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

standards@irba.co.za

5 October 2022

Dear Mr I Vanker,

Comments on the Proposed Rule on Enhanced Auditor Reporting for the Audit of Financial Statements

We appreciate the opportunity to provide comments on the Proposed Rule on Enhanced Auditor Reporting for the Audit of Financial Statements ("the Proposed Rule"). We have consulted with various partners within the firm and this letter represents the view of KPMG Inc and addresses the specific questions posed in the explanatory memorandum.

We understand that this Proposed Rule aims to address:

- Audit quality
- User expectation gaps
- Transparency
- Public trust

We are supportive of the IRBA's objective of enhancing audit quality and addressing the user's expectation gaps but do not see that increased disclosure in the audit report for all entities to be the most appropriate tool in achieving that goal without also placing a corresponding additional responsibility on management or those charged with governance (TCWG).

If you would like to discuss our comments further, you may contact Riana Fourie <Riana.Fourie@kpmg.co.za>

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Chairman: Prof W Nkuhlu
Chief Executive: I Sehoole
Directors: Full list on website

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown.

Yours faithfully

Riana Fourie
Partner

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.

Considerations regarding applicability to all audits of financial statements

In providing our views, we considered the population of audit clients to be split between publicly traded entities (listed entities), Public interest entities (PIEs) as defined by the IRBA code and remaining private entities. We do not support the proposal of the blanket approach of applying disclosures 1 (a) to (d) of the Proposed Rule to all entities.

For private entities we do not see how additional disclosure in the audit report would be beneficial in addressing the user's expectation gaps based on:

(i) who the users of some of these entities may be, and
(ii) whether these disclosures would be material to these users (i.e. have an impact on their decision making).

The users of private entities would be mainly shareholders, directors, management, and tax authorities. These users would be expected to already have detailed understanding and knowledge of the company and its operations and would not be relying on disclosures relating to materiality, going concern and fees specifically being made in the auditor's report in their decision making.

Considerations regarding cost implications

We agree with paragraph 13 of the Explanatory Memorandum in that the additional disclosures of the Proposed Rule do not change the scope of the work being performed. However, we disagree with the cost implications not expected to be significant.

Our previous experience with the implementation of Key Audit Matters (KAMs) on listed entities and medical schemes alone has indicated that the costs of upskilling and training of audit professionals, increased review time from the engagement team, including EQCR where applicable. Involvement of technical specialists in the firm and the updating of reporting templates should not be underestimated. With the audit report being our final deliverable, that faces high public scrutiny, our review of a longer and more detailed report will be of utmost importance in all instances and not just upon initial implementation of the Proposed Rule.

Considerations regarding procedures performed by the auditor

An audit engagement is complex and involves processes that are driven by theaudit standards. The procedures performed and judgements applied are significantly varied based on the processes and controls at the client, the size and complexity of its operations and overall reporting and governance structures in place.

To summarise only selected areas of the audit process would not give the user a big picture understanding and could lead to incorrect comparisons between companies.

Considerations regarding specific disclosures

Disclosure rule	Considerations
1 (a) **Materiality**	We understand that this disclosure would be encouraged by the users of listed entities and PIEs due to wide public circulation of the audit reports However, some consideration should be given to how this information would be interpreted to the wider public who may not necessarily have a good understanding of the concept of materiality and how this drives the nature, timing and extent of audit procedures. For entities that have formal governance structures in place, discussions around materiality are already being held with those charged with governance (TCWG) to meet the requirements of ISA 260.15 who would have a better understanding of these concepts. For those entities that do not have a formal governance structure in place and no formal bodies of TCWG, disclosing materiality in the audit report would not be useful to the remaining users. ISA 320.A5 lists examples of benchmarks as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value and related paragraphs go on to describe scenarios in which they would be most appropriate. ISA 320.A8 states that determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. Disclosure of the chosen benchmark would be in line with ISA requirements. However, disclosure of the percentage applied to the chosen benchmark is dependent on each firm's methodology. Without an assessment of the consistency of methodologies across audit firms, variations between methodologies would create further confusion and unnecessary public scrutiny. This would need to be addressed through guidance. To implement this disclosure, we would require illustrative wording to explain: - the concept of materiality, including quantitative and qualitative factors - the benchmark chosen, judgements applied, and adjustments made to determine the final benchmark - how materiality drives the nature, timing and extent of audit procedures - revised materiality (where applicable) We support this rule for listed entities only, on condition that the considerations raised be addressed and sufficient guidance is provided.
1 (b) **Going concern** **and** **1 (c)** **Material uncertainty**	IAS 1 requires management to perform a going concern assessment that covers at least 12 months from the end of the reporting period and per ISA 570.13, the auditor shall cover the same period used by management and as required per the applicable reporting framework. Per ISA 570 (A14 and A15) the auditor would only request management to extend the period of their assessment where there are uncertain events or conditions that occur beyond the period of management's assessment.

	Therefore, in most standard scenarios, going concern assessments would cover 12 months from the date of the financial statements. The disclosures in respect of going concern should be clear that firstly, it is management's responsibility assessing going concern and secondly, that the auditor's procedures performed over management's going concern assessment is for a defined period of time to meet IFRS reporting requirements and that this does not necessarily equate to commercial feasibility in the long run. To require this disclosure where there are no going concern triggers identified runs the risk of boiler plate disclosures that would not be useful and add unnecessary length to the audit report. In scenarios where going concern events and conditions are identified and more extensive audit procedures were performed, this would usually already be disclosed as a key audit matter, or an emphasis of matter and this wording would be aligned to disclosures already made in the financial statement. We believe that to enhance audit quality in this aspect, management's disclosures in the financial statements should be improved and thereby address user's expectation gaps. We note that the IAASB is currently working on a project to revise ISA 570 Going Concern which is expected to be completed in June 2024 and that increased reporting requirements may be expected. Based on the IAASB quarterly board meeting discussion papers from September 2022, the revised standard is expected to require: 1) For all entities: if the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, a separate section in the auditor's report with the heading "Going Concern", and a statement that as part of the audit of the financial statements, based on the audit evidence obtained, the auditor: (a) Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. (b) Has not identified any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and; 2) For listed entities: if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, the auditor shall in the "Going Concern" section of the auditor's report: (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 20; and (b) Describe how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit.

	Since this project is approaching its final stages, it would be more efficient to await these revisions. Lastly, in specific instances where (a) a company prepares financial statements that applies IFRS but is no longer a going concern or where (b) the financial statements are prepared using a special purpose reporting framework that does not contain a going concern assumption (ISA 800 opinions), would this disclosure still be required? We do not support these Proposed Rule 1(b) and 1(c) at this current time for all entities. We support the Proposed Rule 1(c) only as applicable to listed and PIE entities. However sufficient guidance would be required to assist in communicating the technical audit procedures performed to a general user and avoid boiler plate disclosures. If this Proposed Rule intends to pre-empt the IAASB implementation, we suggest that it be aligned to the applicable entities as per the IAASB's proposal.
1 (d) (i) to (iv) Fees	The Proposed Rule states that this disclosure would only be required "where the disclosure has not been made by the preparer in the annual financial statements or the annual report". We have not currently seen any instances where disclosure relating to fees have already been made in the financial statements in sufficient detail to meet the requirements of this rule. The onus of this disclosure is therefore expected to fall to the auditor in all instances. Fees and non-audit services are already discussed with the audit committees and TCGW so that they can assess the auditor's independence, and this is generally disclosed in the audit committee report. Disclosing fees in the auditor's report for public assessment would undermine and negate the responsibilities placed on these functions. The period that this fee disclosure rule covers is also not clear as to whether this relates to fees in connection with the financial period being audited or fees that were paid or incurred during that calendar year which may not be related to that financial period. We expect that there will be significant complexities in aggregating fees and accurately reporting these amounts for large groups, work performed by cross boarder member firms, or other audit firms. The expected aggregation of fee information in this manner could be distorted and confuse the users of the audit report. Fees are based on numerous considerations such as time, extent of operations locally and globally and complexities requiring specialists to name a few. It is unclear how this information would be useful to a general user and what impact it would have on their decision-making process. Due to the effort required in collecting this information and the lack of benefit seen for the users, we do not support this Proposed Rule.

2 (a) PIEs in group scenarios - Scope	Our key concerns around this rule are considerations around the balance of disclosures in the audit report including audit jargon used in the scoping process, length of disclosure required that would adequately describe the scoping process (especially for larger groups), judgements applied, conclusions reached and how this will be understood by an average user of these financial statements. Scoping decisions are also generally discussed with audit committees and TCWG who would have a better understanding of the audit context and decisions made. For those entities that do not have a formal governance structure in place and no formal bodies of TCWG, disclosing group scoping in the audit report would not be useful to the remaining users. It is also difficult to assess the full impact of this Proposed Rule on PIE entities due to the PIE definition currently being revised. We support this rule for listed entities who would have formal governance structures making this disclosure useful to TCWG.
2 (b) PIEs – Key audit matters (KAMs)	ISA 701.18 allows for the auditor to conclude that there are no key audit matters to be communicated. We require clarification over whether this rule would require all PIEs to consider whether KAMs need to be disclosed or to mandatorily disclose KAMs in all instances, as we would consider the latter to be contradictory to the auditing standard. For non-listed PIE entities that are currently disclosing KAMs (e.g. Medical Schemes), we have noted that the KAMs disclosed are quite standard and do not vary across schemes. We expect that most PIE entities would be highly regulated entities, with their operations being standardised and restricted, resulting in the KAMs disclosed to be quite similar across entities in the same industry which would not add much value to users, of who are expected to be a small and focused group. We also remind the IRBA after the introduction of KAMs in the pension fund industry in 2016, this decision was subsequently withdrawn as the Financial Sector Conduct Authority (FSCA) did not see the benefit to the users of the funds. For Collective Incentive Schemes (CIS) specifically, there is no requirement for these financials to be prepared using an IFRS framework. The different basis of preparations being applied with these CIS would therefore impact the comparability of the KAMs disclosed. It is also difficult to assess the full impact of this Proposed Rule on PIE entities due to the PIE definition currently being revised. We do not support this Proposed Rule.

3. KAM outcomes	We expect a significant amount of work effort required to summarize outcomes to ensure that these outcomes are appropriate in the context of the KAM only and does not imply that the auditor is expressing a separate opinion on each KAM. We would also require guidance on the level of detail that this proposed rule would require – should it address each procedure or provide an overall outcome? In addition, where controls have failed or misstatements have been identified that were not found to be material, successful KAM outcomes can still be achieved overall. However, how these outcomes are disclosed would require careful consideration to ensure that users of the audit report would clearly understand that these outcomes do not impact the overall audit opinion issued. Guidance would be required on how to contextualise overall outcomes and how users should interpret these outcomes. We support this rule to the extent that it is applicable to the entities currently scoped in based in ISA 701 paragraph 5, and on condition that the considerations raised are addressed and sufficient guidance is provided.

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.

Overall, we seek guidance on the placement of the additional disclosures required per the Proposed Rule in the current auditor's reports included in SAAPS 3. For example, are these disclosures regarded as "Other matters", separate standard disclosure paragraphs or reported in the "Report on Other Legal and Regulatory Requirements" section of the auditor's report similar to the IRBAs audit tenure rule for PIEs.

In addition, guidance would be required on simplifying the audit jargon and terminology used so that this information is both understandable to the user and not boilerplate. We are cautious that standardised templates and boiler plate wording would not really lessen the expectation gap but could even increase it.

Guidance required over specific disclosures of the Proposed Rule have been covered in our response to Question 1 above.

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.

We agree that the information required by the Proposed Rule exists and does not increase the scope of the audit. However, our experience with the implementation of KAMs on listed entities and medical schemes alone has taught us that we must not underestimate the additional time and effort to disclose this information in a manner that would be understandable to an average user of the auditor's report.

The actions and events that would need to take place in our firm once this Proposed Rule is published is as follows:

- Upskilling and training of audit professionals
- Discussing with clients the new requirements and why it benefit them
- Discussions with clients on business strategies and other information that may be in the public domain
- Discussions with clients on the additional work effort which may increase timelines and audit fees
- Increased review time from the engagement team, including EQCR where applicable and technical specialists in the firm
- Updating of reporting templates
- Costing this to the audit fee
- Risk management review of audit reports

The open projects that impact the application of this rule is:

- IAASB revised ISA 570 Going Concern project
- Revised PIE definition per the IRBA code

Taking the above into account, 12 months would not be sufficient. We therefore propose a minimum of 18 months to perform the above action points and to ensure that the open projects (noted above) are close to finalisation so that updates can be efficiently considered. Notwithstanding the above, it is imperative that the final rule be published at the same time as the required training and guidance for implementing this Proposed Rule.