



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

Email: [standards@irba.co.za](mailto:standards@irba.co.za)

03 October 2022

Dear Mr Vanker

**Comment on the Proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements**

We appreciate the opportunity to comment on the Committee for Auditing Standards' (CFAS) Proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements (the "Proposed Rule"). This response summarises the views of PricewaterhouseCoopers Incorporated.

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,

A handwritten signature in black ink, appearing to read 'N. Terblanche', with a stylized flourish at the end.

Natalie Terblanche

Director

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**REQUEST FOR SPECIFIC COMMENTS**

**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.

<b>1) All audits of annual financial statements</b>	
<b>Proposed Rule</b>	<b>Comments</b>
a) The materiality applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit.	Yes - This disclosure will provide the user with valuable and meaningful insight into the audit that was performed. Furthermore, this disclosure will provide insight as to the depth of the audit, which contributes to clarifying the user expectation and understanding of the level of assurance provided as reasonable and not absolute.
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.	No - We believe the inclusion of such disclosure will result in boilerplate disclosures being made in the audit report.  Furthermore, this disclosure will be more meaningful in circumstances where the auditor concludes that there is a close call or material uncertainty related to going concern. In addition, we do not believe that this disclosure will be beneficial for smaller entities where there is limited public interest.  The International Auditing and Assurance Standards Board (the “IAASB”) is also currently working on a project to revise ISA 570. One of the objectives of this project is to focus on transparency as it relates to the auditor’s responsibilities relating to going concern and work performed in relation to going concern. We would therefore propose that the Proposed Rule be put on hold until such time as the IAASB issues the revised ISA 570.
c) Audit procedures specific to the auditor’s response to the material uncertainty related to going concern, where relevant.	Yes - The inclusion of audit procedures specific to the auditor’s response to material uncertainty related to going concern could provide users with insight as to how the auditor has reached the conclusion that a material uncertainty related to going concern exists.

<p>d) The following matters, where the disclosure has not been made by the preparer in the annual financial statements or the annual report:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>No - We do not believe that the audit report is an appropriate mechanism for disclosing fees. Such disclosure would detract from aspects such as the key audit matters and opinion provided in the audit report.</p> <p>There are a number of risks associated with this Proposed Rule, which may see a number of unintended consequences, and unwanted business behaviours such as -</p> <ul style="list-style-type: none"> <li>• firm hopping, in an attempt to hunt down the "best" price, which could negatively impact on the quality of work, as clients may be chasing what they perceive to be the best price,</li> <li>• price gouging/ undercutting proposal processes, thereby decreasing the objectivity of the proposal process.</li> </ul> <p>The most appropriate mechanism for such disclosures would be the financial statements. Furthermore, such disclosure could also be made in the directors report or audit committee report (as part of the considerations applied by the audit committee in assessing the independence of the auditor).</p> <p>In addition, such disclosure would be of little or no value in entities with limited public interest. We therefore propose that should this Proposed Rule become effective, it should only apply to audits of all public interest entities.</p> <p>We would also like to provide some specific feedback on each category of fees as follows:</p> <p><i>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.</i></p> <p>Clarity should be provided for scenarios where it is a joint audit.</p> <p><i>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</i></p>
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	<p><i>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.</i></p> <p>We propose that to achieve its objective of transparency, the nature of such fees should also be disclosed and not only the amount.</p>
<b>2) Audits of all Public Interest Entities</b>	
a) Additional disclosures in the auditor's report about the scope of the audit in the context of group audits.	Yes - We do believe that this disclosure will provide the user with valuable insight as to how the auditor has performed scoping for purposes of the group audit.
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).	Yes - The inclusion of Key Audit Matters in the audit report of public interest entities provides users with valuable insight into what the auditor considered to be of most significance in the audit performed.
<b>3) Key Audit Matters</b>	
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.	Yes - Disclosing the outcomes of the audit procedures performed would be useful as it reduces any uncertainty a user may have about the outcome of the procedures.



**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? Yes/No.**

If “Yes”, please indicate the reason(s) for your response.

1) All audits of annual financial statements	
Proposed Rule	Comments
<p>a) The materiality applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit.</p>	<p>Yes - We believe that guidance would be necessary to ensure consistent application of the Proposed Rule. This guidance should focus on how the auditor describes the judgements in determining the materiality thresholds and to ensure the language is understandable to all users.</p> <p>In the event that the expectation is to include the benchmark used, the percentage, and primary reason(s) for using the benchmark, the guidance needs to be clear, possibly provide illustrations, on the extent of the disclosure required, including instances requiring a change in benchmark or the use of an alternative benchmark. The final report is to highlight consideration of both quantitative and qualitative considerations in reaching a final determination on materiality.</p> <p>In documenting significant judgments, an element of caution needs to be applied to ensure the confidentiality and protection of client information, not yet publicly available.</p> <p>Specific guidance on what to disclose in respect of materiality will further allow for -</p> <ul style="list-style-type: none"> <li>● comparability across industry sectors and various audit engagements,</li> <li>● comparability across methodologies applied by various audit firms, and</li> <li>● consistency and transparency across the audit profession.</li> </ul>
<p>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</p>	<p>Yes - While we do not believe that this should be a Rule for the reasons mentioned above, we do believe that to the extent that the Proposed Rule is mandated, guidance would be necessary to ensure consistent application by auditors. The</p>



<p>evaluation.</p>	<p>guidance should seek to address challenges such as boilerplate disclosures being made.</p>
<p>c) Audit procedures specific to the auditor's response to the material uncertainty related to going concern, where relevant.</p>	<p>Yes - We do believe guidance would be required to ensure consistent application by registered auditors. The guidance should include practical examples on how procedures should be drafted to achieve the objective of the proposed Rule. Furthermore, the guidance should focus on ensuring that the procedures performed and extent of procedures performed are not misinterpreted by the users or to vary extensively between audit firms and/or entities.</p>
<p>d) The following matters, where the disclosure has not been made by the preparer in the annual financial statements or the annual report:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>iv) If applicable, the fact that the total</p>	<p>No - We believe that the Proposed Rule is quite specific in terms of what is required from auditors. We do believe that the illustrative examples in SAAPS 3 could be updated to reflect these disclosures.</p>



<p>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.</p>	
<p><b>2) Audits of all Public Interest Entities</b></p>	
<p>a) Additional disclosures in the auditor's report about the scope of the audit in the context of group audits.</p>	<p>Yes - Guidance will be needed 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.</p>
<p>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).</p>	<p>No - We do not believe guidance is necessary as auditors are familiar with the requirements of ISA 701 and the concept of key audit matters.</p>
<p><b>3) Key Audit Matters</b></p>	
<p>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.</p>	<p>Yes - Guidance should be provided to ensure that careful consideration is 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.</p>



**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? Yes / No.**

**If “No”, please indicate the reason(s) for disagreeing and also suggest an effective date that will be appropriate.**

We are in agreement with the effective date for the proposed IRBA Rule.