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4 October 2022

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Dear Imran

Deloitte response to the request for comments on the proposed Rule on Enhanced Auditor Reporting for the Audit of Financial Statements

We thank you for the opportunity to provide comments in response to your proposed Rule on Enhanced Auditor Reporting for the Audit of Financial Statements issued by the Independent Regulatory Board for Auditors ("IRBA") on 7 July 2022.

Deloitte broadly supports the proposed enhancements to the audit report as they aim to enhance the transparency of audits, address certain expectation gaps of the role of an auditor by providing more meaningful information on certain areas of the audit, building further public trust in the audit profession through greater transparency and aligning with international best practice.

We have included our responses to your specific questions on the proposed rules in Appendix A, and where necessary, we have included reasons for our remarks and suggestions.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Johan Combrinck at jcombrinck@deloitte.co.za.

Yours sincerely

DocuSigned by:
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Johan Combrinck
Deloitte & Touche
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APPENDIX A:

Question 1

Do you support the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements? If no, please indicate the reason(s) for your response.

Yes, we support the proposed IRBA Rule. We believe that it is likely to enhance the understanding and transparency of audits by providing users of the financial statements with more useful and relevant information in key aspects of the audit, such as group scoping, going concern, materiality, independence and areas of significant audit effort. These proposed enhancements will make the audit report more understandable, relevant and meaningful and will aid in rebuilding public trust in the audit profession through greater transparency. The enhanced audit report will also align with international best practice which will make it more comparable and useful for stakeholders globally.

We suggest that the Rule explicitly state that it would apply to both voluntary and statutory audits performed in accordance with the requirements of the Companies Act to avoid any confusion and/or inconsistent application.

Question 2

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? If yes, please indicate the areas in which guidance is needed.

Yes, we do believe that guidance is required over certain elements of the proposed IRBA Rule. Below is our evaluation of each element of the IRBA Rule and whether we believe guidance is required or not:

a. Disclosure of the materiality applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit:
Guidance in the form of minimum expected disclosures will be useful for practitioners. This will aid in providing some level of consistency in practice and will make the reports more comparable. In as much as the materiality applied and the significant judgements made by the auditor will be entity-specific, having a framework that sets out the minimum expected requirements such as the materiality amount, the basis for determining materiality which includes the primary benchmark and input factors used, amongst others, will increase the usefulness of this disclosure in the audit report.

b. Disclosure 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 with respect to that evaluation:
Guidance is required to illustrate what is considered to be key observations arising from the auditor's going concern evaluation. Going concern can be a highly judgemental area of the audit which amplifies the need for guidance to ensure that consistency and usefulness of the information is achieved.

c. Disclosure of audit procedures specific to the auditor's response to the material uncertainty related to going concern, where relevant:
No additional guidance is required regarding the audit procedures as auditors have already been doing this in practice in close call situations where going concern was considered to be a key audit matter, although we acknowledge that has not been common practice. Similar principles could therefore be applied in the disclosure of the audit procedures.
We understand that guidance will be included to align with the IAASB guidance in situations where a material uncertainty exists, and an entity reports key audit matters i.e., the audit procedures performed will be included in the material uncertainty section of the audit report.

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d. Disclosure of fees and professional relationships in cases where the disclosure has not been made by the preparer in the annual financial statements or annual report:
Guidance in the following areas will be required:
- *illustrative example of the required disclosures. Our recommendation would be to disclose the following in relation to fees earned:*
    - *Audit services (statutory or voluntary as envisaged in the Companies Act) for the company and group, where relevant*
    - *Audit related services (i.e., other than statutory or voluntary audit as envisaged in the Companies Act, for example Agreed Upon Procedures) for the company and group, where relevant*
    - *Non-audit related services for the company and group, where relevant*
- *suggested wording to include in the audit report where disclosures are not made by the preparer in the annual financial statements or annual report*
- *approach to be followed in a group audit scenario where different audit firms, including network and non-network firms are involved for certain subsidiaries, associates, and joint arrangements*
- *whether the fees to be disclosed should be based on actual billings during the period being audited, or on an accrual basis*
- *how the 15% should be measured i.e., whether the fee base should include only fees from a firm's audit business or also include fees from the non-audit business.*

e. For public interest entities, additional disclosure in the auditor's report about the scope of the audit in the context of group audits:
Guidance will be required in order to standardise and clarify the minimum expected disclosure requirements. Illustrative examples of expected disclosures would also be useful.

The Rule should be clarified that this would only be "where relevant" as not all public interest entity audits are necessarily group audits.

f. For public interest entities, the communication of key audit matters, as defined in ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report:
There is a need for either a clear definition of PIEs or more detailed guidance to provide consistency in interpretation of which entities are classified as a PIE.

The Rule should be clarified that this would only be "where relevant" as there are instances where no key audit matter is identified, and the auditor would simply state this in the audit report per ISA 701.

KAMs in a group scenario and for PIEs

The duplication of KAMs in a group scenario could be avoided by applying the requirement to disclose KAMs at a group consolidation level only, where consolidated financial statements are presented. Guidance in this regard could be based on a similar exemption for preparing consolidated financial statement in instances where a consolidated set of financial statements are prepared elsewhere in the group as per IFRS 10 Consolidated Financial Statements / IAS 27 Separate Financial Statements. Where KAMs relate to both the consolidated and subsidiary audit report, the KAMs would only appear in the group audit report as the subsidiary may apply an exemption.

g. Disclosure of the outcome of audit procedures or key observations with respect to key audit matters:
Guidance in the form of illustrative examples would be useful to ensure practitioners are providing a sufficient and appropriate level of detail of the key observations and outcomes of the procedures performed in relation to key audit matters.

In addition to the guidance specified above, illustrative reports, similar to SAAPS 3, that incorporate all the enhancements in the proposed IRBA Rule will be useful for practitioners.

Question 3

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 that will be appropriate.

Yes, we agree with the proposed effective date subject to all the necessary guidance that is required being finalised and published.