

Template for Respondents

Respondent Information

Respondent type <i>Please select the capacity in which you are responding.</i>	Firm
Organisation Name <i>If you answered "Individual", please write "Private".</i>	KPMG
Full Name	Riana Fourie
Job Title	Partner – DPP Audit and Assurance
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Question 1

Do you believe that additional disclosures in the auditor's report about the scope of the audit would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Scope of the audit. Refer to section A	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<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>					
<i>We believe that the inclusion of the scope of the audit could be useful and could enhance the users' understanding of the audit. It would provide context and also enlighten users on what the auditor included in the scope of the audit.</i>					
<i>We have seen that this has also become common practice in other jurisdictions such as the United Kingdom</i>					

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?
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	Very useful	Useful	Somewhat useful	Not useful	No particular view
Materiality threshold applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit. Refer to section A	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<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><i>Similar to the previous question on the inclusion of scope, we are of the view that the disclosure of 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 to stakeholders.</i></p> <p><i>This will give stakeholders context and insight into how the auditor quantitatively evaluated audit misstatements.</i></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 checked="" type="checkbox"/>	<input type="checkbox"/>
<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><i>We have concerns over the disclosure of performance materiality in the auditor's report. We do not think that it would enhance a users' understanding of the audit that was performed. Performance materiality is even more judgemental than materiality and the audit firms have different methodologies to calculate this amount. This is a concept that auditors understand, however, in practice we find that even some audit committee members struggle to understand that concept. One can only suggest that this disclosure would create confusion with the materiality disclosure above.</i></p> <p><i>A further complexity is that performance materiality is calculated in different ways, after considering a number of factors and in joint audit scenarios, each firm would also have its own performance materiality. That would further complicate the disclosure in the audit report.</i></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 checked="" 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 any suggestions you may have.</u>					
<p>We do not believe such disclosures would be useful. Set out below is the source of our reservations/concerns with respect to this:</p> <ul style="list-style-type: none"> — The disclosure may potentially lessen the element of unpredictability in performing the audit — It will likely result in boiler plate disclosure that is not useful. — Potential of increased liability exposure. The Auditor General does include such disclosures; however, we do not have the same liability exposures. — The work done to address non-compliance with laws and regulations varies between firms, and this would create inconsistencies in joint audit scenarios. — Our competence and capabilities relate to performing an audit and providing reasonable assurance over the financial statements, and not to identify and recognise non-compliance with all laws and regulations. <p>In our opinion, there is merit in rather educating the public on the auditors role in relation to fraud as it is already expressed in audit reports i.e. not to identify fraud but to give reasonable assurance that the financial statements are free of material misstatement, whether due to fraud or error as opposed to increasing the disclosure in the audit report on fraud. This additional disclosure will not aid in bridging the expectation gap.</p>					

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

entity's ability to continue as a going concern and, where relevant, key observations. Refer to section C					
<p><u>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.</u></p> <p><i>We are of the view that this could never supplement comprehensive disclosure in the financial statements by management of the triggers in going concern and how they have got to the conclusion their business is a going concern.</i></p> <p><i>We are of the view that this would be useful only in specific scenarios. Always including this, for instance where no material uncertainty has been identified, would diminish the value added from the going concern disclosures in the audit report. Instead, this would be beneficial if applied in instances where a material uncertainty related to going concern has been identified.</i></p>					

Question 6

Do you believe that a conclusion (i.e. a positive statement) that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate should be included in the auditor's report?				
	Yes	Maybe	No	No particular view
Conclusion (i.e. a positive statement) that management's use of the going concern basis of accounting is appropriate. Refer to section C	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<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><i>We do not see any benefit in including a positive statement in the audit report that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate. This is already implied when issued an unmodified opinion and including a positive statement to that effect is seen as the auditor issuing a separate opinion on that, over and above the opinion on the financial statements as a whole.</i></p> <p><i>Where an auditor believes that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is not appropriate, this would be demonstrated by the auditor modifying the audit report per the going concern decision tree in the South African Auditing Practice Statement 3 (SAAPS 3 (Revised)).</i></p>				

Question 7

Where there is a material uncertainty related to going concern, do you believe that procedures specific to the auditor's response to the material uncertainty related to going concern should be disclosed in the auditor's report?

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

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

Linked to our response to question 5, we think this would be useful. The determination of a material uncertainty involves judgement, hence we think that by the auditor disclosing the procedures specific to the auditor's response, this would give the users of the financial statements insight into some of the pertinent factors that were considered in arriving at that auditors' agreement of the client's assessment and disclosure that a material uncertainty exists. It should, however, be clear very clear that this does not remove the material uncertainty.

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

period of at least 12 months from when the financial statements are authorised for issue. Refer to section C					
<p><u>please provide your reasons 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>Refer to our responses above to questions 5, 6 and 7.</p> <p>We do not think this would be useful as it is already implied by the auditor in issuing an unmodified audit opinion. Having the auditor explicitly make such a statement in the audit report would also inappropriately allude to giving absolute assurance, yet an audit is premised on reasonable assurance. This may mislead a user that has no background or understanding of an audit.</p>					

Question 9

Are there any other matters related to going concern that you believe should be disclosed in the auditor's report?				
	Yes	Maybe	No	No particular view
Any other matters related to going concern that you believe should be disclosed in the auditor's report. Refer to section C	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p><u>Please provide the details and where applicable, the benefits and drawbacks of disclosure of such matters, as well as any suggestions you may have.</u></p> <p>No additional matters related to going concern need to be disclosed.</p>				

Question 10

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

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

We do not think that there is any merit in disclosing key audit matters in audit report of all entities as some entities are relatively small in size and may have a limited number of shareholders or stakeholders. The cost of disclosing key audit matters to all would outweigh the benefits of doing so.

For listed entities and in cases where law or regulation requires the application of ISA 701, disclosure of KAMs is reasonable as the number of stakeholders in such scenarios is normally quite substantial.

Question 11

In your view, are descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters useful in understanding the KAM?

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

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

This has also become commonplace in a number of markets hence the expectation of an outcome on the procedures being disclosed exists.

However, we would still like to note that this is already implied in the audit report, if the auditor issues an unmodified audit report. The auditor would have to be satisfied with the outcome of all the procedures for an unmodified opinion to be issued.

Including a description of the outcome of audit procedures or key observations could also be seen as providing a separate opinion on the key audit matter, which is contrary to the requirements of ISA 701 paragraph 11.

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><u>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.</u></p> <p><i>We are of the view that it is beneficial for stakeholders to have visibility of the professional relationships between an audit firm and the audit client. This enhances transparency and will also confirm the independence of an auditor in cases where prohibited non-audit services are provided.</i></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><u>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.</u></p> <p><i>We do not think that such disclosure should be in the audit report. The disclosure should be made as part of the annual financial statements of the company in the directors' report for instance, or in a note to the financial statements.</i></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 checked="" type="checkbox"/>	<input type="checkbox"/>
<u><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></u>				
<i>In our view, the audit report is not an appropriate mechanism in which to disclose those matters.</i>				

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 checked="" type="checkbox"/>	<input type="checkbox"/>
<u><i>please provide your reasons and where applicable, indicate what the benefits and drawbacks of such disclosures would be to you as a stakeholder, as well as any suggestions you may have.</i></u>				
<i>We do not think that the auditor's report is an appropriate mechanism to disclose whether or not an entity has been classified as a PIE or not. The definition of a PIE is quite broad, and we do not see the benefit in the auditor disclosing whether an entity is a PIE or not as this classification does not impact the users of the audit</i>				
<u><i>If not, please provide reasons and suggestions on other appropriate mechanisms:</i></u>				
<i>If at all, such disclosure should be on the onus of management to make, either in the directors' report or the financial statements as the responsibility to determine whether an entity is a PIE or not, rests with management. Regulators regulating these companies could easily require said disclosure in the financial statements of the regulated entity. Thus, if it is part of the regulatory framework, the auditor's opinion will report in terms of that in the auditor's report.</i>				

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.

We do not have a view on whether this should be described in the auditor's report. On the one hand, we do not see any benefit to stakeholders in describing the prior period restatement. The financial statement note disclosures for prior period errors are already so detailed and robust, rendering further disclosure in the financial statements unnecessary.

However, on the other hand, if the prior period financial statements were audited by another auditor and an error was identified in the current period financials and were appropriately restated, in such scenarios it may be useful that an emphasis of matter paragraph be included in the audit report to draw the attention of users of the financial statements to the restatement, as the prior year financial statements were audited by another auditor.

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?

Considering the level of detail include in prior period error restatement notes, we do not believe that tailored descriptions of the audit procedures performed, and key observations made by the auditor would be useful in the audit report.

It is also unlikely that stakeholders are invested in the procedures carried out by the auditor with respect to the restatement, but that the prior period error is appropriately accounted for and disclosed.

It would also bring into question why the focus should only be on prior period errors identified, why not changes in accounting policies for example.

However, for an entity that is required to report key audit matters, such disclosure may be appropriate in the form of a key audit matter.

Question 17

Where such disclosure is made in the auditor's report, whether mandated or not, do you believe that tailored descriptions of the audit procedures performed, and key observations

made by the auditor regarding prior year material misstatements, would be useful in enhancing the understanding of how the auditor addressed the matter?

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

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

Refer to our response to question 16.

Considering the level of detail include in prior period error restatement notes, we do not believe that tailored descriptions of the audit procedures performed, and key observations made by the auditor would be useful in the audit report.

It is also unlikely that stakeholders are invested in the procedures carried out by the auditor with respect to the restatement, but that the prior period error is appropriately accounted for and disclosed, if in the auditor's judgment it is a significant event..

Question 18

Do you believe the disclosure of the threshold of unadjusted misstatements in the auditor's report would be useful in further enhancing transparency by auditors?

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

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

In our view, (and in line with our response to question 3 over performance materiality) the disclosure of the threshold of unadjusted misstatements in the auditor's report would not be useful. Despite the risk of stakeholders not fully understanding what it means and how it

would have impacted the audit, we believe this would make the audit report unnecessarily long.

Judgement is applied in determining this threshold, and without explaining those justifications, how the auditor determined the threshold level may confuse the market even more.

In addition, including this measure without assessing it against the summary of unadjusted misstatements is out of context and is therefore not useful to the users of the audit report.

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> <i>Refer to Question 1</i>					
Materiality <i>Refer to section A</i>			✓		
<u>Comments:</u> <i>Refer to Question 2</i>					
Performance materiality <i>Refer to section A</i>					✓
<u>Comments:</u> <i>Refer to Question 3</i>					
Enhancing the disclosure of the audit effort related to irregularities, including fraud <i>Refer to section B</i>					✓
<u>Comments:</u> <i>Refer to Question 4</i>					
			✓		

Enhancing the disclosure of the audit effort related to going concern <i>Refer to section C</i>	<u>Comments:</u> <i>Refer to Questions 5,6,7,8 and 9</i>				
Auditor's report disclosures arising from prior year misstatements <i>Refer to section G</i>					✓
Disclosure of the reporting threshold unadjusted misstatements <i>Refer to section H</i>					✓
<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> <u><i>Our reasons have been set out in the responses to each of the questions above.</i></u>					

Question 20

Other than those proposals discussed in sections A to I in the Consultation Paper, are there more matters that can be disclosed by auditors in the auditor's report for an audit of financial statements?				
	Yes	Maybe	No	No particular view
More matters that can be disclosed by auditors in the auditor's report.	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
<u>Please provide your reasons and where applicable, indicate what the benefits and drawbacks would be to you as a stakeholder, as well as any suggestions you may have.</u> <i>No further matters need to be disclosed in the auditor's report. Our concerns with too much disclosure in the audit report are on the following areas:</i> <ul style="list-style-type: none"> - <i>The auditor's responsibility vs management's responsibility. We are concerned that this may be further blurred and unclear to stakeholders and further widen the expectation gap that already exists. By placing the onus on the auditor to disclose in the auditors' report various aspects such as irregularities, fraud, PIE definitions and audit fees, this inadvertently places responsibility on the auditor, yet these issues are primarily management's responsibility; and</i> 				

- *Cost implications. The cost that will be involved in implementing some of these enhancements will far exceed the benefits particularly for smaller entities with minimal shareholders and stakeholders.*

The IRBA should also explore ways in which to simplify the auditor's report such as including a hyperlink to the auditors' responsibilities on the IRBA website as it done in jurisdictions such as the United Kingdom. At present, we run the risk of having a very lengthy audit report which most users will not be read or where read, is not understood by stakeholders. There is also the concern that too much disclosure would be seen as the auditor trying to protect themselves rather than what the users need.

Question 21

Should there be prescribed standards or a rule that will mandate additional disclosures in the auditor's report? If not, please provide your reasons.

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

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

If the proposed enhancements are passed, we are of the view that there must be a prescribed standard or a rule that will sufficiently explain and provide guidance to practitioners on the respective changes effected.

This will also then provide auditors with a framework against which to work and that will also promote some form of uniformity across the various audit practices.

However, consideration has to be given with respect to who will bear the cost of this as well as how the market will be educated on this.

Question 22

Is there a need to develop a structure or framework within which to accommodate currently envisaged but also future changes to auditor's report contents?

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

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

A structure or framework within which to accommodate currently envisaged but also future changes to auditor's report contents will aid in promoting the consistent application of the proposed changes.

This will be important as individual audit practices cannot be given free rein on what to include or not include in their audit report as that will give rise to disparity within the South African market.