the further understanding we obtained after attending the IRBA workshop hosted on the 26th of February.

If you wish to discuss these comments further, please contact Nina Zhu (nina.zhu@za.ey.com), Michael Schafer (michael.schafer@za.ey.com) or Roger Hillen (roger.hillen@za.ey.com)

Yours sincerely,

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Chief Executive: Ajen Sita

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Part A: General comments

In terms of the concept of increased reporting to users of the financial statements in respect of significant areas relating to the financial statements and the audit, we are supportive of efforts to reduce the “expectation gap” and to provide more clarity which allows users to better understand the assurance being provided. The expectation gap refers to concerns that users may believe the audit involves more examination and focus on areas than it actually does in reality and the expectation that auditors and not management are responsible for the financial statements and the processes which inform their preparation. Specifically, areas such as fraud and going concern as discussed in the IAASB paper would be prime examples.

We recognise that many users call for more information and additional disclosure but often such users cannot clarify what information will be more useful and how it will be more useful to them. Therefore, this process to obtain insight from various stakeholders across South Africa is important in ensuring that additional reporting meets a genuine need. Additional disclosure always increases the risk that the current disclosures in the audit opinion are overlooked or overshadowed. There is also a risk that such disclosures may inadvertently further widen the expectation gap if not properly contextualised with explanations.

We also recognise there are many stakeholders (direct and indirect) of financial statements and their accompanying auditor’s reports besides shareholders; however, we believe distinction should be drawn regarding the information needs of the primary users of financial statements from that of other users and stakeholders when thinking of enhancements to disclosures in the financial statements and the related audit reports. For example differentiating between the general / primary users such as shareholders, investors, and lenders from other users with more specific needs such as regulators of the auditees and the regulators of the auditors in determining the relevance and usefulness of disclosures to be made by auditors within the audit report.

We believe disclosures in the financial statements and the related audit reports could benefit from enhancements to improve upon their respective usefulness to the primary users. Specifically, with regards to audit reports in relation to this consultation paper, we believe it would be potentially excessive to incorporate the information needs of all users and stakeholders. The main concern would be the length of the audit report which may detract for those matters which are of genuine importance and value to the primary users. Practically it is quite difficult to balance the needs of all users and to ensure that all needs are identified. Successful enhancements would thus be more likely with a focussed approach to specific users.

In this regard, we suggest exploring other forms of reporting by the auditees and auditors respectively within the financial reporting ecosystem outside the confines of financial statements and audit reports where such reporting does not meet the information needs of the primary users but may be desirable. For example, working with regulators of both auditee and auditor on specific reporting to the regulator. Where enhanced reporting does in fact meet the information needs of the primary users, we suggest this is definitely best achieved by exploring additional guidance, rules, and frameworks to supplement the existing standards applicable to financial reporting and auditor reporting in such a way to promote consistency within the financial markets. Consistency by reporters / auditors would strengthen the understandability and comparability of information disclosed for the users and thus for such disclosure to be truly meaningful to them.

Our comments therefore focus on these themes and where we disagree with increased disclosure we have in many instances made other suggestions for alternatives for the auditor but have mostly noted a common theme that outside of the IRBA's process here, there should likely be efforts on increasing the disclosures by management through other channels. We have noted that many of the proposed disclosures would better be made by management or that the auditor disclosures would have more context and usefulness if accompanied by similar disclosures being made by management. We understand from our UK colleagues that since auditor enhanced reporting was brought in, there have also been increased disclosure requirements for directors and not just for auditors. We list some of the requirements for directors and the audit committee in the UK below.

Audit Committees have the following responsibilities:

- provide information in terms of the Corporate Governance Code on how they have carried out their responsibilities, including the assessment of the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor.

Directors have the following responsibilities:

- make a statement in terms of the Companies Act (s418) as to the disclosure of relevant audit information to auditors.

- make a statement in terms of the Corporate Governance Code and the Listing Requirements whether they consider it appropriate to adopt the going concern basis of accounting in preparing financial statements, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

- prepare a strategic report in terms of the Companies Act to inform members of the company and help them assess how the directors have performed their duty under s172 (duty to promote the success of the company). The strategic report must contain a fair view of the business and a description of the principal risks and uncertainties facing the company.

- confirm in terms of the Corporate Governance Code that the annual report and accounts taken as a whole are "fair, balanced and understandable" to ensure that the narrative sections of the report are consistent with the financial statements and accurately reflect the company's performance.

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Part B: Specific Comments

Respondent Information

Respondent type *Please select the capacity in which you are responding.*	Firm
Organisation Name *If you answered "Individual", please write "Private".*	Ernst & Young Inc.
Full Name	• Michael Schafer • Roger Hillen
Job Title	• Professional Practice - Assurance Technical Leader • Professional Practice Director
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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	☐	☐	✓	☐	☐

Detailed Response to Question 1:

We believe disclosing the scope of the audit as done in the UK may enhance the users' understanding about how the audit is conducted, and that this disclosure may be able to bridge the expectation gap of users about how deeply the audit is performed with the overall audit materiality in mind.

We note firstly that the term "audit scope" should be clarified in order to implement such disclosures by the auditor in the audit report. In our response, we have considered the two possible concepts of "audit scope", we noted the benefits, drawbacks and our suggestions for each approach. The two concepts we lay out separately relate to:

1) The scope of the audit that is linked to ISA 600 around the determination by the group auditor of the components / locations within the scope of the group audit (group audit scope)

2) The scope of the audit that is linked to ISA 260, ISA 300 and ISA 330 which is related to audit strategy / audit approach (audit strategy)

Group audit scope

We have specifically considered the "scope of the audit" in terms of the requirements in the ISA (UK) 701 in relation to the example provided in the Consultation Paper.

- We believe the scope of the audit to be disclosed by a UK auditor to be those that relate to:

    - The approach the auditor took to address a key audit matter in terms of paragraphs 13 and A46 - A 48 of ISA 701. Here the requirement looks for the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement in relation to a key audit matter that is reported. This is not different to how we describe key audit matters and our responses thereon in the current South African environment.

    - The scoping of components in a group audit in relation to the materiality, the coverage within scope over the key financial metrics based such scoping, and how and to what extent the group auditor was involved in the work of the component auditors. In this regard, the scope of the audit relates mainly to the scoping of components per paragraphs 8 and 26 – 27 of ISA 600. Thus, we focus the rest of our discussion on this aspect of the audit scope.

Benefits:

- We believe disclosing the scope of the audit in relation to the group audit (coverage of financial metrics and number of in-scope locations) along with the disclosures about materiality as done in the UK could enhance the users' understanding about how the group audit is conducted and may be able to bridge the expectation gap of users, ultimately about how deeply the audit is performed and emphasise the concept of reasonable assurance provided by audits.

Drawbacks:

- There is no clearly defined rules for the scoping and extent of scoping of components on a group audit, ISA 600 states that the group auditor may consider components exceeding 15% of a chosen benchmark as a significant component; however, the benchmark may be determined by the auditor based on his/her judgments about the group entity, a higher or lower percentage of 15% may also be used depending on the circumstances. Various Firms' methodologies may drive the benchmark applied as well as the percentage applied; this along with individual auditor's professional judgments about the circumstances of an entity may further vary the benchmark and percentage. This can lead to a lack of consistency and comparability for the users around the extent of components within the scope of the group audit to be able to truly understand the audit process.

- This new information may be interesting to the users of the financial statements and audit reports in the year of adoption of disclosure; however over time, we believe unless there is significant changes in a group's performance, structures or the environment in which a group operates, such disclosures will become standardised year after year and may lose its usefulness to the users over time.

We also noted some concerns around the practical implementation which would require further guidance to be provided should this disclosure be required:

- Guidance should be provided to assist the overall consistencies for disclosing the number of in-scope components and the coverage of the audit. For instance, the group auditor may determine that some components between “full scope” and “specific scope” where audit work is performed, and some “review scope” which entails analytical procedures. Clarity would need to be provided whether only components where audit work is performed can count toward number of components in-scope and towards coverage, or whether this can and should also include review scope components. We also suggest such disclosures are kept at a high level and in a precise and concise manner to enable the users to understand the audit rather than create confusion, such as simply describing the total number of components and the total coverage, rather than going into detail about the scope assigned. Noting scope would in our view require more detail for it to be relevant. the percentage coverage would then need to be outlined per scope per metric rather than using number of components per scope.

- Guidance should be provided to ensure consistency of the application by various auditors and audit firms in the calculation of the coverage of the audit for each key financial metric, for instance:

    - Which metrics should be disclosed: We suggest that the metrics to be focused on should be similar to the UK, i.e., revenue, profit before tax and assets. However, should the benchmark used to determine materiality be a different metric, we believe the coverage on that metric should also be disclosed.

    - The effects of consolidation and inter-company adjustments: We are conscious that consolidation and inter-company adjustments are often necessary between the financial reporting of a component and that of the consolidated group financial information. Clarity should be provided whether the calculation of coverage should be based on amounts before or after consolidation adjustments. This can often lead to vastly different outcomes, and at the same time, it may be difficult to calculate the post-consolidation coverage for large group structures with complex consolidation adjustments or processes.

    - When divestments in components occur that results in the separate presentation of financial performance for continuing and discontinued operations, users may be interested as to the scoping of the audit between the continuing and discontinued operations, for example, the number of in-scope components and/or the coverage of the audit shown separately for continuing and discontinued operations.

Lastly, we provide our overall suggestions:

- We suggest the disclosures about the scope of the audit to be aligned to the requirements in the UK and limited to the extent of components in-scope for the group audit and coverage of key financial metrics.

- We suggest that the requirement for the disclosure of audit scope should be aligned to the entities for which materiality disclosure is required.

We noted above that the users may be interested in understanding more about the entity's control environment; however, the audit approach not being a close proxy to indicate information about the entity, which would not be beneficial to the users to be included in the audit report. We note that should the effectiveness of an auditee's control environment be of use and importance to the users, the JSE listing requirement 3.84(k) from the CEO and FD's statement about effectiveness of controls for JSE listed entities is perhaps a better place for users to obtain such information.

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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	☐	✓	☐	☐	☐

Detailed Response to Question 2:

We believe disclosing the materiality threshold applied and an explanation of significant judgments made by the auditor in determining materiality for the audit in the auditor's report may be useful to enhancing the user's understanding of the audit that was performed, we highlight the benefits that might come of the disclosure; we have further noted some drawbacks below with our suggestions.

Benefits:

- Gives users transparency to the audit process through insight into the auditor's judgment about the amount that the auditor considers to be material and re-affirm the concept of reasonable rather than absolute assurance.

- If the basis for materiality is disclosed this may further provide insight into the financial elements the auditor believed was of most relevance to the audit, which may clarify the focus of the audit from a quantitative materiality perspective.

- May be useful to reduce the expectation gap of users about the audit in respect of the depth of the audit although performance materiality disclosures along with materiality would best achieve this.

- The quantum of materiality most allows users to understand the major input into the 'precision' of the amounts stated after the audit given the quantitative amount is a primary input into assessing whether misstatements are material or not.

- Understand the views of the auditor of the environment when assessing the change in assessment of what is material to users between years by the auditor.

Drawbacks:

- Too much focus on the numeric threshold of materiality may create confusion for users for the following reasons:

- The extent of audit work is driven by materiality but more so by performance materiality and secondly there are many other factors that influence the extent of audit work and nature thereof and thus materiality is only but one input.

- From a precision of amounts stated perspective, materiality is much more than just a number and evaluating misstatements involves significant judgment. Stating the materiality may in some instances oversimplify the concept and this may be ineffective towards the goal of enhancing the users understanding of the audit as users may not be aware of or consider the other considerations the auditor may have applied in evaluating misstatements.

- Firms have differing preferences about benchmarks and percentages used to calculate materiality which may impact comparability as the specific auditors may have very different "options" / choices which have a large bearing on the outcome. The users may not be aware of the different limitations on the different firms as to what they can or cannot use which then impacts the conclusions they can draw from the disclosures.

- In addition, the concept of difference in methodologies further impacts other areas of the audit. Materiality as a numeric amount cannot be seen in isolation to the rest of the audit. (Firms may allow for benchmarks that allow for higher materiality amounts but then may require more testing / sample sizes relative to the materiality for example).

- Given these two points, different Firms' methodologies around the calculation of the materiality amount would not necessarily provide for an amount that is comparable for users between audit reports and more likely not between Firms.

- Lastly, materiality is often more than a mathematical exercise and, in some instances, may be determined through more complex determinations including adjustments, normalisations and by comparing different benchmarks to arrive at a "middle-ground" or best position. When more complex scenarios require these approaches, it may be difficult to explain simply in the audit report how it was determined.

Suggestions:

- The approach should include the requirement to provide clarity within the audit report about the concept of materiality and how materiality is used within the audit, including planning and executing the audit and evaluating misstatements.

  - While this will increase the length of the audit report, we believe that the descriptions should be clear and concise to provide sufficient understanding to the user so as to not cause confusion to the user.

  - This will be even more important in considering the concepts from Q3 and Q18 with respect to the potential disclosures about performance materiality and the threshold of unadjusted misstatements given how each of the numbers inter-relate. Thus, a short concise explanation of the concepts and how they interrelate will be important.

- The IRBA's initiative can only consider the auditor. As noted in our introduction we believe that the enhanced reporting by the auditor should correspond with increased reporting by management. In this regard it would be ideal for there to be disclosure by the entity about the judgments regarding materiality that management applied in the preparation of the financial statements which would then provide comparative context to go with the disclosures by the auditor in the audit report.

- Specific guidance should be provided about what to disclose in respect of materiality to result in some consistency and to allow evaluations across methodologies. If the amount is to be disclosed this should be accompanied by clarity on the benchmark used, the percentage and the primary reason(s) for using the benchmark. Clear guidance should also be provided on what other significant judgments made to determine materiality should be disclosed.

    - For example, whether the auditor merely states that the basis was adjusted or normalised or whether such adjustment / normalisation needs to be further clarified. There may also be some guidance to disclose the options the auditor was able to consider based on the methodology used.

    - Guidance should also clarify whether the auditor should disclose any changes in the materiality amount at the planning and execution of the audit and the final materiality amount; or simply state the final materiality amount. We considered that there may be benefits for the users' understanding of how the audit was performed to disclose how a lower planning materiality reduced the performance materiality to which the audit was performed, in doing so, reducing the overall detection risk on the audit in relation to the final materiality; however, we also recognised that the concept of materiality is complex as we noted above, and that disclosing various materiality thresholds at planning and final may create unintended confusion to the users. On the balance of the benefit and drawback, we suggest that only the final materiality is disclosed without any further explanation on the change in the materiality amount from planning to final.

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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	☐	☐	P	☐	☐

Detailed Response to Question 3:

We believe the disclosure of performance materiality may enhance the understanding of the audit that was performed. Below, we highlight the benefits to this disclosure which could narrow the users' expectation gap about financial statement audits and provide some suggestions to the disclosure in the audit report should performance materiality be disclosed. We also noted some practical challenges and drawbacks for such disclosure.

Benefits:

- Performance materiality more directly influences the nature, timing and extent of audit procedures and, as such, we believe performance materiality would be the better measure to enhance the users' understanding about how an audit was performed than the overall materiality threshold.

- Specifically, the disclosure of the performance materiality threshold and the concept of performance materiality may help to narrow the expectation gap between what users believe the extent of an audit to be versus how auditors perform audits.

- Performance materiality may also provide some insight into the auditor's perception of risk for the engagement, but this would only be the case if it is clear whether the reported amount has been set relatively high / low compared to other audits for that audit firm. Insight comes from the fact that higher performance materiality would generally indicate lower risk given it is a reflection of both expected differences and the auditors tolerance for undetected error.

Drawbacks:

Although in simple terms higher amounts would indicate lower risk, the determination of performance materiality is not purely a mechanical calculation and involves the auditor applying professional judgment about his/her expectations of misstatements. Furthermore, the thresholds applied in determining the amounts and the judgments to be considered likely differ by firm. For example, some firms may have two options to select from (e.g., 50% or 75%) or allow for a percentage to be set within the range (e.g., 50% to 75%). Ultimately as it is not a simple mechanical exercise with known parameters from the ISAs, the disclosure of the amount would have the following drawbacks:

- The amount is a useful indicator of risk and truly comparable only if one has a sense for the firm's process and have experience with comparatives from the same firm.

- Regardless, given the allowance for judgment, individual audit partners may choose to lower performance materiality for new audits or during periods of economic instability purely to avoid the risk of needing to do more audit work later when the assessment of risk is unknown. The auditor may also “haircut” the amount to allow for possible drops in materiality without needing to lower materiality. This may not reflect on the risk of the client being audited but merely on the “whim” or prudence of the auditor.

- It is a concept that is technical and integral to how audits are conducted in terms of selection of accounts, thresholds, sampling and analytical review thresholds. These implications are likely to be more interesting to fellow auditors and the audit regulators than to the primary users of the financial statements and the accompanying audit report, whose primary financial information needs lie within the financial statements.

- Where the auditor determined lower materiality levels for certain accounts or classes of transactions this may have resulted in different performance materiality levels resulting in complexity for the user.

- Since performance materiality influences the design and extent of audit procedures and auditors need to incorporate an element of unpredictability in the design and execution of procedures to respond to the risk of management override of controls per the requirements of ISA 240 and ISA 330, disclosing the amount over time, result in performance materiality becoming predictable (and even confirmatory) to management and thus impacting on the auditor’s ability to detect misstatements. This may have to be countered by even more testing that what was required prior to disclosure.

Suggestions:

- We therefore suggest that if performance materiality is to be disclosed in the audit report, the auditor’s significant judgements to determine the performance materiality also be disclosed to enable users to understand not just the final outcome but the reasons for the amount. This will ensure that the users do not make the wrong assumptions regarding the auditor’s views of the entity and thus in relation to the actual vs perceived risk.

- We believe that the concept of performance materiality and how it is used within an audit, especially with regards to the further determination of the nature, timing and extent of audit procedures to be important to the users’ understanding of the relevance of performance materiality. Therefore, similar to our response in Question 2, we believe that a clear and concise description about what performance materiality is within an audit should be included in the audit report; however, we recognise that such further disclosures would further lengthen the audit report.

- In instances where the auditor made judgments to apply a lower performance materiality to execute the audit as we noted above, we believe that the auditor should be permitted to apply judgment to determine the extent to which the overall audit was performed to a lower performance materiality compared to the final performance materiality that was determined to evaluate the overall sufficiency of audit evidence for the conclusion of the audit. In those instances we believe they should disclose the lower performance materiality against which the audit was conducted to provide users with an understanding about the reduction in the detection risk of the audit. This will be more important when materiality itself was disclosed and increased at the end of the audit due to changes in the base being used. This may clarify why the performance materiality was much lower than expected. However, we also recognised in our response to Question 3 in light of complexities around the concept of materiality as a whole, that disclosing changes or different performance materiality thresholds at the execution of the audit compared to the completion of the audit may create unintended confusion to the users. We believe guidance would be necessary as to the type of considerations the auditor should make and be reflective in clear disclosure of this fact.

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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	☐	☐	☐	✓	☐

Detailed Response to Question 4:

We do not believe that disclosures focussed on suggesting that an audit is or should be designed to detect fraud and irregularities would be useful or desirable. We therefore note the drawbacks we have identified in concluding this and have provided some other suggestions.

Drawbacks:

- By the very nature of an audit of financial statements, and the inherent limitations of an audit to detect irregularities and fraud, we believe statements about the capability to detect irregularities and fraud would lead users to believe the audit is intended to do so and may cause the widening of the expectation gap for users. This would in turn result in auditors believing they have to compensate with more procedures beyond the scope of the ISAs purely to limit risk of the expectation gap which is created by the reporting requirement. In this way the disclosure requirement becomes self-fulfilling rather than a reflection of the real audit strategy.

- Related to this is that if an audit does identify an irregularity or fraud this alone would not provide evidence that the audit was capable of identifying fraud or irregularities as other matters may remain undetected despite the approach being appropriate.

- The primary responsibility of fraud prevention and detection is that of management, with the oversight of those charged with governance. Therefore such disclosure places more emphasis on the auditor's responsibilities over than of management and has the potential to further widen the users' expectation gap.

- Fraud-related audit procedures should include an element of surprise. We believe detailing audit procedures to respond to irregularities and fraud in the audit report may result in such procedures becoming predictable to perpetrators which may inadvertently result in more elaborate schemes to conceal such occurrences. On the other hand, we recognise that such disclosures in the audit report may also act as a deterrent by shining a spotlight on the external auditors focus in that regard. On the balance of the benefit and drawback, we note that the focus on auditor's role in detecting irregularities and fraud may further widen the users' existing expectation gap.

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- Ignoring the concept of “the ability of audit to detect fraud” and focussing on disclosing the procedures done by the auditor in response to fraud - we note that those disclosures are very much related to the risks identified by the auditor and that the risks rather than the approach may be more relevant.

    - Stating what the auditor performed in relation to compliance with laws and regulations and fraud may not be so useful to the users without context as the auditor’s responses needs to be understood in relation to the risks the auditor identified.

    - The responses themselves may also be complex, nuanced and the judgment regarding why certain procedures were performed and to what extent may need clarification for it to be useful. In simple terms, faced with a specific risk of fraud, different auditors may determine different responses, and both may be equally appropriate under the ISAs but not necessarily comparable. Moreover, the response to the risk would also be in the broader risk environment of the entity including all the other risks arising within the unique processes of the entity. Therefore, the determination of the procedures would be complex and merely noting them without the wider context of all the risks informing those procedures would be misleading and not useful. However, this further context may be unwieldy and lengthy and thus this approach may not be useful.

Suggestions:

- Instead of the disclosures about the capability of the audit to detect irregularities and fraud, we believe clarifying the auditor’s responsibilities in relation to irregularities and fraud in the audit report may help to enhance the understanding of how audits are performed and may assist in narrowing the expectation gap users have about auditor’s role in detecting irregularities and fraud against what is required of auditors by the auditing standards; however, we note that this clarification may come as boilerplate and lengthen the audit report.

- Given our views on the complexity of merely stating procedures, we believe that detailed explanations about how the auditor conducted the audit to address specific risks should follow the approach of Key Audit Matters, where warranted, so that a proper explanation about why a matter that might relate to compliance with laws and regulations or fraud risk was significant to the audit and how the auditor responded to the matter during the audit can be provided for more context. As noted above, we however, do not believe this type of disclosure would be useful to enhance the users’ understanding about the audit when such matters do not rise to the level of key audit matters to be significant to the overall audit. There may be some debate whether by default the auditor does this for all fraud risk identified but this would not be following the principles of ISA 701.

- We believe that there should be consultations with other regulatory authorities on whether more disclosure could be required by management and those charged with governance on their approaches to fraud / irregularity prevention and detection, and to further explore with the IAASB initiative on Going Concern and Fraud whether more should be done by the auditors to meet the evolution gap.

In summary we believe the larger issue is that there is already significant expectation gaps in the market in believing that the auditor is responsible for detecting fraud and for uncovering irregularities as objectives of the audit. We believe that efforts on fraud should be made on better emphasising the limited role the auditor has, by being clearer on those responsibilities of the auditor and by emphasising the responsibility resting with management and those charged with governance for these matters.

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	☐	☐	☐	✓	☐

Detailed Response to Question 5:

Going concern as with fraud and irregularities is an area where there is a significant expectation gap between the users and the auditor. More needs to be done to close this gap. For this reason, we are supportive of the IAASB's initiative. There are however a number of interlinked issues in the financial market which result in this gap and which were well discussed in the IAASB paper. These include:

- Different auditor applications of certain ISA 570 concept mostly relating to the time periods and the evaluations of material in "material uncertainty";

- The lack of detailed guidance for preparers and enforcement of disclosure depth which is done more by the auditors applying ISA 570 and assessing fair presentation; and

- Differences in the period of assessments for going concern applied by management under frameworks to the period an auditor would consider. (Clients often stick to 12 months from balance sheet date whilst the auditor has to consider the foreseeable future which may be 12-18 months from audit opinion date for a "material" uncertainty evaluation.)

- Thus, the assessments done by management and their extent of disclosure are likely driven by the auditor as the auditor requests and drives management to update their assessments / disclosure and consider more "reasonable" periods.

- The going concern assessment and the audit thereof is thus already balanced with more responsibility on the auditor to drive the process than on management. The disclosure requirement imposed on management is the "threat" of a modification rather than a reporting requirement they need to follow.

We believe this question should be considered in the context of our responses to the other questions on going concern (Questions 5 – 8) as this would be the "final layer" so to speak on additional disclosures and thus our views on the other aspects should be considered with this. As noted under the discussion of procedures relating to material uncertainty, we noted that the approach and procedures are largely uniform for all entities but the assessment of the evidence collectively and the judgments is indeed unique. For example the complexity arises from the auditor assessing the forecasted profit and cashflows and their reasonability in the

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context of the plans (the evidence for the implementation and likelihood of the success of such plans) along with assessing the impact of known future events, available funding and historical outcomes together. Then from these procedures there is the need to form a judgment regarding the degree to which these interact to either mitigate or contribute to the uncertainties. Then finally to form a final overall judgment whether the outcomes of the procedures result in “material’ uncertainty considering both the magnitude of the potential implications of various scenarios against the timing and the likelihood of those different outcomes. This would certainly be of interest to users. However, describing this would require setting out all the of details from the forecasts and explaining in long form the conclusions reached on all procedures and all the thinking in forming the final judgments. This would thus encompass providing much of the working papers. Without further examples or guidance, we do not see how one would provide relevant information that is useful with providing substantially more detail than what is in the disclosures.

However, in trying to summarise this process that would in theory also be somewhat duplicative of the disclosures in the financial statements. We discuss this below.

The auditors’ assessment of going concern and the way in which the auditor concludes would require the auditor to agree with management on their assessment and for the summary of this assessment to be disclosed by management in their disclosure. ISA 570 and the concept of fair presentation would require management to disclose all the matters giving rise to potential uncertainty along with their plans and other key assumptions and judgments made in concluding on whether or not such matters gives to actual rise material uncertainties related to going concern. Where there is a complex assessment of going concern due to the identification of indicators, this level of detail in the disclosure would always be required and only the conclusion in the disclosure on whether or not there is material uncertainty would change in the financial statements and in the audit report. Therefore, the reader would thus be always be provided with the summarised details necessary to understand the conclusions. Replicating these same disclosures in the audit report would not further enhance the usefulness of the audit report to the users, but rather unnecessarily lengthen the audit report. We believe the real concern may thus lie with the application of ISA 570 by auditors in ensuring that management’s disclosure is sufficiently detailed and provides sufficient clarity in how the going concern basis of preparation (with or without material a uncertainty being concluded) was determined when there were indicators of uncertainty identified. Guidance in this area may therefore be a better solution even though it would continue to increase disclosure driven by the audit standards rather than through the framework. Nevertheless, increased disclosure from management on going concern would be best given that it is their assessment and the auditor only audits such assessment and is not in fact opining discretely on the going concern position (see next question).

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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	☐	☐	✓	☐

Detailed Response to Question 6:

We do not see any benefit to this statement given that it is a statement made by management in preparing the financial statements and simply due to the fact that the auditor has not qualified this would indicate that the statement is not materially false. We note the drawbacks below.

Drawbacks:

- The most significant drawback is that this would further widen the expectation gap between what users believe is the role of management and auditors with regards to financial statements, and the purpose of an audit. The going concern assessment is fundamental to the basis of preparation used but is not a distinct audit of the entity's viability. The statement may thus confuse the user as to what it means. The period of assessing going concern uncertainty for the audit and its impacts to the preparation of the financial statements is a much shorter period. i.e. for there to be a material uncertainty the likelihood of issues needs to be in the shorter term. Thus the statement may further confuse the auditors assessment and outcome to be a longer term assessment than intended.

    - For example, an auditor may conclude that a loan which has to be refinanced in two years does not at present give rise to material uncertainty given the entity's improving (but not perfect) forecast as the entity has many viable options prior to that date. This view may change in a year merely due to the passage of time if no improvements are seen and no actions are taken by management.

- A positive statement may not allow a user to comprehend the auditor's approach to assessing "material" uncertainty at a point in time looking at limited data and they may take more comfort than they should.

- As noted above in the introduction, a statement by the auditor would be duplicating management's disclosure and is also their role. This approach would be the opposite to the principle of an ordinary audit where discrete opinions on separate elements of financial statements are not given. Moreover the positive statement may misconstrue the statement as absolute rather than being made in the context of "reasonable assurance".

- For example, the auditor does not state the individual accounts and disclosures in the financial statements are fairly stated, but instead opines on the financial statements as a whole. Where a material concern exists, the entity would receive a modified opinion.

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Similarly, sufficient approaches exist for instances in which the audit report already discloses matters about going concern:

- Where the auditor does not believe the going concern basis of accounting used to prepare financial statements is appropriate, the auditor modifies the audit opinion as relevant.

- Where the auditee is no longer a going concern, the auditor would ordinarily draw the user's attention to that fact by the inclusion of an emphasis of matter.

- Where material uncertainties related to going concern exist despite the going concern basis of accounting being appropriate, the auditor discloses such material uncertainties and draws emphasis to further disclosures made by management.

- In each of the above instances, we believe that the auditor is sufficiently disclosing matters which are genuinely relevant to the users' understanding of the audit and the financial statements.

Therefore the generalised approach to including a statement about the use of the going concern basis of accounting would result in every audit report including matters with regards to going concern which detracts from situations that genuinely necessitates disclosures in the audit report about going concern.

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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	☐	✓	☐	☐

Detailed Response to Question 7:

We refer to our introduction in Question 5 noting that we agree going concern is an important area for users of financial statements. Following on that thinking we note the below considerations.

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Benefits:

- We believe that in certain instances, setting out the approach and steps taken by the auditor to evaluate an auditee's ability to continue as a going concern in terms of the requirements of ISA 570 might reduce the users' expectation gap that exists regarding the extent of work an auditor does on going concern and how they formulate their conclusion. In particular understanding the period the auditor was focussed on and the specific procedures may provide better context as to the limited nature of the assessment which is a shorter term rather than a longer term or a viability assessment. However, we believe this has limited use given that these disclosures would be very similar between entities.

Drawbacks:

- At a high level, the auditor's procedures to evaluate management's assessment of the entity's ability to continue as a going concern are set out in *ISA 570 – Going Concern*. These procedures remain largely the same between all entities with the differences being in the nuances of how the results are evaluated and interpreted.

- For example, most assessments would comprise obtaining management's assessments along with their profit and cashflow forecasts. The auditor would then obtain evidence for the assumptions, assess the completeness of the forecasts against known conditions, loans and other events and whether the forecasts incorporate management's plans and the overall reasonability of the forecasts in light of these factors. The auditor may then stretch or adjust the forecasts for concerns to determine potential impacts. Based on the results from these steps, the auditor would assess the his/her conclusion whether a material uncertainty exists or not (refer further to our response in Question 5).

- Setting out these procedures in the audit report using a generalised approach to reporting on going concern would likely not further enhance the understanding of the audit, but rather unnecessarily lengthen the audit report and over time only provide these boilerplate procedures which ISA 570 requires the auditor to perform.

- The real benefit would be in understanding the analysis of these procedures and the auditor's views on the uncertainties and likelihood of various scenarios, but this detail would be too complex and cumbersome to include in the audit report.

Suggestions:

- As noted in our response to Question 5, additional guidance on the expected level of disclosures in the financial statement, and providing scenarios and examples may be better. Improving the accepted disclosure made by management would be more beneficial than providing more information from the auditor's side.

On the balance of the above, while we believe there may be benefits to this disclosure, we noted that such requirements may result in disclosures that are overly boiler plate and the solution to that (Question 5) would be too complex. Rather robust disclosures should be made by management within the financial statements. As such, we concluded that this disclosure would not be useful.

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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	☐	☐	☐	✓	☐

Detailed Response to Question 8:

Drawbacks:

- Similar to our response in Question 6, when material uncertainties related to going concern exist, the audit report already contains a "Material Uncertainties Related to Going Concern" paragraph that explains the material uncertainties and draws further emphasis to management's disclosures about the assessment of the entity's ability to continue as a going concern and those material uncertainties related thereto.

- We believe that the disclosures made by management and the fact that the audit report is silent regarding going concern should be sufficient to enable to the users to deduce that no such material uncertainties related to going concern exist. [The disclosure in the financial statements would otherwise be deficient]

- We believe, having - in all instances - a paragraph in the audit report about whether or not material uncertainties related to going concern exist detracts from situations which genuinely warrant such disclosures.

- However we acknowledge that this disclosure would be better than a positive statement on going concern addressed in Question 6, as the negative statement with an emphasis on "material" uncertainties would better reflect the auditor's obligations and approach.

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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	☐	☐	✓	☐

Detailed Response to Question 9:

Our responses in Questions 5 – 8 already emphasise that disclosures about the auditee's use of the going concern basis of accounting, its ability to continue as a going concern, whether material uncertainties exist, and the key assumptions, judgements and plans made by management with regards to the entity's ability to continue going concern should be made by management within the financial statements.

Guidance on both the assessment of going concern and the resulting disclosure with the intent of driving more specific and understandable disclosures would likely be more beneficial.

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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	☐	☐	✓	☐

Detailed Response to Question 10:

The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed and to provide additional information to the intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. This communication may also provide the intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.

The existing ISA 701 provides for the voluntary disclosure about key audit matters for entities which are not required by ISA 701 and local laws and regulations to report on key audit matters (in South Africa, the entities which currently require key audit matters to be reported include Listed entities and Medical Schemes). Based on our experience, there have been no instances in which auditors specifically sought to disclose key audit matters beyond those entities for which key audit matters are required. We have also not had instances where we received direct or indirect feedback from users for key audit matters to be reported beyond Listed entities and Medical Schemes.

We further considered Public Interest Entities (PIE) as defined in the IRBA Code (Revised November 2018). Whereas we believe key audit matters may be useful to enhance understanding about how an audit was performed to users, the communication of key audit matters is more valuable to users of financial statements where such financial statements are widely distributed and where there is a large number of users (e.g., of Listed entities) and where the financial statements and the accompanying audit report are key sources of the users' understanding of an entity and its financial performance.

In comparison, we believe the users of non-listed entities where the number of users are sufficiently small that dialogue between management, those charged with governance, the users and the auditors is easier would not necessitate the communication of key audit matters formally on the audit report. Also, in many PIEs the broader "public interest" of users is not in the detail of the financial performance or the details of the financial statements but merely in knowing that the entity has been audited. For example, in a unit trust scheme the users would not generally use the financial statements for making a decision to purchase a unit given how old the information is and thus their decision making is informed by other information about the fund and from the fund. However, it is important that such funds are audited for governance.

We expect that should the requirement for the communication of key audit matters to be extended beyond Listed entities and Medical Schemes, that matters of most significance in the audit of the financial statements of the current period may not present as matters of genuine interest to the users to ultimately meet the objective for reporting key audit matters due to the nature of entities not being complex as is for Listed entities. Further, we have seen elsewhere in Africa where laws and regulations require auditors to communicate key audit matters on public interest entities that auditors commonly conclude there is no key audit matter to be communicated. Of course, this is not to say auditors never communicate key audit matters for non-listed public interest entities, but that instances where key audit matters are communicated is largely limited.

We suggest that IRBA provides more guidance around the voluntary reporting of key audit matters, in this way to encourage the communication of key audit matters in instances where it may be warranted but such communication is not required. This approach can help to further evaluate the need to communicate key audit matters beyond Listed entities and Medical Schemes.

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	☐	☐	☐	✓	☐

Detailed Response to Question 11:

We have only provided our reasons as to why we believe there is no benefit:

- It is clear within ISA 701 that key audit matters are not separate opinions on individual matters. The danger with requiring disclosures about the outcome of audit procedures and key observations with respect to key audit matters is that such disclosures could be interpreted by users as discrete opinions on specific elements of the financial statements. This could cause confusion for users around the understanding of the audits of financial statements and the overall reasonable opinion expressed in terms of the financial statements as a whole and has the potential to widen the knowledge gap about audits. Should such disclosures be required, additional guidance would be necessary for auditors to describe outcomes and key observations while at the same time, avoiding wording that suggests discrete opinions or that might cause confusion to the users.

- We note that paragraph A46 of ISA 701 already provides for the auditor to apply professional judgment in communicating how a key audit matter was addressed, and allows the auditor to provide an indication of the outcome of audit procedures or key observations with respect to the key audit matter. We do not believe it would be appropriate to mandate such disclosures by the auditor as the extent of this required disclosure may impact the auditor's ability to exercise professional judgment and as noted above, may cause confusion to the users of the audit reports.

- Furthermore, we note that the spirit of ISA 701 is not to provide original information by auditors in the audit report, but that management provides the necessary disclosures of information relevant to users within the financial statements. We have reservations about disclosing key observations with respect to key audit matters which may constitute as original information, for instance by noting whether an entity's assumptions is aggressive or conservative in nature to sector benchmarks which is not a disclosure required by IFRS.

Suggestions:

- We would suggest that further outreach is conducted by the IRBA to determine whether users benefitted from the key observations disclosed by auditors of Listed entities on the Johannesburg Stock Exchange as provided in paragraph 61 of the Consultation Paper.

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.	✓	☐	☐	☐

Detailed Response to Question 12:

We believe regardless whether an entity is a PIE or not, that it would be useful for users of financial statements and their accompanying audit reports to have visibility of the professional relationships between the auditee and the auditor, due to this visibility providing better clarity to the users of the audit report about the independence of the auditor in relation to the entity, and in particular, to support the shareholders to make informed decisions about the appointment of auditors at the Annual General Meeting of the company each year.

Benefits:

- The visibility helps the shareholders to have conversations with management and the auditor about the type of relationship between the auditee and the auditor. This conversation can also lead to discussions to the safeguards the auditor has in place to address any threats to independence.

- The visibility may help to provide the users of financial statements and the accompanying audit report with more confidence about the audit process.

Drawbacks:

- The split between fees charged by the auditor for assurance services and non-assurance services is only one element that pertains to the professional relationship between audit firms and their clients. The evaluation of relationship between the auditee and the auditor includes other considerations, such as:

  - the number of years a Firm or an Engagement Partner has served as the audit firm or auditor respectively to an entity, and

  - The nature and extent of services provided by a Firm or an Engagement Partner to an entity prior to being appointed as the audit firm or auditor to the entity.

  The focus on the split between fees charged for assurance versus non-assurance services may oversimply the relationship between auditee and auditor.

- The distinction between services may not be clear to the users especially when certain entities by their nature require additional services as part of their regulatory environment. For example, a bank would require the auditor to perform the regulatory audits in addition to the main audit. These services whilst an addition to the audit are integral to the audit and either mandatory for the auditor to perform or most effective given their connection to the underlying audit. They would not be “sold” services in addition to the audit.

- In the absence of more formal regulatory guidance on what level of non-audit / non-assurance fees as a percentage of audit / assurance fees is acceptable, disclosure of this type of information may be interpreted differently by different stakeholders on what level of services is too much, and what level of services might impact on the auditor’s independence.

Our suggestions:

- Care should be taken to distinguish between more than just audit and non-audit services, but to be clear in what relates to:
  A) Assurance,
  B) Assurance Related (e.g., ISRS 4400), and
  C) Other services.

  This should then also be broken down into why it was required and such groupings may include:
  A) The statutory audit including all interim and other similar reporting required by law (Example: JSE Listings requirements) with each being disclosed as sub-components and the reason,
  B) Assurance work required by the other regulators,
  C) Assurance or related assurance work (ISRS 4400) requested by entity and
  D) All other non-assurance work.

  More detailed information such as this would provide a more realistic understanding of the impacts of the work on independence and the relationship between auditor and auditee. A large number of services may suggest that some could be moved to other providers but this disclosure may clarify that that the number of different relationships are more a function of the regulatory environment or other factors (transactions being entered into by entity on the JSE for example) rather than the auditor selling additional “value-add” non audit services.

- In relation to the first drawback where we noted and the fact that there are other considerations which would be relevant, guidance should be provided to stakeholders noting all of the various factors which have a bearing on understanding and providing transparency about the relationship between the audit client and the audit firm. This guidance should be sufficient to help stakeholders understand the key considerations and to enable the entity to provide the necessary information to the stakeholders. The guidance should include a framework of what levels of non-audit / non-assurance work to be acceptable.

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.	☐	☐	✓	☐

Detailed Response to Question 13:

We noted in Question 12 that regardless whether an entity is a PIE, that it would be useful for stakeholders to have visibility of the professional relationships between the audit firm and the audit client as this visibility helps to provide clarity to the users about the independence of the auditor in relation to the entity. However, we do not believe such information should be disclosed by the auditor in the audit report, our rationale is as follows:

- The disclosure about the auditor’s independence is already made within the basis of opinion about the auditor’s compliance with the independence standards, further details within the audit report may result in lengthy audit reports with detailed information what is not necessary to the audit opinion itself.

- The visibility over the relationship between the audit client and auditor should not be merely seen as disclosure, but more as information to enable dialogue between management, those charged with governance, the shareholders and the auditor.

- Details should be provided to the key stakeholders, primarily the shareholders who need to attend the Annual General Meetings and vote by resolution to appoint the auditor. This should also be done by management of the entity since it is management that puts forward an auditor for appointment by the shareholders, refer further to our suggestion below.

- Where a change in auditor is being proposed at the AGM, the information relevant should be provided for:

    - The relationship between the audit client and the outgoing auditor, so as to provide users with an understanding of the independence of the outgoing auditor to the auditee supporting the last audit report signed off by the auditor, and

    - The proposed incoming auditor, so as to provide users with an understanding of the previous relationship between the auditee and the proposed incoming auditor to support the shareholders’ vote on the auditor appointment for the following period

  Due to the extent of detail, we further do not believe the audit report is the appropriate mechanism for such disclosures Refer further to our response in Question 14.

Suggestion:

- The most relevant form for providing the shareholders with the details about the relationship between the auditor and the audit client is perhaps within an insert to the notice of the Annual General Meeting as supplementary information.

- In this regard, we further suggest that any relevant information from the auditor to be submitted to the Audit Committee (or the Board of Directors in the absence of an Audit Committee), so that the necessary information may be agreed upon between the Audit Committee and the auditor to enable the Audit Committee to present the information to the shareholders in the Notice to the Annual General Meeting (AGM) and/or presented at the AGM.

- We believe guidance as to the form and content of such information to be presented by the auditor would be useful to the auditors and Audit Committees.

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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?

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

a) *Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.*

b) *Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion.*

c) *Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.*

d) *If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.*

	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	☐	✓	☐	☐

Detailed Response to Question 14:

Paragraph R410.30 of the IESBA Revisions to the Fee-related Provisions of the Code state that if laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity the benefits to the key stakeholders of the entity and that the information may enhance the users' understanding of the fees paid / payable and the impact on the firm's independence.

This suggests preference for disclosure by management, however, the responsibility to drive such disclosure by management is being placed on the auditor and placing more responsibility on the auditor. This is a similar challenge to going concern. While we recognise this to be outside of the purview of the IRBA, ideally local laws and regulations should be updated to reflect management's reporting responsibilities.

In the absence of such disclosure requirements for management, we consider some practical challenges for the disclosure and in the event disclosure should be made by the auditor, our considerations around appropriate mechanisms below.

Practical challenges for implementation:

Regardless whether the disclosures of fees paid to the auditor(s) per paragraph 65 (a) – (d) of the Consultation Paper is made by management or the auditor, we identified the following practical challenges which we believe required further consideration and guidance from IRBA:

- In instances where joint audits are conducted which is required for banks per the Banks Act No. 94 of 1990, consideration whether the fees paid to the joint auditors should be disclosed as a singular amount for matters (a) to (d) or split between each joint auditor.

- In group audits where the audit involves the component auditors which are not within the same network of firms as the group auditor, consideration whether fees paid only to the group auditor and its network of firms is disclosed, or whether fees paid to non-network firms over the group audit should be disclosed separately.

- In instances where non-audit or non-assurance services must be performed by auditors which we experience in the banking and insurance industries, simply disclosing the quantum of fees paid not for audit services may lack clarity to users without such context being provided, therefore consideration whether additional explanations provide more understanding to users.

- Where fees are paid other than for audit services and assurance services, consideration whether the other fees that relate to various services should be disclosed separately and the extent of categorisation.

- In circumstances involving investment holding companies, the classification of other fees to part (b) or part (c) of paragraph 65 may be different for two entities only due to whether the requirements for the IFRS 10 exemptions for consolidation has been met and applied. This may distort comparability for users.

- Where part (d) of paragraph 65 is applicable, the fact that total fees received by the firm from the audit client exceeds 15% of the total fees received by the firm in two consecutive years being disclosed in isolation without further explanation about the auditor's safeguards to the threat to independence may not be useful to the users, consideration whether and how to further provide context of the safeguards put in place by the auditor may be more useful.

We consider whether the audit report is an appropriate mechanism for the auditor to disclose such information in the section below.

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

Our first preference would be to encourage the entity to make the necessary disclosure. However, failing this, we consider the various options suggested in paragraph R410.31 A3 of the IESBA code.

- The firm's website, transparency report, audit quality report may not be suitable mechanisms to provide such detailed information about each PIE entity that has not made such disclosure. The intensiveness to which this information as a whole needs to be updated to cater to the various reporting dates of Firm's clients might also be impractical.

- The disclosure may be communicated by auditors through targeted communication to specific stakeholders, for example a letter to the shareholders to AGM submission by the auditors. However, we recognise that for PIEs with a wide stakeholder base, such communication may be biased towards the shareholders of the entity rather than all key or relevant stakeholders.

- Failing the above options, we recognise that this is a requirement for the auditor to make the disclosure not made or not appropriately made by management, in which case, the only option is to provide such disclosures within the audit report.

Suggestions:

We make further suggestions regarding the disclosure of this required information.

- Where the above practical challenges we raised above further impact on the auditor's ability to disclose the relevant information (such as in joint audit instance or group audits with non-network firm component auditors), whether the disclosure is most appropriate for the entity or the auditor to make, or perhaps a combination of both, for example:

  - Disclosure of part (a), (b) and (c) of paragraph 65 to be made by the entity, and disclosure of part (d) where relevant to be made by the auditor including explanations by the auditor around the safeguards put in place to mitigate the threat to independence.

  - If it is believed that the disclosures should be made by the entity, consideration about whether such disclosures should be made within the financial statements by management; or by those charged with governance, for example in the audit committee report.

- Different means of communicating this information may be appropriate in different circumstances (for example whether part (d) is relevant, or whether more explanations are necessary around non-audit fees), and different audit firms and network of firms internationally may have different preferences for the mode of disclosure that needs to be explored further.

- We believe whatever the mode for communication, that the information is precise and understandable to the users, provides context about amounts disclosed to enhance the transparency to users about auditor independence, and place wherein this disclosure is contained is largely consistent across entities so that it is easy for users to locate.

- We believe the effective date for the application of this revision to the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards) being for audits of financial statements of periods beginning on or after December 15, 2022 to warrant further consultation and guidance before implementation.

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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	☐	☐	✓	☐

Detailed Response to Question 15:

We do not believe disclosure about whether an entity is classified as a PIE should be disclosed in the audit report for the following reasons:

- We have reservations whether such disclosure in the audit report would benefit the users' understanding about the audit or the quality of the audit;

- Whether an entity is a PIE or not, should not have any impact on the quality of an audit. An audit should be performed in relation to the circumstances of the entity, the risks identified by the and the audit evidence gathered by the auditor to reach a conclusion;

- Whether or not an entity is considered to be a PIE is based on the definition of PIE by the audit regulator and the IESBA (which is under consultation). Further, the only bearing on the audit when an entity is a PIE is in relation to additional independence requirements for the auditor in relation to the auditee, such as audit firm rotation and audit partner rotation periods, and the disclosure about the length of audit tenure in the audit report and thus disclosing this fact has little relevance to the users.

- The determination of whether an entity is a PIE by the auditor or otherwise treated as a PIE by the auditor may involve judgment for entities which the auditor assesses in terms of section 290.26 of IRBA Code to be PIEs due to a large number and wide range of stakeholders. This may result in confusion to users when disclosure is made and is inconsistent between similar entities.

- Above all, regardless the type of the entity being audited, the basis for opinion already includes a clear statement by the auditor that he/she is independent of the auditee in accordance with the applicable independence requirements.

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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	☐	☐	✓	☐

Detailed Response to Question 16:

We do not believe that a misstatement in the prior year that is corrected in the current year by restating the corresponding figures should always be described in the audit report. The primary reason is that not all restatements are of such significance to warrant such treatment. Regardless all prior period errors would in any event already be disclosed by management through appropriate IAS 8 disclosure.

Whilst we do agree it may be warranted for more complex or significant restatements, the standards already cater for this consideration and indirectly so do the local regulations in the following way:

- When a material prior period misstatement is identified and corrected in the current year by restating the corresponding figures, the auditor determines in terms of ISA 710 paragraph A6 and ISA 706 whether the correction of error and the related disclosure is of importance to the users' fundamental understanding of the financial statements that require the inclusion of an Emphasis of Matter paragraph to be included in the audit report.

- When the material prior period misstatement results in non-compliance with laws and regulations, such as section 29 of the Companies Act, whether intentionally or unintentionally, the auditor also evaluates whether the non-compliance is required to be reported to the IRBA if it meets the Reportable Irregularity definition per the Auditing Profession Act N0. 26 of 2005. Should a reportable irregularity be reported to the IRBA, the auditor also includes a notification within the audit report that a Reportable Irregularity has been reported and refers to the note disclosure (assuming appropriate disclosure has been made in the financial statements).

- When the prior period misstatement required significant effort by the auditor that the auditor considers the audit of the prior period misstatement to be a key audit matter for the audit and ISA 701 is applicable or when the auditor believes the matter should be disclosed as a key audit matter despite to requirements to, the audit the auditor will provide a description of the key audit matter and how the auditor addressed the matter within the audit report.

- For audits of entities listed on the Johannesburg Stock Exchange, the auditor also evaluates the CEO and FD's statement and disclosures in terms of the JSE listing requirement 3.84(k) about whether internal financial controls are designed, implemented and effective and can be relied upon in compiling the annual financial statements, and if not, that the CEO and FD have disclosed the deficiencies in design and operational effectiveness of the internal financial controls to the audit committee and the auditors and have taken the necessary remedial action.

Based on the existing disclosures that management and the auditor can make, we believe restatements that truly warrant disclosures to the users would already be sufficiently disclosed, and not further disclosure requirements in the audit reports are necessary to enhance the users understanding of the financial statements or the audit.

We further believe that disclosing restatements in the audit report from prior period misstatement in every instance detracts from the usefulness to the users when an emphasis of matter of key audit matter is genuinely necessary to draw users' attention to the relevant disclosures and weakens the effectiveness of the emphasis of matter paragraph.

However, the IRBA may determine it beneficial to issue guidance on how to approach the determination of whether an EOM is necessary such that local factors provide a clearer indication of what circumstances would result in an EOM. This would result in consistency and focus on the matters of genuine interest to users.

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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	☐	☐	☐	✓	☐

Detailed Response to Question 17:

We note that many restatements occur due to a) simple error or oversight mistakes, b) failures to communicate or consider all information by the relevant preparers, or c) differences in judgments / house views of different auditors. Furthermore, many of the errors are easily determinable and auditable. Thus, many restatements are not major judgmental events with complex procedures beyond agreeing the correct accounting treatment, vouching the supporting documentation, and recomputing the differences. In this context we do not believe for those restatements additional disclosure would be useful.

As we noted in our response to Question 16 above, we believe should the restatement of a prior period misstatement be of significance to the audit and warrant the disclosure of such as a key audit matter, then the description of how the matter was addressed should be disclosed in the audit report to enhance the users' understanding of how the audit was performed. Therefore, this would apply when the restatement had more complexity in determining the adjustments or in considering whether a restatement was warranted.

Therefore, to summarise the above:

- When the extent of audit effort in relation to the restatement for the material prior period error is not significant, adding explanations about how the auditor addressed the matter would likely result in boilerplate procedures which would not enhance the users' understanding of how the auditor addressed the matter.

- The existing disclosures within the audit report either in the form of an emphasis of matter or a key audit matter, should either be warranted, is sufficient for the auditor alert the user to management's disclosures or to explain to the user how the matter was addressed in the audit in each respective scenario.

- To include descriptions of the audit procedures performed and key observations made by the auditor regarding prior year material misstatements every time the auditor discloses a prior period restatement in the audit report would lengthen the audit report and also not provide benefit to the users.

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Suggestions:

We understand that users might be interested in the entity's control environment and management's process to improve upon it where prior period misstatements frequently occur:

- Our understanding in this regard is that the users would be more interested in the entity's disclosures about its control environment, and whether and how it is being improved by management to prevent and detect misstatements;

- Thus we believe instances of prior period misstatements may warrant additional disclosures by management within reports by management and/or those charged with governance;

- This disclosure may lend to further guidance from SAICA or the JSE in relation to the CEO and FD statement required for JSE listed entities and expanding the disclosures around internal financial controls where relevant.

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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	☐	☐	✓	☐	☐

Detailed Response to Question 18:

Similar to our responses to Questions 2 and 3 around the disclosure of materiality and performance materiality, we believe disclosing the threshold applied by the auditor to accumulate misstatements ("clearly trivial threshold" or "summary of audit differences") on the audit and for reporting to the audit committee may be useful to enhancing the user's understanding of the audit that was performed and how audit differences are accumulated. We highlight the benefits that might come of the disclosure; we have further noted some drawbacks below with our suggestions.

Benefits:

- May provide users with more transparency to the audit process through insights into the auditor's judgment about the threshold below which the auditor considers misstatements to be clearly trivial to the overall financial statements, this also emphasises the concept of reasonable rather than absolute assurance provided by the audit opinion

- Understand the views of the auditor of the environment when assessing the change in assessment of what is considered trivial to users between years by the auditor where thresholds are different.

Drawbacks:

- Too much focus on the numeric threshold of what is clearly trivial may create confusion for users for the following reasons:

    - The determination of whether an individual misstatement is clearly trivial is not solely based on the magnitude of the misstatement identified, but also involves the evaluation of the nature of misstatements, the circumstances in which the misstatements occurred and the extent to which the auditor believes other misstatements of the same nature could occur which is not identified.

    - The evaluation of misstatements, as with the overall audit, is supported by various evaluations and significant judgments made by the auditor.

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- Various firms have differing methodologies regarding the calculation of the clearly trivial threshold, which can range from 1% to 5% of materiality. Further, the Audit Committee may request the auditor to accumulate and report misstatements at a lower threshold. Without the understanding of a Firm's methodology and whether a lower amount had been requested by the Audit Committee, the clearly trivial threshold used by auditors between audit reports and between Firms would not likely be comparable and may not indicate anything specific beyond being the amount used This in turn may cause confusion to the user.

Suggestions:

- Refer to our suggestion under Q2 and Q3 regarding disclosures clarifying how these concepts work. This is even more important with respect to the potential disclosures about materiality and performance materiality given how each of the numbers inter-relate. Thus, a short concise explanation of the concepts and how the interrelate will be important.

- Specific guidance should be provided about what to disclose in respect of the clearly trivial threshold to result in some consistency. If the amount is to be disclosed we believe this should be accompanied by clarity on how the threshold was determined or the percentage applied and any reduction in the threshold on the request of the entity, for example "*the threshold was calculated at 5% of materiality but further reduced as agreed with the Audit Committee"*. For example. noting whether the auditor uses a set percentage always or whether a range is used based on considerations (and what those are) would be more useful. Thus, there should also be clear guidance on what other significant judgments made by the auditor to determine the clearly trivial threshold should be disclosed.

- The IRBA's initiatives can only consider the auditor. As noted in our introduction we believe that the enhanced reporting by the auditor should correspond with increased reporting by management or in this case, those charged with governance. Since the clearly trivial threshold is often discussed and agreed with the Audit Committee where the Audit Committee can request the auditor to lower the clearly trivial threshold for reporting misstatements, we believe it would be ideal for there to be disclosure by the Audit Committee about the judgments regarding the clearly trivial threshold they applied in their oversight to the preparation of the financial statements which would then provide comparative context to go with the disclosures by the auditor in the audit report.

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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 *Refer to section A*			✓		
	<u>Comments:</u> Should the scope of the audit, materiality, and performance materiality be required for disclosure in the audit report, we believe such disclosures should only be required for listed entities and those entities for which ISA 701 applies. This is so that the scope of the audit can be explained in relation to key audit matters and materiality similar to that of the requirements in ISA (UK) 701. We also believe that limiting the applicability increases the usefulness. In order for the disclosures to be useful they should be more readily comparable. The concepts are all relatively complex and with varying judgments. However, within a sub-population of entities such as only, only listed entities, the comparisons will be more easily made.				
Materiality *Refer to section A*			✓		
	<u>Comments:</u> Same comment as above for audit scope.				
Performance materiality *Refer to section A*			✓		
	<u>Comments:</u> Same comment as above for audit scope.				
Enhancing the disclosure of the audit effort related to irregularities, including fraud *Refer to section B*					✓
	<u>Comments:</u> We do not believe the disclosure as it stands suggested in the Consultation Paper would enhance the understanding of the audit that was performed for the users, and as a result, we noted above that this disclosure should not be made at all.				

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<table>
<tr><td></td><td colspan="5">However, we recognise the need to address the expectation gap around the auditor’s responsibilities to detect irregularities and fraud. Above, we suggested to clarify the auditor’s responsibilities concerning irregularities and fraud, for this clarification, we believe audit reports of all entities could benefit.

In the manner of disclosing matters related to irregularities and fraud and this being done as key audit matters, should it be warranted, we believe the existing requirements for the applicability to listed entities and medical schemes to remain appropriate.</td></tr>
<tr><td rowspan="2">Enhancing the disclosure of the audit effort related to going concern
Refer to section C</td><td></td><td></td><td></td><td></td><td>✓</td></tr>
<tr><td colspan="5"><u>Comments:</u>

Refer to responses under each of the going concern questions. We believe driving more consistent and better disclosure by management would be preferrable through better guidance to auditors rather than more disclosures by auditors in the auditor report.

However, should any of the disclosures regarding going concern be required, we believe such disclosures would be of value to entities whose financial statements have a wide base of users and stakeholders, we consider those to include Listed entities, and some PIE entities.</td></tr>
<tr><td rowspan="2">Auditor’s report disclosures arising from prior year misstatements
Refer to section G</td><td></td><td></td><td></td><td></td><td>✓</td></tr>
<tr><td colspan="5"><u>Comments:</u>

Based on our responses in Questions 16 and 17, we believe the existing auditor reporting framework offered in terms of auditor disclosure about material prior period misstatements and their restatements to be sufficient to where appropriate:

- Draw the users attention to a particular disclosure

- Explain a significant audit matter and how it was addressed

We hence do not believe additional disclosures in relation to material prior period misstatements and their restatements to be necessary in the audit report.</td></tr>
</table>

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Disclosure of the reporting threshold unadjusted misstatements *Refer to section H*			✓		
	<u>Comments:</u> Consistent with our response to Question 19 related to section A, we believe should the clearly trivial threshold be required for disclosure in the audit report, such disclosure should only be required for listed entities and those entities for which ISA 701 applies. This is so that the clearly trivial threshold can be explained in relation to the materiality and performance materiality, along with how each amount inter-acts with the other. We also believe that limiting the applicability increases the usefulness. In order for the disclosures to be useful they should be more readily comparable. The concepts are all relatively complex and with varying judgments. However, within a sub-population of entities such as only, only listed entities, the comparisons will be more easily made.				
<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> Please refer to our detailed comments for each section above.					

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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.				

Detailed Response to Question 20:

In our responses to the above questions, we held the principle view that:

- The audit report is an accompanying document to the financial statements which should contain robust disclosures by management
- The audit report should be clear and concise to the users.
- The audit report should address the needs of the primary or intended users of the financial statements; and
- There should be a balance of information presented in the audit report and the length of the audit report.

With the above in mind, there are no further matters that we believe should be disclosed by the auditor in the auditor's report to enhance the users' understanding of the audit.

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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.				

Detailed Response to Question 21:

We believe the existing standards and frameworks should be revised or other rules formally issued to support auditors in making the appropriate disclosures within the audit report should any matter be required to be disclosed. We note in some of our responses that some of these disclosures may be contrary to the original intentions of the existing standards and thus a standard may be needed to properly increase the requirements. Further, we also noted in some of our responses – for instance to Question 1 – that certain matters to be disclosed should be clearly defined to provide the auditors with a robust framework for such disclosures.

We believe prescribed standard and rules would enhance the consistency of reporting by various auditors and audit firms within the South African capital market in order to achieve better understandability and comparability to the users of the audit reports.