

Template for Respondents

Respondent Information

Respondent type <i>Please select the capacity in which you are responding.</i>	Regulator
Organisation Name <i>If you answered "Individual", please write "Private".</i>	IRBA Inspections Department
Full Name	Aveel Lalchund
Job Title	Inspector
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Question 1

Do you believe that additional disclosures in the auditor's report about the scope of the audit would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Scope of the audit. Refer to section A	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i>					
<p>Yes - Observations relevant to scoping of the group audit are fundamental to the execution of a successful audit. The advent of recent accounting scandals (e.g., Steinhoff) calls into question the level of oversight and adequacy of scoping applied by the group engagement team.</p> <p>Inclusion of considerations around scoping in the audit report will force auditors to pay additional attention to the appropriateness of the scope.</p> <p>From an inspections view, numerous findings have been raised whereby the group auditor failed to adequately scope the group audit.</p> <p>We believe that any resultant framework or prescribed rule should also clearly articulate the requirements for non-group audits.</p> <p>A possible drawback to the introduction of these disclosures is that users may have a different view to the auditor as to what is perceived to be material (e.g., relating to the significance of the component to the group and adequacy of approach followed) resulting in confusion amongst stakeholders.</p>					

Question 2

Do you believe that disclosing the materiality threshold applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit in the auditor's report, would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Materiality threshold applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit. Refer to section A	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<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>					
<p>Materiality is critical to the users of the financial statements and the outcome of the audit opinion. The judgements in informing materiality calculations are important for users to understand the context of the audit opinion issued.</p> <p>A possible drawback is that a user may have a different view to the auditor as to what is perceived to be material, which may introduce confusion amongst stakeholders.</p> <p>Additionally, we believe that the auditor should also consider making a statement to explain the concept of qualitative materiality. (ISA 450, application paragraph A16) to recognise that certain misstatements may still be material even if they are lower than the materiality for the financial statements as a whole.</p>					

Question 3

Do you believe that the disclosure of performance materiality in the auditor's report would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Performance materiality. Refer to section A	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
<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>					
<p>This is a very technical concept that will lengthen the audit report and more broadly detract from usefulness of disclosure of materiality, per #2 above.</p>					

Question 4

Do you believe that additional disclosures in the auditor's report that explain the extent to which the audit was considered capable of detecting irregularities, including fraud, would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Explanation of the extent to which the audit was considered capable of detecting irregularities, including fraud. Refer to section B	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as any suggestions you may have.</i>					
Yes - This will aid in bridging the expectation gap relating that currently exists around the role of auditor with respect to fraud.					

Question 5

Do you believe that disclosures in the auditor's report about how the auditor evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
How the auditor evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations. Refer to section C	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Please provide your reasons and indicate where applicable, what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i>					
Going concern is critical to the users of the financial statements.					
From an inspections perspective, numerous findings have been raised on the inadequate procedures performed by auditors in assessing the appropriateness of the assumption.					
Additional disclosures will likely increase the attention focused on this critical aspect.					

Question 6

Do you believe that a conclusion (i.e. a positive statement) that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate should be included in the auditor's report?				
	Yes	Maybe	No	No particular view
Conclusion (i.e. a positive statement) that management's use of the going concern basis of accounting is appropriate. Refer to section C	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i>				
As above - Due to the importance of going concern to users of the financial statements				

Question 7

Where there is a material uncertainty related to going concern, do you believe that procedures specific to the auditor's response to the material uncertainty related to going concern should be disclosed in the auditor's report?				
	Yes	Maybe	No	No particular view
Procedures specific to the auditor's response to a material uncertainty related to going concern. Refer to section C	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i>				
Going concern is critical to the users of the financial statements. From an inspections perspective, numerous findings have been raised on the inadequate procedures performed by auditors in assessing the appropriateness of the assumption, particularly where material uncertainties were identified by the auditor. Additional disclosures will likely increase the attention focused on this critical aspect.				

Question 8

Where the auditor concludes that no material uncertainty related to going concern has been identified, would a statement that the auditor has not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue be useful to you as a user?

	Very useful	Useful	Somewhat useful	Not useful	No particular view
A statement that the auditor has not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue. Refer to section C	<input type="checkbox"/>	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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.

Going concern is critical to the users of the financial statements. From an inspections perspective, numerous findings have been raised on the inadequate procedures performed by auditors in assessing the appropriateness of the assumption. Additional disclosures will likely increase the attention focused on this critical aspect.

Question 9

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

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

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

Not applicable - Critical aspects have been addressed above

Question 10

Do you believe that auditor's reports, other than on listed entities and where law or regulation requires the application of ISA 701, should disclose KAMs?				
	Other PIEs	All Entities	No	No particular view
KAMs in auditor's reports other than on listed entities and where law or regulation requires the application of ISA 701. Refer to section D	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>please explain your reasons for the answer to this question and where applicable, specify the type of entity for which you believe the auditor's reports should disclose KAMs, as well as any suggestions you may have.</i>				
PIEs are a critical part of the financial markets. Mandated disclosure for non-PIEs may become too cumbersome and time consuming. These could easily be channelled via other means of communication i.e., reports to those charged with governance.				

Question 11

In your view, are descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters useful in understanding the KAM?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters. Refer to section D	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i>					
This provides further relevant context relating to the outcome of the conclusions of the KAMs.					

Question 12

Do you believe it is beneficial to stakeholders to have visibility of the professional relationships between an audit firm and the audit client for audits of entities that are not PIEs?				
	Yes	Maybe	No	No particular view
Visibility of the professional relationships between an audit firm and the audit client for audits of entities that are not PIEs. Refer to section E.	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><i>Please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder and specify for which types of entities should the disclosure of such professional relationships be. Also indicate any suggestions you may have.</i></p> <p>Based on inspections performed, there are numerous findings and an increasing trend whereby firms have rendered impermissible relationships, including to non-PIE entities.</p>				

Question 13

If the answer to question 12 is "yes" or "maybe", do you believe this should be disclosed in the auditor's report?				
	Yes	Maybe	No	No particular view
Disclosure of professional relationships in the auditor's report. Refer to section E.	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><i>Please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder or provide alternative mechanisms for such disclosure.</i></p> <p>Refer above - There are benefits to this given the observations identified as part of the inspections. This would draw further transparency around independence.</p>				

Question 14

Do you believe the auditor's report is an appropriate mechanism to disclose the matters described in (a), (b), (c) and (d) in paragraph 65 in relation to fees?				
	Yes	Maybe	No	No particular view
Auditor's report an appropriate mechanism to disclose the matters described in (a), (b), (c) and (d) in paragraph 65. Refer to section E	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder or provide suggestions on other possible mechanisms to achieve such disclosure, including the benefits and the drawbacks.</i>				
Based on recent inspections performed, there is an increasing trend whereby the firms have not mitigated the self-interest threats emanating from the relative size of fees earned from assurance clients, as well as the quantum of non-assurance fees relative to assurance fees.				

Question 15

Do you believe the auditor's report is an appropriate mechanism to disclose whether an entity has been classified as a PIE or not?				
	Yes	Maybe	No	No particular view
Disclosure of whether an entity has been classified as a PIE or not in the auditor's report. Refer to section F	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i>				
We believe that this should be disclosed in the audit report. There have been inspection findings whereby firms have misclassified entities as PIEs/non-PIEs.				
Increased attention to this disclosure will improve transparency and may result in better application of the requirements of the Code by firms.				

Question 16

Do you believe that when prior period financial statements that are misstated have not been amended and an auditor’s report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements, the matter should in all cases be described in the auditor’s report?

	Yes	Maybe	No	No particular view
Description in the auditor’s report when prior period financial statements that are misstated have not been amended and an auditor’s report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements. Refer to section G	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

It would be important to understand how the auditor considered the reliance on the previously issued report. It would also drive further consequence management and remediation of deficiencies by firms due to the increased focus on these areas.

Question 17

Where such disclosure is made in the auditor’s report, whether mandated or not, do you believe that tailored descriptions of the audit procedures performed, and key observations made by the auditor regarding prior year material misstatements, would be useful in enhancing the understanding of how the auditor addressed the matter?

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

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

The salient point is made above. This may become far too cumbersome.

Question 18

Do you believe the disclosure of the threshold of unadjusted misstatements in the auditor's report would be useful in further enhancing transparency by auditors?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Do you believe the disclosure of the threshold of unadjusted misstatements in the auditor's report would be useful in further enhancing transparency by auditors? Refer to section H	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><i>Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i></p> <p>This is a common inspection finding whereby auditors have accepted material misstatements and not qualified the corresponding audit report. The ISAs also permit the auditor, subject to the application of judgement, to allow material uncorrected disclosure misstatements. This judgement is critical and relevant to the users of the financial statements.</p>					

Question 19

In relation to the matters described in sections A, B, C, G and H in the Consultation Paper, if applicable, would you please indicate for which types of entities these disclosures should be made? Your response should be in the format set out below (tick where appropriate and provide your reasons, including benefits and drawbacks, in the comment box).

Details	All entities	PIEs only	Listed entities only	Other (Please explain)	Disclosure should not be made at all (Please explain)
Extending the disclosures of the audit scope <i>Refer to section A</i>		✓			
	<u>Comments:</u>				
Materiality <i>Refer to section A</i>		✓			
	<u>Comments:</u>				
Performance materiality <i>Refer to section A</i>					✓
	<u>Comments:</u>				
Enhancing the disclosure of the audit effort related to irregularities, including fraud <i>Refer to section B</i>	✓				
	<u>Comments:</u>				
Enhancing the disclosure of the audit effort related to going concern <i>Refer to section C</i>	✓				
	<u>Comments:</u>				
Auditor's report disclosures arising from prior year misstatements <i>Refer to section G</i>		✓			
	<u>Comments:</u>				
		✓			

<p>Disclosure of the reporting threshold unadjusted misstatements</p> <p><i>Refer to section H</i></p>	<p><u>Comments:</u></p>
<p><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></p> <p>Fraud and irregularities: Fraud considerations should be disclosed for all audits given the clear expectation gap that exists in the South African market.</p> <p>Going concern: Our inspection findings reveal that the auditor's evaluation of the appropriateness of the going concern assumption continues to be a challenge for both auditors of PIEs and non-PIEs. Going concern is fundamental and relevant to all users of the financial statements.</p> <p>Other: Given the time and cost implications associated with the enhancements, we believe that the balance of these matters should be restricted to PIEs.</p>	

Question 20

<p>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?</p>				
	<p>Yes</p>	<p>Maybe</p>	<p>No</p>	<p>No particular view</p>
<p>More matters that can be disclosed by auditors in the auditor's report.</p>	<p>✓</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>
<p><u>Please provide your reasons and where applicable, indicate what the benefits and drawbacks would be to you as a stakeholder, as well as any suggestions you may have.</u></p> <p><u>Identification of significant control deficiencies</u></p> <p>As part of the enhanced disclosures, we believe that the auditor should consider stating whether these were in consequence of significant control deficiencies (e.g., identification of misstatements and observations pertaining to KAMs).</p> <p><u>JSE Listing requirements</u></p> <p>We also believe that the task group should consider whether the auditor should, as part of the enhancements to reporting, specifically report on the statements made by CEO and CFO under paragraph 3.84 (k) of the JSE Listings Requirements.</p>				

Question 21

Should there be prescribed standards or a rule that will mandate additional disclosures in the auditor's report? If not, please provide your reasons.				
	Yes	Maybe	No	No particular view
Prescribed standards or a rule that will mandate additional disclosures in the auditor's report.	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i>				
<p>Yes. This will enable consistency in the profession, which is beneficial to all users.</p> <p>Inconsistency will impact users decisions and comparability assessments. It will also provide a guideline to highlight what is permissible vs. what is not i.e., guidance to auditors.</p> <p>We are hopeful that the introduction of the enhanced disclosure requirements will improve the quality of audits undertaken by registered auditors thereby resulting in better inspection outcomes and greater confidence in financial markets.</p> <p>We are also cautious that the additional requirements may draw further attention to the work performed by auditors, potentially resulting in greater scrutiny and criticism by stakeholders.</p>				

Question 22

Is there a need to develop a structure or framework within which to accommodate currently envisaged but also future changes to auditor's report contents?				
	Yes	Maybe	No	No particular view
A need to develop a structure or framework within which to accommodate currently envisaged but also future changes to auditor's report contents.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✓
<i>Please provide your reasons. Where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder and explain what the elements of such a framework would be. Also provide any suggestions you may have.</i>				