pwc

Mr Imran Vanker
Director: Standards
The Independent Regulatory Board for Auditors

Email: standards@irba.co.za

14 September 2021

Dear Mr Vanker

Comment on the Consultation Paper - Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements

We appreciate the opportunity to comment on the Committee for Auditing Standards' (CFAS) Consultation Paper - *Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements*. This response summarises the views of the South African firm of PricewaterhouseCoopers.

We have provided our views on the matters on which comments were specifically requested.

If you would like to discuss our comments further, please do not hesitate to contact Natalie Terblanche on (011) 797 5723 or Mohammed Adam on (011) 797 4837.

Yours sincerely,

Director

Template for Respondents

Respondent Information

Respondent type	Firm
Organisation Name	PwC
Full Name	Natalie Terblanche
Job Title	Partner
Email Address	natalie.terblanche@pwc.com

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	✓	☐	☐	☐	☐

Reasons, benefits and drawbacks:

Collectively, materiality, scoping and KAMs enable us to more fully describe important judgments made in the audit. We agree that disclosing scoping matters in the audit report provides users with a better understanding of the audit. Insight into scoping matters may provide a basis for engagement with the users of the financial statements, including the investment community and other stakeholders, which could have a positive effect in helping to address any expectation gaps.

However, this could have some drawbacks, especially as it relates to the understandability of the audit report where the users are themselves not auditors. If auditors are required to disclose "audit scope" in the audit report, a balance needs to be found in terms of ensuring that the audit report remains understandable by all respective users. We would want to ensure that the level of detail is appropriate and done in a meaningful way without including unnecessary or voluminous information, but also avoiding boilerplate descriptions.

The reference to "audit scope" is ambiguous as the term is used in the application material of ISA 200 (refer to paragraph A1) and is more aligned with the overall objective of an auditor in an audit of financial statements. We would suggest further clarity be provided as to whether the intention is to disclose 'group audit scope' as reflected in the examples contained in the consultation paper.

If not useful, reasons and suggestions:

N/A

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	✓	☐	☐	☐	☐
Reasons, benefits and drawbacks: Disclosure of the materiality threshold applied and significant judgements made by the auditor in determining materiality is very useful as it provides the user with valuable and meaningful insight into the audit that was performed. Disclosure of this information also provides a good basis from which users can form a view which could have a positive effect in addressing the perceived expectation gap that an audit provides absolute assurance. Considerations and any guidance provided should ensure that the manner in which the auditor describes the judgements in determining the materiality thresholds is understandable to all users.					
If not useful, reasons and suggestions: N/A					

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	☐	☐	☐	✓	☐
Reasons, benefits and drawbacks: While performance materiality could potentially provide a user with some insight into the level of perceived audit risk by the auditor, the disclosure of performance materiality in the audit report will not be useful for the reasons set out below.					
If not useful, reasons and suggestions:					

The ISAs establish that there is one level of materiality set for the financial statements as a whole. This materiality (referred to as overall materiality) is the level at which the economic decisions of the users could reasonably be expected to be influenced. The concept of materiality is not always well understood by users of the financial statements and the disclosure of an additional materiality level could create confusion in terms of how materiality has been applied to the audit, rather than provide clarity and insight into the outcomes or overall conclusions of the audit. We therefore suggest only disclosing overall materiality (and the benchmark upon which it is based) in the audit report as this is the materiality level that the auditor applies to the financial statements as a whole and would be of most relevance to the user.

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	☐	☐	☐	✓	☐

Reasons, benefits and drawbacks:

We acknowledge that standard setters around the globe are starting to consider including requirements for enhanced disclosures around irregularities and fraud in audit reports, largely in response to the users of financial statements requiring more information about the auditor's consideration of fraud and identification of irregularities as it relates to the audit.

While we support the need for providing users with useful and meaningful information and that the proposed terminology used in the consultation paper would widen the expectation gap as it relates to the auditor's responsibilities in relation to the detection of fraud and irregularities.

An explanation focusing on the extent that the audit was considered capable of detecting irregularities, including fraud, could be interpreted by users that audits should be capable of detecting all fraud and irregularities. Due to the inherent limitations of an audit, an audit cannot detect all fraud and irregularities.

Our comments in relation to the examples of how the auditor may explain the extent to which the aspects of the auditor's work addressed the detection of irregularities, including fraud as set out in paragraph 43 of the consultation paper, are set out below:

Examples as per paragraph 43	**Comments**

How the auditor obtained an understanding of the legal and regulatory framework applicable to the entity; and how the entity is complying with that framework.	Disclosure in the report around how the entity complies with the legal and regulatory framework could be seen as the auditor providing an opinion over "compliance" with direct and indirect laws and regulations. If management has no obligation to report on this then this would seem to be imposing corporate reporting obligations on the auditor, which does not seem appropriate in the context of the scope of an audit of financial statements.
The laws and regulations the auditor identified as being of significance in the context of the entity.	In terms of ISA 250 (Revised), the auditor considers compliance with laws and regulations that have a direct effect on the determination of material amounts in the financial statements as well as identifies instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. Reference to 'in the context of the entity' would go beyond the scope of an audit of financial statements and could create the impression that the auditor is a specialist as it relates to all laws and regulations. Disclosure about the laws and regulations identified by the auditor would not be appropriate as it could be interpreted by a user as the auditor being an expert in the area and also providing an opinion on the entity's compliance with laws and regulations. However, if the scope and applicability of laws and regulations including the obligations of the auditor was more explicitly aligned to ISA 250 (Revised) this could be reconsidered.
The auditor's assessment of the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur.	At the outset we would like to draw attention to the wording, as it currently suggests "speculative fraud risks" as opposed to "assessed fraud risks" in the context of the audit of financial statements. This would entail the auditor making representations of the auditor's assessment of how fraud may occur in the financial statements. As part of the audit process the auditor identifies and assesses the risk of material misstatements in the financial statements, whether due to fraud

	or error and then performs procedures to respond to those risks of material misstatement. Through the inclusion of such an assessment in the audit report, it could provide users with a perception that the auditor is responsible for the prevention and detection of fraud (as one of the primary objectives of the audit). It is further unclear whether this is applicable to all audits or only to those audits where ISA 701 would also apply. If the latter is intended then the situation where the risk is deemed to be a KAM needs to be understood and clarified as this would result in duplication. Also we propose that we reconsider this once the IAASB has concluded their fraud project.
The engagement partner's assessment of whether the engagement team, collectively, had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.	As it is unlikely an engagement partner would disclose that the engagement team did not have the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations, which would result in boilerplate and meaningless statements being made which would in turn add no value to users. If such statements were to be made in the audit report, this would go beyond the requirements of ISA 250 (Revised) and could also result in the auditor having to consult legal experts in this regard. Our views above are informed based on our understanding of ISA 250 (Revised) paragraph 4, which does not require the auditor to detect non-compliance with all laws and regulations. As a result, the objectives of the auditor in terms of ISA 250 (Revised) require the auditor to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations that have a direct impact on the financial statements and to perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements.

	The procedures performed by the auditor to identify instances of non-compliance that may have a material effect on the financial statements are set out in paragraphs 15-17 of ISA 250 (Revised) and involve inquiries of management and those charged with governance, inspection of correspondence with licencing and regulatory authorities, remaining alert during the audit of the possibility that other audit procedures could identify non-compliance and obtaining representations from management and those charged with governance. Paragraph 18 of ISA 250 (Revised) then states that in the absence of any identified or suspected non-compliance based on these procedures, the auditor is not required to perform any further procedures. ISA 250 (Revised) does not contain any specific requirement or considerations relating to the competence and capabilities of the auditor when identifying non-compliance.
Matters about non-compliance with laws and regulations and fraud that were communicated with the engagement team.	While the auditor would make inquiries from management and those charged with governance as part of identifying instances of non-compliance, the disclosure in the audit report of these discussions could result in confidentiality breaches and may be seen to be prejudicial by management. With regard to irregularities, in a South African context, as required by the Auditing Professions Act, 2005, the auditor also reports reportable irregularities identified in the audit report.
The auditor's understanding of the entity's current activities, the scope of its authorisation and the effectiveness of its control environment, where the entity is a regulated entity.	The auditor obtains an understanding of the control environment in which the client operates but not for the purposes of expressing an opinion on the effectiveness of the entity's internal controls. Therefore, if the auditor makes any conclusions as to the effectiveness of the internal control environment, this could inappropriately be seen as the auditor providing an opinion on the effectiveness of the entity's internal control.

In terms of the ISAs dealing with reporting matters, the proposed disclosure relating to the auditor's explanation of fraud and irregularities would constitute an Other Matter in terms of ISA 706 (Revised). The disclosure is intended to clarify the auditor's responsibilities as it relates to the detection of irregularities and fraud in the audit of the financial statements. The application material of ISA 706 (Revised) does mention that the Other Matter paragraph should not include information that is prohibited by law, regulation or other professional standards. The auditor would therefore need to consider aspects such as confidentiality when considering the extent of such disclosure.
If not useful, reasons and suggestions: As noted above, in a South African context, as required by the Auditing Professions Act, 2005, the auditor also reports reportable irregularities identified in the audit report. This is sufficient under the current circumstances. In this way users are able to discern significant laws and regulation breaches without adding content that is boilerplate and/or voluminous with no additional insights being provided.

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	☐	☐	✓	☐	☐

Reasons, benefits and drawbacks:

We acknowledge that there is a growing interest amongst the users of financial statements for more insight into how the auditor considered going concern in the audit. In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern and providing the appropriate disclosures in the financial statements.

The auditor is responsible for concluding on the appropriateness of management's use of the going concern basis of accounting applied in the preparation of the financial statements based on management's assessment performed.

As per the ISA (UK) 570 (Revised September 2019), Going Concern an explanation of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern, and where relevant, key observations arising from the evaluation does not apply to all entities and would only apply when the auditor concludes that no material uncertainty related to going concern exists.

Where the auditor concludes that a material uncertainty exists, the auditor will include a “material uncertainty related to going concern” section in the auditor’s report which is considered a key audit matter by nature. Currently, the standard does not require the auditor to disclose how they addressed the material uncertainty as part of their audit.

The auditor should not include any original information in the audit report which has not been disclosed in the financial statements.However, as with the disclosure of a material uncertainty within the financial statements and the audit report, a similar approach could be followed if management did to improve their disclosure on going concern. In this scenario, the consideration and adequacy of management disclosure would first need to be evaluated as part of the audit. In so doing, this would provide the user a more balanced view of the assessment made (and disclosed) by management and then reported on by the auditor.

If not useful, reasons and suggestions:

While we do see there being value in enhancing going concern disclosures that management could provide in the financial statements with enhanced auditor reporting thereon, currently the only avenue available to the auditor would be the consideration of a KAM on the matter.

We would suggest consideration be given to enhancing guidance over specific considerations for going concern being reported as a KAM.

Question 6

<table>
<tr><td colspan="5">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?</td></tr>
<tr><th></th><th>Yes</th><th>Maybe</th><th>No</th><th>No particular view</th></tr>
<tr><td>Conclusion (i.e. a positive statement) that management's use of the going concern basis of accounting is appropriate</td><td>☐</td><td>☐</td><td>✓</td><td>☐</td></tr>
<tr><td colspan="5"><u>Reasons, benefits and drawbacks:</u>

As required by paragraph 39 of ISA 700 (Revised) the "Auditor's responsibility for the audit of the Financial Statements" section of the report describes the audit by stating the auditor's responsibilities.

These responsibilities include the auditor concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Concluding on the appropriate use of the going concern assumption is already a requirement embedded within the audit. In instances where the auditor did not consider the going concern assumption was appropriate then their opinion would be modified in this regard. Similarly where the auditor concludes that there is a material uncertainty related to going concern, ISA 570 (Revised) requires the auditor to draw attention to the related disclosures in the financial statements or where the disclosures are inadequate to modify the audit opinion.

Our understanding is that users already understand this point. So, it is questionable what additional value or insights the proposed statement would add.</td></tr>
<tr><td colspan="5"><u>If not useful, reasons and suggestions:</u>

We propose that any reference to going concern in the audit report be limited to instances where the auditor concludes that there is a material uncertainty related to going concern or an modification where the going concern assumption has not been used appropriately .</td></tr>
</table>

Question 7

<table>
<tr><td colspan="5">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?</td></tr>
<tr><th></th><th>Yes</th><th>Maybe</th><th>No</th><th>No particular view</th></tr>
<tr><td>Procedures specific to the auditor's response to a material uncertainty related to going concern</td><td>✓</td><td>☐</td><td>☐</td><td>☐</td></tr>
<tr><td colspan="5"><u>Reasons, benefits and drawbacks:</u>

As described in paragraph 49 of the consultation paper, the extent of disclosure included in the audit report when the auditor concludes that there is a material uncertainty related to going concern does not provide the user with insight into what the auditor did in respect of the response described by management in the financial statements.

We agree that disclosure of procedures specific to the auditor's response to a material uncertainty related to going concern exists could provide users with insight as to how the auditor has evaluated and addressed the material uncertainty during the audit.</td></tr>
<tr><td colspan="5"><u>If not useful, reasons and suggestions:</u>

It would be useful to disclose the auditor's response to a material uncertainty related to going concern.</td></tr>
</table>

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	☐	☐	☐	✓	☐

Reasons, benefits and drawbacks:

As described in the auditor's responsibility section of the audit report; where the auditor concludes that a material uncertainty exists the auditor draws attention in the audit report to the related disclosures in the financial statements, or where the disclosures are inadequate, the auditor modifies the audit opinion.

The auditor will only include references to a material uncertainty related to going concern when the auditor concludes (based on audit work performed) that there is a material uncertainty related to going concern.

The auditor's responsibility section of the audit report requires that we draw attention to disclosures, or if the disclosures are inadequate, to modify our audit opinion. When we consider modifying our audit opinion, the ISA 705 obligations, as part of the basis for modification, would require us, where practicable, to disclose the omitted information.

If not useful, reasons and suggestions:

We propose that the auditor's report does not include any disclosures when the auditor concludes that there is no material uncertainty related to going concern.

Question 9

<table>
<tr><td colspan="5">Are there any other matters related to going concern that you believe should be disclosed in the auditor's report? If yes, please provide the details, together with the benefits and drawbacks of disclosure of such matters.</td></tr>
<tr><th></th><th>Yes</th><th>Maybe</th><th>No</th><th>No particular view</th></tr>
<tr><td>Any other matters related to going concern that you believe should be disclosed in the auditor's report</td><td>☐</td><td>☐</td><td>✓</td><td>☐</td></tr>
<tr><td colspan="5"><u>Reasons, benefits and drawbacks:</u>

We would caution that unless guidance issued is specific and succinct this will result in boilerplate statements and disclosures being made in the audit report which could detract from the objective of adding insights in the audit report.</td></tr>
<tr><td colspan="5"><u>If not useful, reasons and suggestions:</u>

N/A</td></tr>
</table>

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	✓	☐	☐	☐

Reasons, benefits and drawbacks, and also specify the types of entities:

KAMs in the audit report provides the user with valuable insight into the audit performed. The inclusion of KAMs are most useful and adds value where the users of the audit report are investors or stakeholders who are not involved in the day to day operations of the entity.

However, the scope of ISA 701 could be expanded to include KAMs in audit reports for all entities.

If not, reasons and suggestions:

The cost/benefit balance of including KAMs does not warrant the effort for smaller, less complex entities to include KAMs, where no value would be provided to the users of the audit report. This would be the case where the financial statements and auditor's report are only used by a limited number of owners/shareholders/stakeholders. The value of KAMs in audit reports is highest where there is broader public accountability.

The PIE definition should be a factor in determining public accountability and the scope of ISA 701 should then be applied to these entities. Therefore, it is important that specific consideration be made in respect of assessing whether the current PIE definition is adequate and incorporates all entities with an element of public accountability.

Question 11

<table>
<tr><td colspan="6">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?</td></tr>
<tr><th></th><th>Very useful</th><th>Useful</th><th>Somewhat useful</th><th>Not useful</th><th>No particular view</th></tr>
<tr><td>Descriptions of the outcome of audit procedures or key observations with respect to Key Audit Matters</td><td>✓</td><td>☐</td><td>☐</td><td>☐</td><td>☐</td></tr>
<tr><td colspan="6"><u>Reasons, benefits and drawbacks:</u>

Including descriptions of the outcome of audit procedures or observations would be very useful as it can reduce uncertainty about the outcome of the auditor's procedures and provide insight into relevant findings, especially in areas where judgement and estimation were required, in arriving at the overall opinion on the financial statements as a whole.

However, careful consideration should be given to the manner in which the auditor describes these outcomes or observations as it could be perceived by a user as the auditor providing a separate opinion on the key audit matter itself. For this reason, it would not be appropriate to include an overall outcome of audit procedures or observations on individual financial statement items or disclosures. It would be most appropriate to focus on the assumptions and assertions audited rather than the entire financial statement balance to which the key audit matter relates.</td></tr>
<tr><td colspan="6"><u>If not useful, reasons and suggestions:</u>

Not applicable.</td></tr>
</table>

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	☐	☐	✓	☐
Reasons, benefits and drawbacks, and also specify for which types of entities: While we understand that it is beneficial to users of PIEs, the disclosure of the professional relationships between an audit firm and the audit client would not be beneficial to stakeholders of entities that are not PIE for the reasons set out below.				
If not useful, reasons and suggestions: Most of the entities that fall within the category of non-PIE are SMMEs where the shareholders/stakeholders have board representation and as such have sight and control over the services provided by auditors. The users of the financial statements of these entities are limited to the shareholders (who are also those charged with governance), financial institutions, tax authorities, etc and disclosure of fees and non-audit services would not be of any interest to these stakeholders. The disclosure of professional relationships between an audit firm and the audit client should be limited to PIEs only and only where the financial statements do not provide disclosure in this regard.				

Question 13

If the answer to question 12 is yes, do you believe this should be disclosed in the auditor's report? If not, please explain why and provide alternative mechanisms for such disclosure.				
	Yes	**Maybe**	**No**	**No particular view**
Disclosure of professional relationships in the auditor's report	☐	☐	☐	☐
Reasons, benefits and drawbacks: Not applicable.				
If not, please provide reasons and alternative mechanisms: Not applicable.				

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	☐	☐	✓	☐

Reasons, benefits and drawbacks:

While we do see benefit in the user having sight of the fees paid to the auditor, the auditor's report is not an appropriate mechanism to disclose this for the reasons as set out below.

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

An appropriate mechanism for such disclosure would be in the financial statements which would place the onus on those charged with governance demonstrating how they have considered matters in relation to fees paid to auditors. For instance, in those companies where an audit committee is appointed, one of the functions of the audit committee in terms of the Companies Act of South Africa is to nominate an auditor, who in their opinion is independent of the company. The audit committee is also required to include a report in the annual financial statements of the company that describes how it has carried out its functions. The fees paid to the auditor could be disclosed in the audit committee report as one of the considerations applied by the audit committee in assessing independence.

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	☐	✓	☐	☐

Reasons, benefits and drawbacks:

The audit report is not an appropriate mechanism for disclosing whether an entity is a PIE or not. Currently, there are no requirements for entities to make such disclosure in the financial statements of its PIE status. If the auditor includes this disclosure in the audit report this would be seen as the auditor providing original information in the audit report that is not disclosed anywhere in the financial statements.

The revised auditor reporting standards do not include requirements for the application of ISA 701 to PIEs that are not listed. By requiring the auditor to include disclosure in the audit

report regarding the entity's PIE status would be inconsistent with the principles underlying ISA 701, whereby the auditor does not provide further insights into the audit by the inclusion of key audit matters in the audit report. Furthermore, the requirement to include such disclosure would not be relevant where the financial statements and audit report themselves are not publically available.
If not, please provide reasons and suggestions on other appropriate mechanisms: While we acknowledge the far-reaching implications that the PIE classification of an entity has on legislation and regulators, the disclosure would not be appropriate in the audit report due to this disclosure not being relevant to all users.

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	☐	☐	✓	☐

Reasons, benefits and drawbacks: The auditor should include such a description in all cases for the reasons as set out below.
If not, please provide reasons and suggestions: In accordance with ISA 710 the auditor may include an emphasis of matter paragraph describing the circumstances, and referring to, where relevant, disclosures that fully describe the matter that can be found in the financial statements. In terms of ISA 706 (Revised), the auditor would therefore need to consider if the matter is fundamental to the user's understanding of the financial statements. Where a previously identified material misstatement related to the prior period financial statements was identified in the current year audit, and is resolved and properly accounted for or disclosed in the financial statements, any material effects or possible effects of the matter on the current period period's figures, or any other effects or possible effects with respect to comparability on the current period's figures are eliminated. Therefore, even if the prior period financial statements have not been reissued, the current period's financial

statements would tell the story as long as the matter is adequately disclosed in the financial statements. If the auditor determines the matter to be fundamental to the user's understanding of the financial statements, then the auditor should include an emphasis of matter paragraph which should only include matters that are disclosed in the financial statements. Furthermore, in terms of ISA 706 (Revised), the widespread use of Emphasis of matter paragraphs may diminish the effectiveness of the auditor's communication about such matters. Therefore, care should be exercised to ensure that only matters that are fundamental to the user's understanding of the financial statements are disclosed in the audit report. In addition, in audit reports of entities where ISA 701 applies, the matter could be considered to be a key audit matter depending on the audit effort required, as well as the significance that the matter has to the current year audit.

Question 17

<table>
<tr><td colspan="6">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?</td></tr>
<tr><th></th><th>Very useful</th><th>Useful</th><th>Somewhat useful</th><th>Not useful</th><th>No particular view</th></tr>
<tr><td>Tailored descriptions of the audit procedures performed, and key observations made by the auditor regarding prior year material misstatements</td><td>☐</td><td>☐</td><td>☐</td><td>✓</td><td>☐</td></tr>
<tr><td colspan="6"><u>Reasons, benefits and drawbacks:</u>

Including descriptions of the audit procedures performed, and key observations made by the auditor would not enhance the users understanding of how prior year material misstatements were addressed in the audit for the reasons as set out below.</td></tr>
<tr><td colspan="6"><u>If not useful, reasons and suggestions:</u>

As mentioned in our response to question 16, the auditor should only include an Emphasis of matter paragraph relating to the restatement of corresponding figures when the auditor concludes that the matter is fundamental to the users understanding of the financial statements. By mandating that this paragraph include descriptions of audit procedures performed and key observations made by the auditor would go against what an Emphasis of matter paragraph is intended to achieve, i.e. a paragraph referring to a matter that is appropriately presented or disclosed in the financial statements, that in the auditor's judgement is fundamental to the user's understanding of the financial statements.

For entities, where ISA 701 applies, and the auditor determines the restatement of corresponding figures to be a key audit matter, tailored descriptions of the audit procedures</td></tr>
</table>

performed, and key observations made by the auditor regarding prior year material misstatements would be included in the key audit matter section. When the matter has been deemed to be a KAM, the appropriate threshold for detailed descriptions and outcomes become relevant to users. When it is not considered to be a KAM and not fundamental to the users' understanding, inclusion of such detail adds unnecessary clutter to the report and potentially detracts from the impact of such information in circumstances when it is important that it be highlighted.

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
Disclosure of the threshold of unadjusted misstatements in the auditor's report	☐	☐	☐	✓	☐

<u>Reasons, benefits and drawbacks:</u>

The inclusion of the threshold of unadjusted misstatements in the auditor's report will not be useful for the reasons as set out below.

<u>If not useful, reasons and suggestions:</u>

As set out in our response in question 2 above, the concept of materiality is not always well understood by users of the financial statements. By making reference to the amount that the auditor considered to be trivial for accumulating misstatements identified during the audit would result in confusion for users who are not auditors.

Question 19

In relation to the matters described in sections A, B, C, G and H above, 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*		x			
	Comments: Due to the wide range of users of the financial statements as well as the nature of the governance structures in these entities, users of the audit report will benefit from the enhanced disclosures relating to audit scope.				
Materiality *Refer to section A*		x			
	Comments: Due to the wide range of users of the financial statements as well as the nature of the governance structures in these entities, users of the audit report will benefit from the enhanced disclosures relating to audit scope.				
Performance materiality *Refer to section A*					x
	Comments: Refer to our response under question 2 above for reasons why performance materiality should not be disclosed in the audit report.				
Enhancing the disclosure of the audit effort related to irregularities, including fraud *Refer to section B*					x
	Comments: Except for the disclosure of reportable irregularities in the audit reports, these disclosures should not be made in the audit report.				
					x

<table>
<tr><td rowspan="1">Enhancing the disclosure of the audit effort related to going concern

Refer to section C</td><td colspan="5"><u>Comments:</u>

Subject to the considerations highlighted in section C above, this disclosure would be not be useful to users.</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>x</td></tr>
<tr><td colspan="5"><u>Comments:</u>

However, this disclosure should be dependent on the auditor’s assessment as to whether the matters pertaining to prior year material misstatements are fundamental to the user's understanding of the financial statements.</td></tr>
<tr><td rowspan="2">Disclosure of the reporting threshold unadjusted misstatements

Refer to section H</td><td></td><td></td><td></td><td></td><td>x</td></tr>
<tr><td colspan="5"><u>Comments:</u>

Refer to our response under question 18 above for reasons why the thresholds for unadjusted misstatements should not be disclosed in the audit report.</td></tr>
</table>

Question 20

Other than those proposals discussed in sections A to I, are there more matters that can be disclosed by auditors in the auditor’s report for an audit of financial statements?
Response: None identified

Question 21

<table>
<tr><td colspan="5">Should there be prescribed standards or a rule that will mandate additional disclosures in the auditor’s report? If not, please provide your reasons.</td></tr>
<tr><td></td><td>Yes</td><td>Maybe</td><td>No</td><td>No particular view</td></tr>
<tr><td>Prescribed standards or a rule that will mandate additional disclosures in the auditor’s report</td><td>☐</td><td>✓</td><td>☐</td><td>☐</td></tr>
<tr><td colspan="5"><u>Reasons, benefits and drawbacks:</u>

We do believe that while there is merit in prescribing standards or a rule for mandating additional disclosures that are found to be useful in the audit report, to drive consistency amongst audit reports issued by the different firms. However, mandating additional disclosures in the auditor’s report in such a manner could hinder the ability for disclosure to be scalable to differing sizes of clients and the needs of their users.</td></tr>
</table>

We would propose that supplemental guidance be issued to assist the auditor in applying their judgement to the additional disclosures proposed.
If not, please provide reasons and suggestions: Not applicable.

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? If not, please provide your reasons. If yes, what would be the elements of such a framework?				
	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	✓	☐	☐	☐
If so, what are the elements of such a framework, benefits and drawbacks? It would be useful to auditors if there was a structure or framework that could be used to guide them in implementing any prescribed pr proposed disclosures. This could take the form of updates to existing South African Auditing Practice Statements (SAAPS), for e.g. updating the illustrative templates in SAAPS 3.				
If not, please provide reasons and suggestions: Not applicable.				