

15 September 2021

Director: Standards
Independent Regulatory Board for Auditors
P O Box 751595
Garden View
2047

Dear Mr Vanker

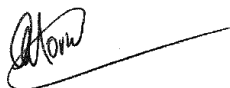
Invitation to comment: Enhancing Disclosures in the Auditor's Report in South Africa

Mazars South Africa is pleased to submit this letter in response to the request for comments on "Consultation Paper – Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements".

Our comments on the questions posed are attached. If you have any queries regarding the comments made or require any further information, please do not hesitate to contact **Adiebah Moruck** on **021 818 5000**.

We thank you for your consideration of our comments.

Yours faithfully,



Adiebah Moruck
Partner
MAZARS

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>	Mazars South Africa
Full Name	Adiebah Moruck
Job Title	Partner
Email Address	Adiebah.Moruck@mazars.co.za

Question 1

Do you believe that additional disclosures in the auditor's report about the scope of the audit would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Scope of the audit. Refer to section A	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>We agree that this could provide useful information to the users of the financial statements and enhance their understanding of the audit that was performed. However, we need to clearly understand who the users of the financial statements are, in order to determine to what extent the audit scope should be disclosed. This could be beneficial for larger companies and groups and may not be relevant to the users of owner managed businesses or smaller companies with a few number of shareholders and where the financial statements are not relied upon extensively. These additional disclosures in the audit report could result in additional time spent by the audit engagement teams and may result in significantly higher fees for smaller companies. The cost of including these disclosures for these companies will far outweigh the benefit they will receive from such additional disclosures.</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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Although there is no evidence to suggest that, including the materiality threshold would impact an investors decision to invest, this might be useful for larger listed entities where it could impact a user’s decision to invest. Furthermore, users of the financial statements may not make the connection between the materiality threshold applied and the amount of audit effort required by the auditor. Investors may not fully understand the concept of audit materiality, and therefore their decisions may be unaffected by the disclosure of this amount in the audit report. Additionally, lower materiality thresholds may signal to an investor that the company is riskier. Research is unable to find any concrete evidence that including the materiality threshold directly impacts the investors decision to invest in a company or not. The current audit reports are becoming too boilerplate and not providing users with useful information. The audit report should include materiality and the rationale for calculating materiality. This should be limited to the overall materiality.

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"/>
No, this should not be included in the audit report. Refer to comment above.					

Question 4

Do you believe that additional disclosures in the auditor's report that explain the extent to which the audit was considered capable of detecting irregularities, including fraud, would be useful in enhancing the understanding of the audit that was performed?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Explanation of the extent to which the audit was considered capable of detecting irregularities, including fraud. Refer to section B	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>This could lead to misunderstanding and create the impression that it is the auditors' responsibility to detect fraud and irregularities. Including this disclosure might be cumbersome and have additional cost implications for smaller companies, however they will be useful and result in transparency. Usually, it is within smaller entities where numerous irregularities can be found due to poor internal controls in most cases.</p> <p>However, such disclosure may be useful and it would be our recommendation to include a compulsory Key Audit Matters (KAMs) in all audit reports that discusses how the auditor is addressing the risk of fraud and irregularities. We agree that there should be more disclosure and enhancing transparency around key issues that shareholders would want to know. For listed entities this should include a description as to how the auditor addressed the potential exposure.</p> <p>Furthermore, this could result in auditors paying more attention to the risk of fraud during the audit and holding the audit teams accountable.</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 entity’s ability to continue as a going concern and, where relevant, key observations. Refer to section C	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Going concern remains a major risk for us as auditors, especially with regards to the uncertainty of meeting future budgets/results etc. Including the procedures performed and how we assessed management’s calculation, will ensure that the users of the financial statements clearly understand what was done and will add value to their reliance on the going concern assumption used. Further it will assist auditors with clarity about the procedures performed and that the users will be informed about that.

Although the additional disclosure would result in additional time spent and costs for an entity, this information may be beneficial to the users of the financial statements, irrespective of the size of the company.

This should be a standard inclusion in all audit reports, irrespective of the size of the entity. It enhances transparency with regards to the extent of audit procedures performed on management’s assessment of the entity’s ability to continue as a going concern.

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

We believe a positive statement can only be included in the audit report if the information in point 5 has been included in the audit report.

Merely including a positive statement with no further information could expose auditors to risk. Auditors should disclose the work procedures they have performed or the steps they have taken to conclude that they agree with management's use of the going concern.

Question 7

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

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

Yes, we can thereby ensure that the users of the financial statements clearly understand what steps we as auditors have taken to reach such a conclusion. It will assist with clarity about the going concern assumption and provide greater transparency to the users of the financial statements.

There will be additional cost implications for a company, however, it could also result in an improvement of the quality of the procedures related to going concern, as auditors will now have to provide details of the work performed where a material uncertainty exists. The auditor should also include a conclusion.

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

No, we do not agree with including a statement regarding material uncertainty. This could create the impression that we are taking the role of management. Auditors may be held liable should this conclusion not hold for at least 12 months from the date of the financial statements.

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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There should be disclosure about going concern relating to the subsequent year end. The disclosure should include how long management has considered the going concern for and the auditors' assessment thereof.				

Question 10

Do you believe that auditor's reports, other than on listed entities and where law or regulation requires the application of ISA 701, should disclose KAMs?				
	Other PIEs	All Entities	No	No particular view
KAMs in auditor's reports other than on listed entities and where law or regulation requires the application of ISA 701. Refer to section D	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>This wouldn't be useful and meaningful for all PIEs. Audit firms should be allowed to override the requirement to include KAMs for smaller PIEs with a limited number of users to the financial statements.</p> <p>This information may not be applicable for all entities as the additional costs incurred will far outweigh the benefits for smaller entities. KAMs provide users and stakeholders information about the areas that were of concern to the auditor and how the auditor addressed this during the audit.</p> <p>The users of the financial statements should be looked at when determining whether a KAM should be disclosed or not. In the South African context, the PI Score could potentially be looked at, to determine whether disclosing a KAM may be appropriate or not.</p> <p>For all other entities, the KAMs could be limited to going concern and fraud as stated further above, as this information would be more relevant to the users of the financial statements.</p> <p>For example, where the PI Score is above 500, a company is required to appoint a social and ethics committee, as it is presumed that companies with higher PI Scores have some public interest. A similar concept could be introduced with regards to identifying whether a KAM should be included in the audit report or not.</p>				

Question 11

In your view, are descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters useful in understanding the KAM?					
	Very useful	Useful	Somewhat useful	Not useful	No particular view
Descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters. Refer to section D	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
It enhances transparency and may be useful to the users but could result in a long audit report that loses its value because too much information is being disclosed. An overall conclusion should be included in the KAM as to whether or not any deficiencies were					

identified or reported to management, or whether any immaterial misstatements were identified and included on the summary of unadjusted differences.

It is difficult to conclude on a KAM without including more information, and this should be left up to the discretion of the auditor as to how they wish to conclude, and it should not be prescribed what should be included in the KAM.

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"/>

Yes, it assists in keeping the profession independent as there is more transparency in the nature and extent of the services provided.

Benefits:

1. Increases the transparency with regards to the nature and the extent of the services provided.
2. It gives the stakeholders more information on which to assess the independence of the audit team to the client.
3. It will decrease the risk of audit firms low balling to secure clients as the fees will now be disclosed and allow stakeholders to question any significantly lower fees.

The disclosure should be limited to fees. The definition of professional relationships should be clarified.

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

The audit report does not seem to be an appropriate place to disclose the information. The audit report is focused on the results of the audit.
The audit report should just be a conclusion document.

This should be a disclosure required to be included in the Audit Committee's report including in the financial statements or alternatively, a disclosure that should be required by the Companies Act to be disclosed in the financial statements. It should be management's responsibility to disclose this information.

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"/>
Refer above				

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"/>
No, this would not impact the users of the financial statements and the definition of PIE could vary around the world. This should not be disclosed in the audit report.				

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"/>

Attention should be drawn or reference made to any such changes in the audit opinion. The appropriate way can be to include an emphasis of matter, thereby informing the users of the financial statements that such changes were made.

The reason for such a reference in the audit opinion, will be to ensure that it is clearly brought to the users of the financial statements' attention that a change was made to last year's financial statements, especially since no new opinion was issued thereon. We can then ensure that there is clarity about such amendments.

If this is not disclosed in the notes to the financial statements we should include an "Other Matter" paragraph in the audit report.

It also depends on the materiality, significance and nature of the prior year misstatement. There may be instances where an opening balance qualification could be warranted. Therefore, the matter should be addressed in the audit report in one way or another depending on the conclusion regarding the misstatement.

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?

No, we do not recommend including detail about procedures performed.

We suggest that including it only to bring it to the users of the financial statements' attention that a prior year misstatement existed and that it was amended in the current year. We might expose auditors to risk if including detail about the procedures performed, as questions might arise about the procedures performed in the prior year and why such misstatements were not detected. In addition, if all of these amendments are included in audit opinions the volume of an audit opinion can become excessive.

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"/>

No, we do not recommend including detail about procedures performed.

We suggest that including it only to bring it to the users of the financial statements' attention that a prior year misstatement existed and that it was amended in the current year. We might expose auditors to risk if including detail about the procedures performed, as questions might arise about the procedures performed in the prior year and why such misstatements were not detected. In addition, if all of these amendments are included in audit opinions the volume of an audit opinion can become excessive.

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

No, as audits are not absolute assurance but rather a matter of expressing an opinion as to whether the financial misstatements are materiality misstated. If any errors were identified that were individually or in aggregate considered material (thereby influencing the decision of the users of the financial statements), it would have been amended.

Furthermore, it could negatively impact the unpredictability of the audit testing in future audits.

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)
<p>Extending the disclosures of the audit scope</p> <p><i>Refer to section A</i></p>		√			
<p><u>Comments:</u></p> <p>We agree that this could provide useful information to the users of the financial statements and enhance their understanding of the audit that was performed. However, we need to clearly understand who the users of the financial statements are, in order to determine to what extent the audit scope should be disclosed. This could be beneficial for larger companies and groups and may not be relevant to the users of owner managed businesses or smaller companies with a few number of shareholders and where the financial statements are not relied upon extensively. These additional disclosures in the audit report could result in additional time spent by the audit engagement teams and may result in significantly higher fees for smaller companies. The cost of including these disclosures for these companies will far outweigh the benefit they will receive from such additional disclosures.</p>					
<p>Materiality</p> <p><i>Refer to section A</i></p>			√		
<p><u>Comments:</u></p> <p>Although there is no evidence to suggest that, including the materiality threshold would impact an investors decision to invest, this might be useful for larger listed entities where it could impact a user's decision to invest. Furthermore, users of the financial statements may not make the connection between the materiality threshold applied and the amount of audit effort required by the auditor. Investors may not fully understand the concept of audit materiality, and therefore their decisions may be unaffected by the disclosure of this amount in the audit report. Additionally, lower materiality thresholds may signal to an investor that the company is riskier. Research is unable to find any concrete evidence that including the materiality threshold directly impacts the investors</p>					

	<p>decision to invest in a company or not. The current audit reports are becoming too boilerplate and not providing users with useful information. The audit report should include materiality and the rationale for calculating materiality. This should be limited to the overall materiality.</p>				
<p>Performance materiality <i>Refer to section A</i></p>					√
<p>Enhancing the disclosure of the audit effort related to irregularities, including fraud <i>Refer to section B</i></p>	<p><u>Comments:</u> Refer above.</p>				
<p>Enhancing the disclosure of the audit effort related to going concern <i>Refer to section C</i></p>	√				
	<p><u>Comments:</u> Although the additional disclosure would result in additional time spent and costs for an entity, this information may be beneficial to the users of the financial statements, irrespective of the size of the company.</p> <p>This should be a standard inclusion in all audit reports, irrespective of the size of the entity. It enhances transparency with regards to the extent of audit</p>				

	procedures performed on management's assessment of the entity's ability to continue as a going concern.				
<p>Auditor's report disclosures arising from prior year misstatements</p> <p><i>Refer to section G</i></p>	√				
<p>Disclosure of the reporting threshold unadjusted misstatements</p> <p><i>Refer to section H</i></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>No further comments.</p>					

Question 20

Other than those proposals discussed in sections A to I in the Consultation Paper, are there more matters that can be disclosed by auditors in the auditor's report for an audit of financial statements?				
	Yes	Maybe	No	No particular view
More matters that can be disclosed by auditors in the auditor's report.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>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.</i>				
No further comments.				

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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There should be a standard that mandates which companies will require the additional disclosures. The disclosure of irregularities and fees should be included for all engagements.				

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.

No further comments.