



PKF South Africa Inc.

Re: Proposed IRBA Rule on Enhanced Auditor Reporting

Question 1:

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.

Proposed IRBA Rules:

1. For all audits of annual financial statements, the audit firm shall disclose in the independent auditor's report:

General PKF SA Input: These requirements apply to *all audits* of financial statements. It is unclear how the disclosure will be beneficial in the SME environment for example owner managed businesses. We believe that there are benefits to the below rules, but to a lesser extent for companies that are below a certain level of public interest. There are many divides (PIE, non – Pie, compulsory audits based on your public interest score in the Companies Act and other audits). The benefits of these rules should be assessed against the various divides.

- a) The materiality applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit.

PKF SA Input:

- Guidance is required regarding what to disclose and the extent of the disclosure. This will ensure consistency in reporting. Currently, the extent of the disclosure is not clear.
 - May increase the risk of fraud as the materiality number is widely available.
 - ISA 320 requires the auditor to apply professional judgement in calculating the materiality number. The extent of the required disclosure of the professional judgements in respect of materiality may result in Intellectual Property/ methodology being shared. May create unnecessary and inaccurate comparisons of audit firms by users.
 - The requirements apply to *all audits* of financial statements. It is unclear how the disclosure will be beneficial in the SME environment for example owner managed businesses.
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- 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.

Tel +27 (0)31 573 5000 • Fax +27 (0)31 566 4666 • www.pkf.co.za
PKF South Africa Inc. • Reg No. 2000/021729/21 • VAT No. 4720239187
12 on Palm Boulevard • Gateway • Umhlanga Ridge • Durban • South Africa • 4319
P.O. Box 1858 • Durban • South Africa • 4000

Directors: AE Paruk (Chairperson) CM Unsworth (Chief Executive Officer) IG Abbott (Chief Operating Officer) RH Heiriss LD van Goeverden JC Goosen J Nell PR Smith JG van Graan WM Wasowics FE Wesson

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PKF SA Input:

- Guidance is required regarding what to disclose and the extent of the disclosure. This will ensure consistency in reporting. Currently, the extent of the disclosure is not clear.
 - The disclosure promotes a better understanding of how going concern (being a critical aspect of the audit) was assessed by the auditor.
- c) Audit procedures specific to the auditor's response to the material uncertainty related to going concern, where relevant.

PKF SA Input:

- Guidance is required regarding what to disclose and the extent of the disclosure. This will ensure consistency in reporting. Currently, the extent of the disclosure is not clear.
- 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 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.

PKF SA Input:

- We support this proposed rule.
- However, for Point iv: Consider aligning the % for non-PIEs to the changes in the IESBA code related to fees. Point iii: - consider issuing guidance related to this requirement.

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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.

PKF SA Input:

Guidance is required regarding what to disclose and the extent of the disclosure. This will ensure consistency in reporting.

- 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).

PKF SA Input:

- We support this proposed rule.

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.

4. PKF SA Input:

Guidance is required regarding what is meant by "outcome".

Question 2:

We have indicated above where we believe guidance is required.

Question 3:

We support the effective date.

We trust that you find our comments above in order.

Yours sincerely

Nishani Sudhoowa

N Sudhoowa: Head of Risk and Compliance

05th October 2022

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