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CFO FORUM SUBMISSION FOR EXPOSURE DRAFT: PROPOSED RULE ON ENHANCED AUDITOR REPORTING FOR THE AUDIT OF FINANCIAL STATEMENTS.

In response to your request for input on the proposed rule on enhancing disclosures in the auditor's report, attached is the comment letter prepared by the CFO Forum, an interest group of the South African Institute of Chartered Accountants (SAICA).

We have included our comments to the questions posed regarding the Proposed Rule on Enhanced Auditor Reporting for the Audit of Financial Statements in Appendix A.

This comment letter results from deliberations of the members of the CFO Forum, a discussion group formed and attended by the Chief Financial Officers of major Johannesburg Stock Exchange (JSE) listed and larger state-owned companies – with members representing a significant part of South African business. The CFO Forum has broad sectoral coverage ranging from financial services, mining, retail, media, telecoms, medical services as well as paper and packaging. Its aim is to contribute positively to the development of South Africa's policy and practice on financial matters that affect business – such as government regulatory issues and initiatives, taxation, financial reporting, corporate law and governance, capital market regulation and stakeholder communications for enterprises.

We thank you for the opportunity to provide comments on this consultation paper.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Jason Quinn
Chair of the CFO Forum

APPENDIX A:
Comment for the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements

IRBA Proposed Rule	Questions for comment by the CFO forum	CFO Comment
Proposed Rule: Enhanced Auditor Reporting for the Audit of Financial Statements 1. For all audits of annual financial statements, the audit firm shall disclose in the independent auditor's report: a) The **materiality** applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit. b) 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. c) **Audit procedures specific** to the auditor's response **to the material uncertainty related to going concern**, where relevant. d) The following matters, where the disclosure has not been made by the preparer in the annual financial statements or the annual report: i. **Fees paid or payable** to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion. ii. Fees, other than those disclosed under (d)(i), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its	• Do you support the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements? Yes / No. If "No", please indicate the reason(s) for your response. • Do you believe that there is guidance required in support of the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements? Yes / No. If "Yes", please indicate what guidance is needed.	**1.a) Materiality** Concerns were raised regarding the inclusion of an entity's materiality in the audit report. It would be preferable for an entity's materiality not to be made public. The inclusion of materiality and significant judgements may potentially be taken out of context or misinterpreted by uninformed users. The appropriate application of materiality and judgements made should be considered and discussed amongst the auditors and the entity / entity's audit committee. The materiality applied and judgements made require the audit committee to apply themselves and ensure they are providing the necessary oversight and governance. The inclusion of the materiality applied may also result in pressure on the auditors to lower the materiality, therefore increasing both audit procedures and costs. **1.b and c) Going Concern** The inclusion of the auditor's evaluation of going concern may be useful to the users as the auditors already complete extensive work in testing going concern. The information provided should however not be overly detailed nor too generic. It should remain useful to the user and not result in the auditors having to perform additional procedures to meet increased user expectation. If the auditors do have concerns about whether an entity will remain a going concern, auditors will need to perform sufficient procedures to gain comfort, or the entity should not prepare its financials on a going concern basis. Disclosing an auditor's general concerns regarding going concern to the market may be misinterpreted by users and detrimental to the entity or the market as a whole. Auditors will also need to ensure they don't provide the market with competitor information.

related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion. iii. Any fees, other than those disclosed under (d) (i) and(ii), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence. iv. If applicable, the **fact that the total fees received** by the firm from the audit client represent, or are likely to represent, **more than 15% of the total fees received by the firm for two consecutive years**, and the year that this situation first arose.		**1.c (i – iii) Fees** We do believe this should be disclosed in the annual financial statements either by the preparer or within audit report if not by the preparer. **1.c (iv) Revenue more than 15% for two years** We do believe this should be disclosed as it would be both useful to the users of the financial statements and establish independence.
2. For the audit of all **Public Interest Entities** as defined in the IRBA Code, the audit firm, shall disclose in the independent auditor's report: a) Additional disclosures in the auditor's report about **the scope of the audit** in the context of group audits. b) The communication of **Key Audit Matters**, as defined in International Standard on Auditing 701 Communicating Key Audit Matters in the Independent Auditor's Report (ISA 701).		**2.a) Group audit scope** Although the forum thought it might be useful to provide an understanding of what has beeb included, the key focus areas or the changes in audit focus of group entities, it was highlighted this may not be practical as many subsidiaries of group entities often do not have year ends which co-inside with the group entity. As such, the group entity may not be able to publish this information. **2.b) Key Audit Matters** KAM are already disclosed in the audit report. Comfortable for this to continue to be disclosed so long as it remains concise.

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3. Where the auditor has communicated Key Audit Matters, as defined in ISA 701, the **outcome of audit procedures or key observations with respect to Key Audit Matters** shall be disclosed in the independent auditor's report.		**3.) Outcome of audit procedures or key observations with respect to KAMs** Both KAMs and how audit have addressed these key audit matters are already include in the audit report. Comfortable to continue reporting these matters in the audit report so long as they remain concise, relevant and don't provide any privileged information. IRBA may want to consider providing guidance to audit firms to ensure consistency amongst firms on what should be disclosed.
Proposed effective date The IRBA recommends that the proposed IRBA Rule be effective at least 12 months (one year) after the IRBA Board's prescription and/or publication of the final IRBA Rule.	• Do you agree with the effective date for the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements, as indicated in paragraph 29 of the Explanatory Memorandum? • If "No", please indicate the reason(s) for disagreeing and also suggest an effective date and transitional provisions that will be appropriate.	Implementation is always a challenge, IRBA may want to consider allowing the proposed rule to be effective in 24 months however allow for early adoption where possible.
Additional Comments		Please could you clarify if the proposed rule pertains to all entities as this would be very onerous if this were the case.