

Reference #: 773532

5 October 2022

The Director Standards
Independent Regulatory Board for Auditors (IRBA)
PO Box 8237
Greenstone, 1616
South Africa

By e-mail: standards@irba.co.za

Dear Imran,

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

SAICA appreciates the opportunity to provide comments on the Proposed IRBA Rule.

We have categorised our comments as follows:

- Overarching Comments
- Request for Specific Comments

The appendix to the letter contains extracts from the IRBA Code of Professional Conduct for Registered Auditors.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Annerie Pretorius (AnnerieP@saica.co.za).

Kind regards



Thandokuhle Myoli

Executive: Audit and Assurance
The South African Institute of Chartered Accountants



Overarching Comments

1. The Explanatory Memorandum to the Proposed IRBA Rule explains that the IRBA's objective is to endeavor to protect the financial interests of South Africa through the effective and appropriate regulation of assurance engagements conducted by registered assurance providers, in accordance with internationally recognised standards and processes. The Proposed IRBA Rule is put forward by the IRBA in light of having taken this objective into consideration.
2. As explained in the *IRBA News* issue 58, the IRBA has three workstreams under the IRBA's Restoring Confidence 2.0 project. *“Workstream 2 is dedicated to identifying gaps in the auditing profession that fall within the IRBA mandate, in addition to determining and prioritising potential reform topics. The Enhanced Auditor Reporting project, together with its recommendations, is an example of a restoring confidence initiative under this workstream that is aimed at proposing significant enhancements to auditing standards, further enhancing the value of the audit product to the public.”*
3. The IRBA News issue 58 also indicated:
“Workstream 1, which is focused on the gap analysis in the broader financial reporting and governance ecosystem that impacts the auditing profession and audit quality, has concluded its project plan. It has also finalised its desktop review of this ecosystem, to identify the key role-players. Additionally, this workstream has conducted research into the major laws and regulations that currently impact the financial reporting and governance ecosystem; and is consolidating the data on the known gaps in this ecosystem, as previously identified by the IRBA and international stakeholders in their reviews of South Africa. These reviews include the World Bank Report on the Observance of Standards and Codes: Accounting and Auditing Standards Report (2013) and the United Nations' Development Account programme.”
4. SAICA acknowledges the important role that the IRBA fulfils with regard to the protection of the investing public, which includes local and international investors.
5. SAICA supports the introduction of measures that enhance audit quality and supports measures that enhance the responsibility and accountability of all the key role players in the financial reporting ecosystem, namely the preparers of the financial statements, those charged with governance and the auditors.
6. Under its current mandate, the IRBA only regulates registered auditors. While professionals that are members of professional bodies, such as SAICA, are subject to disciplinary measures of those professional bodies, there is currently an imbalance in South Africa in the level of regulatory oversight of auditors if compared to that of other key role players in the financial reporting ecosystem.
7. The proposals of the Proposed IRBA Rule place requirements on the auditor over and above the requirements of the International Standards on Auditing (ISA), without placing a corresponding additional responsibility on those responsible for the preparation of the financial statements or on those charged with governance. The proposals will therefore



increase the imbalance of regulation over auditors compared to other key role players in the financial reporting ecosystem. We acknowledge that the IRBA may have future projects in the pipeline to address this imbalance, as explained in paragraph 3.

8. Our task group that was established for purposes of this submission, discussed the possible underlying causes of the erosion of confidence in the profession, with reference to recent corporate reporting failures. In our view, the erosion of confidence in the auditing profession was more likely caused by deficiencies (actual or perceived) in the audit work performed during the planning and/or execution phases of the audits and less likely caused by a lack of information provided in the auditor's reports.
9. The proposals of the Proposed IRBA Rule are not intended to amend the work that is currently done on an audit in terms of the ISAs, but are aimed at enhancing the transparency about the audit process and to provide more information about the auditor's independence, to inform the user of the auditor's report's decision-making ability. As explained in paragraph 2, the Enhanced Auditor Reporting (EAR) project is also intended as a mechanism to restore confidence in the profession.
10. While we do not dispute that the measures of the Proposed IRBA Rule will result in more informative auditor's reports in some respects, it is not that clear whether the measures will necessarily achieve the objective of restoring confidence in the profession. A post-implementation review of the impact of the Proposed IRBA Rule, should it be issued, on the confidence in the profession, may provide useful feedback in this regard.
11. We are of the view that balance is needed with regard to the following:
 - a. Responsibility, accountability and regulation of the various key role players in the financial reporting ecosystem.
 - b. Cost vs benefit of reform measures.
 - c. Having an informative auditor's report that is still succinct and understandable.

How we reached our conclusions

12. To inform our submission, we established a task group consisting of members of our Assurance Guidance Committee and its related project groups. Our Assurance Guidance Committee has approved this submission.
13. We issued a survey to our members. The aim of the survey was to provide us with an indication of the level of support of SAICA members for including the various proposed disclosures in the auditor's report, and to provide SAICA with an indication of possible implementation issues.
14. We considered whether there were lessons that could be learnt from audit, corporate reporting and corporate governance reform in the United Kingdom (UK).
15. We considered the following factors in reaching our conclusions:
 - The responses received on the SAICA survey on the Proposed IRBA Rule.



- Maintaining balance regarding the responsibility of the auditor, the preparer of the financial statements and those charged with governance.
- Whether the proposals supported the overall objectives of the auditor as set out in ISA 200.11.
- Whether the proposals may result in undue prominence being given to certain aspects of the audit.
- The expected impact of the proposals on audit quality.
- The likelihood of the measures of the Proposed IRBA Rule achieving the objective of restoring confidence in the profession.
- International Auditing and Assurance Standards Board (IAASB) projects currently underway that may overlap with the Proposed IRBA Rule.
- Whether the proposals of the Proposed IRBA Rule are harmonised with the International Standards on Auditing (ISAs) and the IRBA Code of Professional Conduct for Registered Auditors (the IRBA Code).
- Mechanisms other than the auditor's report that may provide an alternative in providing users with the required information.

Audit, corporate reporting and corporate governance reform in the UK

16. Audit reports issued on certain entities in the UK are arguably at the forefront, internationally, with regard to the informative value of the auditor's report, and have been so since 2013.
17. The "extended auditor's report" was introduced in the UK with effect for periods commencing on or after 1 October 2012¹. In terms of these measures, the auditor was required to disclose:
 - (a) A description of those assessed risks of material misstatement that were identified by the auditor and which had the greatest effect on the overall strategy; the allocation of resources in the audit; and directing the efforts of the engagement team;
 - (b) An explanation of how the auditor applied the concept of materiality; and
 - (c) A summary of the audit scope, including an explanation of how the scope was responsive to the assessed risks of material misstatement described in (a) and the concept of materiality as described in (b).
18. The requirements regarding the UK auditor's report were further enhanced subsequent to the introduction of above.
19. Despite these positive measures regarding the informative value of UK auditor's report, audit failures in the UK continue to occur², and reform initiatives are currently in progress in the UK with the aim of restoring trust in audit, corporate reporting and corporate governance systems.³

¹ See [Extended Auditor Reports March 2015](#), page 4

² [UK audit regulator hands down record fines for audit failures](#)

³ [UK audit shake-up targets big firms after spate of corporate failures](#)



20. Having considered the UK Government's response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems⁴, specifically regarding proposals for enhancing auditor reporting, we suggest that the IRBA should consider whether proposals aimed at restoring confidence in financial reporting in South Africa:

- Will hold all key role-players in the financial reporting ecosystem accountable, in proportion to the role they play with regard to providing reliable information to the investing public.
- Are focused on the appropriate "type" of entity, namely entities that are of most relevance from a public interest perspective (i.e. PIEs)
- Balance the need for action with the time needed for those affected to prepare properly.
- Balance undue cost vs benefit.
- Recognise that an informative auditor's report, beyond what is required by the ISAs, is not necessarily a fail-safe measure against corporate reporting failures.

⁴ [Restoring trust in audit and corporate governance - Government response](#)



Request for Specific Comments

Drafting note: We have shaded matters on which we believe guidance is necessary.

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

21. We support certain proposals of the Proposed IRBA Rule, as discussed below.

Proposed IRBA Rule on EAR for the Audit of Financial Statements

1. For the 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.

22. We support proposal 1(a) in principle as we are of the view that the proposed disclosure may result in narrowing the expectation gap regarding what the scope of an audit entails, but suggest amendments to the rule, as discussed below.

23. We assumed that the Proposed IRBA Rule refers to materiality for the financial statements as a whole as referred to in ISA 320 paragraph 10 (as an example), and suggest an amendment to the articulation of the proposal for the sake of clarity.

24. We also assumed that the Proposed IRBA Rule requires disclosure of the final amount of materiality for the financial statements as a whole, which may have been revised as the audit progressed (ISA 320 paragraphs 12 and 13) and/or may have been reassessed prior to evaluating the effect of material misstatements (ISA 450 paragraph 10). Guidance to clarify the requirement may be useful for practitioners.

25. Where the auditor determined materiality for the financial statements as a whole by applying a percentage to a chosen benchmark, we propose that disclosure should include:

- The percentage and chosen benchmark;
- The reason(s) for selecting the particular benchmark and percentage; and
- Explanations of adjustments made to the chosen benchmark.



26. We suggest that guidance on the rule should clarify what the explanation of the auditor may entail.
27. ISA (UK) 700 (Revised November 2019) paragraph A59-2 may be a useful reference point regarding guidance on what the disclosure **may** contain. Note that we are **not** proposing that these disclosures should be mandated.

ISA (UK) 700 (Revised November 2019) paragraph A59-2. *An explanation of the significant judgments made by the auditor in determining materiality may include a description of how the auditor applied the concept of materiality, in planning and performing the audit, to the particular circumstances and complexity of the audit and:*

- ...
 - *Significant qualitative considerations relating to the auditor's evaluation of materiality.*
 - *Materiality level or levels for those classes of transactions, account balances or disclosures where such materiality levels are lower than materiality for the financial statements as a whole.*
 - *Any significant revisions of materiality thresholds that were made as the audit progressed.*
 - *The threshold used for reporting unadjusted differences to the audit committee.*
28. The ISA auditor's report does not currently explain the concept of materiality or how it is applied by the auditor in the audit. Disclosing the quantum of materiality and how it was determined, in the auditor's report, without providing context, may cause confusion to the user of the auditor's report, especially to users who are not familiar with the auditing process. We propose that the Proposed IRBA Rule should also require the auditor to explain the concept of materiality and how the concept of materiality is applied on the audit, in the auditor's report. It is important for the user to understand that the auditor considers both quantitative and qualitative aspects of materiality. We suggest that guidance on the rule should include illustrative wording for use by practitioners.

Proposed IRBA Rule on EAR for the Audit of Financial Statements

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

29. We would like to raise some concerns with regards to the application of this proposal.
30. While the disclosure of the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern in the auditor's report may be informative to the users, the ultimate responsibility for the assessment of the entity's ability to continue as a going concern rests with management. There should be proportionality in any reform measures



introduced and in this regard IRBA should engage with the relevant stakeholders to ensure that the necessary changes are introduced from a preparer point of view as well.

31. We are of the view that the proposal may result in undue emphasis being put on only one of the aspects that is covered in the auditor's risk assessment procedures performed in terms of ISA 315 (Revised 2019). While there appears to be justification to enhance disclosure in the auditor's report in circumstances when a material uncertainty regarding going concern has been identified (see our comments on proposal 1(c)), we do not believe that disclosure of the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern, as a matter of course, on every audit of annual financial statements, may be beneficial to the users of the report.
32. The proposal of the Proposed IRBA Rule bears similarities to the requirement of ISA (UK) 570 (Revised September 2019).21-1(d). This paragraph states:

Use of Going Concern Basis of Accounting is Appropriate

21.-1. If the auditor concludes that the going concern basis of accounting is appropriate, the auditor shall include a section in the auditor's report with the heading "Conclusions Relating to Going Concern", or other appropriate heading, and include:

- (a) Where the auditor concludes that no material uncertainty related to going concern has been identified, a statement that the auditor has not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized for issue;*
- (b) A conclusion that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate;*
- (c) For entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, the auditor has nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements; and*
- (d) For public interest entities, other listed entities, entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, and other entities subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018, an explanation 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.”

33. It is important to note that paragraph 21-1(d) of UK (ISA) 570 (Revised September 2019) only applies to the audit of certain entities.
34. It is also important to note that the work effort of the auditor was strengthened in UK (ISA) 570 (Revised 2019), if compared to the ISA. The UK standard places a greater need for the auditor to demonstrate how they have challenged management’s going concern assessment and requires more rigour from the auditor in testing this assessment, if compared to the ISA.⁵ The disclosure requirement in paragraph 21-1(d) in the UK standard is accompanied by an enhanced work effort required of the auditor in terms of UK (ISA) 570 (Revised 2019).
35. The following provisions of the UK Corporate Governance Code, 2018, have reference:
 28. *The board should carry out a robust assessment of the company’s emerging and principal risks. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.*
 - ...
 30. *In annual and half-yearly financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.*
 31. *Taking account of the company’s current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.*
36. In the UK, reforms regarding going concern assessment thus enhanced responsibility from both the preparer of the financial statements and from the auditor’s perspectives.
37. The proposal in the Proposed IRBA Rule only addresses reform on the part of the auditor, thus not balancing the responsibilities of the role players in the financial reporting ecosystem.

⁵ [icas.com: Revision to ISA \(UK\), Going Concern](https://www.icas.com/Revision-to-ISA-(UK)-Going-Concern)



38. The IAASB's project on revising ISA 570 (Revised) *Going Concern* is currently underway. While we appreciate that the project is still in the pre-exposure draft stage, it is noteworthy to indicate that [Agenda Item 7-A Drafting Paragraphs for Proposed ISA 570 \(Revised\) *Going Concern*](#) included in the September 2022 IAASB Board Meeting pack, includes the following proposals to be added to ISA 570 (Revised):

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

21A. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and state that as part of the audit of the financial statements, based on the audit evidence obtained, the auditor: (Ref: Para. A27A)

(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.

Events or Conditions Have Been Identified – No Material Uncertainty Exists

21B. For audits of financial statements of 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: (Ref: Para. A27B)

(a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 20; and (Ref: Para. A27C)

(b) Describe how 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. (Ref: Para. A27D–A27E)

39. At this stage, a paragraph similar to UK (ISA) 570 (Revised September 2019).21-1(d) is not being proposed by the IAASB.
40. If the IRBA does proceed with this proposal, we suggest that guidance should be provided to practitioners to distinguish between the disclosures required in proposal 1(b) and proposal 1(c) of the Proposed IRBA Rule.
41. We also propose that the IRBA should consider working with the accounting standard-setting bodies in South Africa to enhance the disclosure on going concern, including material uncertainties related to going concern, in the financial statements.



Proposed IRBA Rule on EAR for the Audit of Financial Statements

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

c. Audit procedures specific to the auditor's response to the material uncertainty related to going concern, where relevant.

42. We support the proposal in principle, but suggest that the IRBA should first attempt to influence the IAASB project at this stage: The IAASB project on Going Concern is addressing this very issue, and we suggest that South Africa should seek to influence the IAASB project to avoid inconsistencies between the ISA and the IRBA Rule. The IAASB is also addressing disclosure in the auditor's report regarding so-called "close call" situations, which is not addressed by the proposed IRBA Rule (refer to paragraph 38 for some of the IAASB's current proposals regarding "close-call" situations).
43. Conceptually, there appears to be a slight inconsistency in the ISAs insofar disclosure in the auditor's report regarding a material uncertainty related to going concern is concerned. ISA 701 paragraph 15 specifies that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern **is**, by its nature, **a key audit matter** (KAM). However, such a matter is not described in the KAM section of the auditor's report, but is rather reported on in accordance with ISA 570 (Revised).
44. In circumstances where the auditor communicates KAMs in the auditor's report, and has identified a material uncertainty related to going concern, one of the identified KAMs (i.e. the material uncertainty related to going concern) is thus described in the auditor's report in much less detail, and not in a bespoke manner, if compared to how the other KAMs are communicated in the auditor's report. We support proposals to address such inconsistencies.
45. If the IRBA proceeds with proposal 1(c) prior to the completion of the IAASB project, we suggest that the articulation of the proposal should be amended to read: "Where the auditor has concluded that a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern: Describe how events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit." This would align the disclosure with the way that KAMs are required to be communicated. ISA 701 does not require the auditor to disclose "audit procedures" regarding KAMs.
46. If the IRBA proceeds with proposal 1(c) prior to completion of the IAASB project, we furthermore suggest that guidance to the rule should clarify whether the disclosure requirement of the IRBA Rule supplements the disclosure that is required by ISA 570 (Revised) paragraph 22 or whether the Rule should be interpreted as meaning that, in



South Africa, a material uncertainty regarding going concern is disclosed in accordance with ISA 701 rather than in terms of ISA 570 (Revised).

47. Agenda Paper *Agenda item 7-A Drafting Paragraphs for Proposed ISA 570 (Revised), Going Concern*, included in the September 2022 IAASB Board Meeting pack indicates the following proposal to be added to ISA 570 (Revised):

22. *If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (Ref: Para. A28– A31, A34)*

...

d) For audits of financial statements of listed entities, describe how events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit. (Ref: Para. A27D–A27E)

48. We support proposals such as above that will align the manner in which all KAMs are communicated in the auditor's report.

49. Proposal 1(c) of the Proposed IRBA Rule, however, doesn't just apply to listed entities (for whom the ISAs require KAM disclosure), but applies to all audits of annual financial statements.

50. The Proposed IRBA Rule thus creates an inconsistency where the auditor does not communicate KAMs in the auditor's report (i.e. where ISA 701 does not apply and the auditor does not voluntarily apply ISA 701). In such circumstances, the auditor will be communicating, and thus emphasizing, one "KAM" in the auditor's report but will not identify or communicate other KAMs applicable to the audit. If the IRBA proceeds with proposal 1(c) prior to the completion of the IAASB project, we suggest that the proposal should only apply to entities where KAMs are communicated by the auditor.



Proposed IRBA Rule on EAR for the Audit of Financial Statements

1.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.**

51. We request that IRBA take into consideration some of the concerns noted below prior to the implementation of the proposal.
52. The auditor's report may not be the most appropriate mechanism for conveying fee-related information: The information appears not to be aligned with the objectives of the auditor as set out in ISA 200.11.
53. We understand that the objective of this proposal is to operationalise the requirement of paragraph R410.31 of the IRBA Code, which requires the firm to "publicly disclose" the fee-related information (see Appendix A for extracts from the IRBA Code). Paragraph R410.31 of the IRBA Code however only applies to the audits of PIEs.
54. The application of proposal 1(d) to non-PIE auditees could create an inconsistency with the requirements of the IRBA Code.
55. The proposal in 1(d)(iv) appears to be contradictory to IRBA Code paragraphs R410.15 and R410.16 with regard to audit clients that are not PIEs.
56. With regard to PIE auditees: The proposal in 1(d) of the Proposed IRBA Rule will remove the flexibility provided in the IRBA Code in paragraph 410.31 A3.



57. If the fee-related information is disclosed in the auditor's report, as opposed to being disclosed in the financial statements, this information will be unaudited, which contrasts with information about the entity that is communicated elsewhere in the auditor's report: The elements of an assurance engagement include a three party relationship involving a practitioner, a responsible party, and intended users. The responsible party is the party responsible for the underlying subject matter. Where fee-related information is not disclosed in the financial statements, the responsible party has not asserted responsibility for the information. The practitioner has, in these circumstances, taken over the responsibility for that information, and cannot also express assurance thereon.
58. Furthermore, where the auditor's report on a PIE is not available in the public domain, we have reservations about whether the auditor's compliance with the proposals in 1(d) would in all instances result in a firm's compliance with the requirement of paragraph R410.31 of the IRBA Code to "publicly disclose" the information. In our view, where the auditor's report on a PIE is not available publicly, the firm would have to publicly disclose the information, "in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders", in addition to the auditor complying with the proposal in 1(d) of the Proposed IRBA Rule.
59. The proposal appears to disallow the exception regarding public disclosure permitted by paragraph R410.32 of the IRBA Code.
60. Paragraph R410.30 of the IRBA Code states that if laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity the benefit to the client's stakeholders of the client making such disclosures. We are of the view that the most appropriate placement of the required fee-related disclosure is in the financial statements and therefore propose that the IRBA should consider working with the accounting standard-setting bodies in South Africa to require such disclosure to be made in the financial statements.
61. If the IRBA proceeds with this proposal, guidance (which could include illustrative examples) would be useful for the following practical challenges:
- Is it only fees relating to this financial period that the audit covers? Or is it for a period of time? To explain by way of example: is it all fees relating to the February 2022 audit or all fees paid / payable for the 2022 calendar year? It really gets complicated (and inconsistent) when the fees must be determined for a period since the previous audit report was signed. Guidance or specifics in this regard would be helpful. Even more complicated when one has to take advisory and tax compliance fees into account (the 2022 tax compliance fees will not all be payable by the time the audit is signed off, for example).
 - Should the fee information be determined based on billed or on accrued income?
 - Guidance that points out that the auditor is permitted to disclose the context of the fees, as explained in IRBA Code paragraph 410.31 A1, would be helpful.
 - We suggest the following "bucketing" for disclosure purposes:
 - Audit services – statutory audit only



- Audit related services – For example other assurance and agreed-upon procedures, categorised between services that are required by legislation and those that are not required by legislation.
 - Non-audit – other services such as tax
- When (some or all) the fee-related information is disclosed in the financial statements, and reference to such fee-related information is therefore not made in the auditor's report, users may find this confusing and may incorrectly assume that the auditor's report is incomplete. Guidance should indicate that the auditor is permitted to include reference in the auditor's report to where the disclosure of the fee-related information is made in the financial statements.
 - Clarity of the definition of 'firm'. Is this in line with the definition included in the IRBA Code?
 - Clarity on how the 15% should be measured. Audit revenues only, or firm revenues as a whole?
62. ISQM 1 paragraph 29 requires the firm to establish certain quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence, both by the firm and its personnel and by others, including the network, network firms, individuals in the network or network firms, or service providers who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject.
63. If the objective of this proposal stretches beyond operationalising the public disclosure requirement of IRBA Code paragraph R410.31, and is intended to address concerns of the IRBA that relate to auditor independence, an alternative solution would be for IRBA to provide guidance to registered auditors with regard to setting specific quality objectives in terms of ISQM 1 rather than to introduce a Rule in this regard.

Proposed IRBA Rule on EAR for the Audit of Financial Statements

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 context of group audits.

64. We support the proposal.
65. However, in order for this disclosure to provide informative and useful information to the user of the auditor's report, we propose that the Rule should be refined in a much more specific manner. Information on group scoping is very broad. The Rule should be clear and defined on the specific information that should be disclosed in the auditor's report.
66. The Rule should furthermore be amended to indicate that it would only apply in circumstances of a group audit, i.e. to an audit where ISA 600 applies.



67. Guidance on the Rule should explain the level of detail that is required with regard to this disclosure.
68. Guidance on the Rule should also direct auditors to avoid the use of group scoping concepts and terminology which users of the financial statements who are not familiar with the auditing process, may not understand.

Proposed IRBA Rule on EAR for the Audit of Financial Statements

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:

b. The communication of Key Audit Matters, as defined in International Standard of Auditing 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ISA 701).

69. We support the proposal.
70. ISA 701 implores the auditor to pause and think about matters that are of most importance on the audit. The standard has brought about the right kind of behavioural change in auditors. Since KAM disclosure in the auditor's report point to the related disclosures in the financial statements, this may have the added benefit of the preparer of the financial statements enhancing the related reporting in the financial statements. It goes without saying that this Proposed IRBA Rule will have a bigger impact on firms that audit entities classified as PIEs, but who don't currently audit listed entities. We acknowledge that smaller firms may make more use of off the shelf packages and are less likely to have a dedicated technical function, which may increase the risk of boilerplate disclosure. This could be addressed through IRBA/SAICA training or guidance.

Proposed IRBA Rule on EAR for the Audit of Financial Statements

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.

71. Even though we are supportive of the inclusion of outcomes of audit procedures or key observations in KAM disclosures, we do not support a proposal to mandate the inclusion thereof.
72. ISA 701 paragraph A46 explains that the amount of detail to be provided in the auditor's report to describe how a key audit matter was addressed in the audit is a matter of



professional judgement. The auditor *may* describe an indication of the outcome of the auditor's procedures or key observations with respect to the matter.

73. ISA 701 paragraph A47 explains that care may be necessary so that language used in the description of a key audit matter does not contain or imply discrete opinions on separate elements of the financial statements.
74. The audit firms appear to have taken strongly divided stances with regard to the inclusion of outcomes of audit procedures or key observations with respect to KAMs –some appear to be strong supporters while others appear to be strongly opposed to such inclusion, based on some of the responses to the *Consultation Paper: Enhancing Disclosures in the Auditor's Report in South Africa: Addressing the Needs of Users of Financial Statements*. We are aware that some audit firms have a global policy of not including outcomes/key observations in KAM disclosures.
75. There are also widely differing practices between the audit firms that support the inclusion of outcomes/key observations – *how* this is done in practice can differ quite significantly. If the IRBA proceeds with this proposal, we suggest that guidance on how the auditor could achieve compliance with the proposal should be provided to practitioners. We strongly support flexibility in this regard.
76. Consider the following example⁶. We have highlighted the outcomes/key observations in yellow.

Key audit matter	How our audit addressed the key audit matter
<p>Environmental rehabilitation provisions</p> <p>Refer to notes <u>13.1</u>, <u>13.2</u>, and <u>13.3</u> to the consolidated financial statements.</p> <p>As of 31 December 2021, the group's environmental rehabilitation provision amounted to R2 236 million.</p> <p>In determining the present value of the total environmental rehabilitation provisions, management apply significant judgement and make assumptions relating to:</p>	<p>Our audit addressed this key audit matter as follows:</p> <p>Through our discussions with management and inspection of underlying calculations, we gained an understanding of the methodology applied by management in determining the environmental rehabilitation provisions.</p> <p>Making use of our sustainability and climate change expertise, we performed the following procedures:</p> <p>We assessed the reasonableness of management's process to determine</p>

⁶ [Extract from the audit report on Exxaro Resources Ltd for the year ended 31 December 2021](#)



unscheduled closure costs on reporting date
inflation rates
discount rates; and
expected date of closure of mining activities.

We considered the determination of the environmental rehabilitation provision to be a matter of most significance to the current year audit due to the following:

The significant judgement and estimation applied by management in determining the present value of the environmental rehabilitation provisions; and
The significance of the potential risk of material misstatement inherent in determining the environmental rehabilitation provisions.

the environmental rehabilitation provisions by comparing management's process with that used in the industry and found the process used by management to be consistent with industry practice.

We assessed the objectivity, competence, capabilities and experience of management's experts through inspection of Curriculum Vitae (CVs) and membership certificates from professional bodies where applicable.

We assessed the appropriateness of the underlying cost assumptions used by management in their calculation by evaluating whether costs underpinning the provisions represent management's and the experts' best estimate of expenditure. As part of this evaluation, we considered the required rehabilitation activities against the mining activity to date, the costs of those activities against current best estimates of costs relating to those activities, and consistency of the cash flows in the rehabilitation model with the group's rehabilitation and closure plans. We noted no material aspects in this regard requiring further consideration.

We assessed whether the closure costs used by management's experts considered the requirements of the relevant laws and regulations, both to assess whether a legal obligation exists to raise the provisions, as well as to identify potential environmental liabilities



that were not provided for which could be of material significance, and noted no material exceptions.

We independently recalculated management's inflation rates and discount rates applied with reference to relevant third-party sources. Where inflation rates and discount rates determined by us differed from that used by management, the impact of such differences was assessed to be immaterial.

We agreed the expected date of closure of mining activities to the respective life of mine certificates as signed off by the group's competent person. No exceptions were noted.

77. Also consider the next example⁷. Outcomes/key observations are highlighted in yellow:

⁷ [Extract from the audit report on Nampak Limited for the year ended 30 September 2021](#)



Potential impairment of group wide plant and equipment assets and investment in subsidiaries (consolidated and separate financial statements)

IAS 36: *Impairment of Assets* (IAS 36) requires an impairment test of assets to be performed when there are indicators that these may be impaired.

For the major part of the financial year, the share price of Nampak Limited has been trading at a discount to net asset value ("NAV"). Where market capitalisation is lower than NAV, on a sustained basis, this is considered an indicator of potential impairment of long-term assets. As at 30 September 2021, the NAV of the Group was R4.8 billion compared to its market capitalisation of R2.3 billion.

This key audit matter is pinpointed to the following underperforming operations: Bevcan Angola, DivFood, and Rigidis.

Also, in the financial statements of Nampak Limited separate financial statements, investment in subsidiaries is reflected as R4.7 billion. The valuation of these investments are linked to these underlying valuations and as such considered a Key Audit Matter for the separate financial statements.

The Group Board of Directors (Directors) performed an impairment assessment for each of these underperforming operations which included the following key assumptions which required judgement:

- › Determining cash generating units (CGUs).
- › Determining appropriate discount rates taking into account appropriate capital structures and country-risk premiums.
- › Forecasting future sales volumes, pricing strategies and growth rates; and
- › Expected outcomes associated with committed restructuring plans.

Given the significance of the difference between Nampak's NAV and its market capitalisation as well the nature of the estimates and judgements applied by the Directors in their impairment assessment, we have assessed the impairment of the above-mentioned CGUs and investment in subsidiaries (separate financial statements) as key audit matters. Impairment of property plant and equipment in aggregate of R434.4 million and reversal of impairments of R172.5 million was recorded during the year.

Directors' impairment considerations have been disclosed in notes 1.3, 2.3, 6.1 and 6.2 of the consolidated financial statements and note 4 of the separate financial statements.

We evaluated the relevant controls designed and implemented by the directors with regard to the impairment tests performed at the year-end.

These included controls designed and implemented to ensure the robustness of the key assumptions used in the impairment tests.

With respect to the impairment models, our internal valuation specialists were utilised on the audit team to assist with:

- › the assessment of the discounted cash flow valuation model, to ensure that it complied with the requirements of IAS 36, and
- › testing of the mathematical accuracy of the model.

With respect to the individual CGUs of Bevcan Angola, DivFood and Rigidis, we have considered and challenged, with the assistance of internal specialists, the reasonableness of future sales volume estimates and pricing strategies and the cost reductions associated with any restructuring initiatives. This was performed with reference to the budgets approved by the board, external market data, historical actual performance of these CGUs compared to their budgets.

With respect to the discount rates, we utilised our internal valuation specialists to assess the key assumptions relating to the:

- › capital structures of market participants.
- › cost of debt; and
- › cost of equity, which included specific assumptions on Beta levels and entity and country risk premiums.

We performed independent sensitivity calculations to determine the impact of possible changes in key assumptions.

Taking into account the impairments and impairment reversals of plant and equipment recognised, we found the carrying values of plant and equipment to be appropriate.

Where relevant and necessary, we assessed the accounting treatment of the impairment losses recognised in relation to property, plant and equipment and the disclosures made in the consolidated financial statements to be appropriate.

We assessed the valuation of the investment in subsidiaries in the separate financial statements and the disclosures made in the separate financial statements to be appropriate.

78. The inclusion of outcomes / key observations does not, in our view, add to the overall informative value of the auditor's report – the auditor's opinion on the financial statements as a whole is already indicative of the outcome of procedures/key observations.

79. We concur with the way that the standard has dealt with this matter, after extensive debate by the IAASB, namely that the inclusion of outcomes/key observations should be optional.

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 areas in which guidance is needed.



80. Yes, we believe that guidance is required to facilitate the application of the Proposed IRBA Rule.

81. In general:

- The guidance to the Rule should provide an explanation as to where the IRBA Rule's disclosure requirements "fit in" with regard to the ISA audit report. For example, are these disclosures regarded as "Other matters", or perhaps as matters that should be reported in the "Report on Other Legal and Regulatory Requirements" section of the auditor's report?
- An illustrative auditor's report, which indicates the suggested placement of the disclosure required by the IRBA Rule, would greatly assist auditors in applying the Rule.
- A definition of "annual financial statements" for purposes of the Rule should be provided.
- Detailed guidance on the PIE definition to ensure consistency in interpretation and application.

82. We have addressed guidance that would be required where we discussed our responses to the various proposals of the Proposed IRBA Rule. For ease of reference, we have shaded guidance that is required.

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.

83. As indicated in our response to Question 2, we believe that guidance is necessary to enable registered auditors to comply with the Rule.

84. Registered auditors are currently applying ISA 315 (Revised 2019) for the first time on their audits, and are implementing the Quality Management Standards at the moment, and as you are aware, the evaluation of the system of quality management is required to be performed within one year following 15 December 2022. We therefore advise against approving the Proposed Rule before the end of 2023.

85. While we agree with a 12-month implementation period, we propose that the final IRBA Rule should be effective **12 months after the publication of guidance** on the application thereof.



Appendix A - Extracts from the IRBA Code of Professional Conduct for Registered Auditors

Requirements and Application Material

General

410.3. A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements.

Audit Clients that are Not Public Interest Entities

R410.15 When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's financial statements, have a registered auditor, who is not a member of the firm expressing the opinion on the financial statements, review the fifth year's audit work; or
- (b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have a registered auditor, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.

R410.16 If the total fees described in paragraph R410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the audit client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network



firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30 If laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R410.31 After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;
- (b) Fees, other than those disclosed under (a), 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;
- (c) Any fees, other than those disclosed under (a) and (b), 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; and
- (d) 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.



410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30 A1.

410.31 A2 Factors the firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

R410.32 As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- (a) A parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - (i) The entity is consolidated into group financial statements prepared by that other public interest entity; and
 - (ii) The firm or a network firm expresses an opinion on those group financial statements.