

The Director: Standards
The Independent Regulatory Board for Auditors
P O Box 8237
Greenstone
1616
South Africa

24 February 2012

Attention: The Director: Standards – Sandy van Esch

COMMENTS ON PROPOSED SOUTH AFRICAN AUDITING PRACTICE STATEMENT (SAAPS) 3 (REVISED), ILLUSTRATIVE REPORTS, 2012 (“SAAPS 3”)

We are pleased to have the opportunity to comment on SAAPS 3 titled “*Proposed South African Auditing Practice Statement (SAAPS) 3 (Revised), Illustrative Reports*”.

Our comments are divided into three sections. The first section deals with overall comments. The second deals with responses to specific questions while the third section deals with specific comments on the illustrative reports in SAAPS 3.

Section 1: Overall comments

We commend the IRBA on revising the proposed SAAPS 3 to take account of the changes arising from the clarity project of the International Audit and Assurance Standards Board (IAASB), consequent revisions of the International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs) and changes to comply with the requirements of the Companies Act, 2008 (as amended) (Companies Act) and its Regulations. We are also pleased that the proposed SAAPS 3 incorporates for the first time the reporting requirements of the Public Audit Act (PAA) and the applicable requirements of the Auditor-General of South Africa (AGSA).

Section 2: Responses to Specific questions**Question 1:**

1. *Do you agree with the format of the SAAPS 3 as set out in the significant matters (paragraph 1 above)? Yes/No, if no explain why.*

Answer: Yes, we agree with the format of SAAPS 3 as set out in the significant matters paragraph.

Question 2:

2. *Do you agree with the two Appendices (paragraph 2 above) being included in SAAPS 3, and do you find them useful in determining which report is appropriate to apply in particular circumstances? Yes/No, if no explain why.*

Answer: Yes we agree with the two appendices being included in SAAPS 3, and we find them useful in determining which report is appropriate to apply in particular circumstances.

Question 3:

3. *Do you agree with the scope of the South African guidance in Part A (paragraph 3 above)? Yes/No, if no explain why.*

Answer: Yes, we agree with the scope of the South African guidance in Part A.

Question 4:

4. *Should the guidance in Part A include other illustrative reports? If so please provide suggestions and examples (paragraph 3 above).*

Answer: We believe the illustrative reports in the proposed SAAPS are appropriate. Refer to the next section of this comment letter which deals with specific comments on the illustrative reports.

Question 5:

5. *Do you agree with the basis for including and excluding illustrative reports (paragraph 4 above)? Yes/No, if no explain why and provide suggestions and examples.*

Answer: Yes, we agree with the basis for including and excluding illustrative reports.

Question 6:

6. *Please indicate the context in which your response is made.*

Answer: Our response is made in the context of a large firm.

Section 3: Specific comments on the illustrative reports

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13 of 93	3	The “ <i>emphasis of matter</i> ” reads “ <i>We draw attention to the matter(s) below. Our opinion is not modified in respect of these matters</i> ”. We propose that the paragraph be amended as follows: “ <i>Without modifying our opinion, we draw attention to the matter....</i> ”
14 of 93	4	<p>We support the inclusion of the illustrative contents page.</p> <p>However, we noted that the order of the illustrative contents page is different to the order of documents required by the Companies Act to comprise the “annual financial statements”.</p> <p>In terms of section 30(2)(b) of the Act the “annual financial statements must.....(a) be audited...”. This implies that everything which the Act regards as comprising the Annual Financial Statements <u>must</u> be audited.</p> <p>The Companies Act 2008 , as amended, makes it clear in sections 30(3) , 94(7)(f) and 29 (1)(e)(ii) that the annual financial statements include a report by the auditors, directors report, report of the audit committee and in terms of section 88(f) , a certificate by the Company Secretary and the disclosure of the identity of the preparer/approver of the financial statements.</p> <p>Accordingly, statements of responsibility and approval by the directors should fall outside the annual financial statements and should precede the documents below as these are specifically not required by the Act to be included in the “annual” financial statements.</p> <p>We propose that the order of the contents be as follows:</p> <ol style="list-style-type: none"> 1. Statement of responsibility and approval by director on behalf of the board 2. Independent auditors’ report 3. Statement of responsibility for preparation and approval of financial statements 4. Directors’ report and 5. Audit Committee report 6. Certification by Company Secretary ito section88(e) 7. Financial statements 8. Other
14 of 93	4	With reference to the previous comment, in terms of Section 94(f) the duties of the audit committee include preparing a report to be included in the annual financial statements for that financial year describing how the audit committee carried out its functions, stating whether the audit committee is satisfied that the auditor was

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		<p>independent of the company and commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company.</p> <p>By virtue of Section 94(f) read together with Section 30(2) and Section 30(3) of the Companies Act, the auditors' report will cover the audit committee report. Similarly the Certification by Company Secretary in terms of Section 88(e) of the Companies Act forms part of the annual financial statements upon which the auditor will express and opinion.</p> <p>We question whether the auditor will be able to express an opinion on the information contained in these documents and the types of statement which might characterise such statements (eg comments on control efficacy , comments on accounting policies) without modification of the audit report. A solution may be to define the scope of the auditors' responsibility in the auditors' report to scope the information contained in these documents out of the audit opinion.</p> <p>We recommend that the IRBA develop and provide registered auditors with guidance on reporting on the information contained in the Audit Committee Report and the Certification by Company Secretary in terms of Section 88(e) of the Companies Act.</p> <p>Failing which we recommend that the IRBA motivate a change to the Companies Act which would result in clarity in the Act as regards :</p> <ol style="list-style-type: none"> 1. Making it clear that the registered external auditor is not expected to report on statements and opinions of the directors and company secretary in such statements, or 2. Making it clear that the auditor is expected to examine and report on such statements by applying the standards of auditing (in some cases this may imply a SOX404 lite type of examination of controls, depending on the statement of audit committee members on control efficacy
15 of 93	Note 2	<p>Note 2 states that: <i>"The annual financial statements of a company must include an auditor's report if the financial statements are audited. It is not necessary for the auditor's report to refer to "Annual Financial Statements" provided the first page of the financial statements includes the identification "Annual Financial Statements"</i></p> <p>This is not different to the manner in which the audit report was headed with the application of the Companies Act, 1973. We recommend deleting the note as we believe the note creates confusion and that the audit report should in all instances refer to</p>

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		"annual financial statements".
18 of 93	Note 12	<p><i>"The Companies Act, section 30(3) (b) requires the annual financial statements to include a report by the directors and specifies its contents. The directors' report is not included in the audited financial statements...."</i></p> <p>The statement above is not correct because the directors' report is part of the Annual Financial Statements as per section 30(3) of the Companies Act, 2008. We recommend that Note 12 be clarified. In addition the certificate by the Company Secretary is part of the annual financial statements.</p>
23 of 93	2	<p>Reference is made to <i>"consolidated and separate financial statements"</i> at the beginning of the first paragraph of the audit report.</p> <p>However, as the report continues, only <i>"consolidated financial statements"</i> are mentioned which creates confusion as to whether it is the consolidated and separate financial statements that are being addressed by the report.</p> <p>We recommend that the report should either make reference throughout to the consolidated and separate financial statements or that the consolidated and separate financial statements should be referred to as the <i>"financial statements"</i> and only the words <i>"financial statements"</i> should then be referred to throughout the report e.g., <i>"We have audited the consolidated and separate financial statements ("the financial statements") of ABC Limited set out on pages ..."</i></p>
31 of 93	6	<p>The 3rd sentence of paragraph 3 states: <i>"...Daardie standarde vereis dat ons voldoen..."</i> We propose that the word <i>"daardie"</i> be changed to <i>"hierdie"</i>.</p> <p>The 3rd sentence of paragraph 4 states: <i>"...Tydens daardie risikobeoordeling oorweeg..."</i>. We propose that the word <i>"daardie"</i> be deleted and replaced by the word <i>"die"</i> e.g., <i>"Tydens die risikobeoordeling oorweeg..."</i></p>
33 of 93	7	<p>The 3rd sentence of paragraph 3 states: <i>"...Daardie standarde vereis dat ons voldoen..."</i> We propose that the word <i>"daardie"</i> be changed to <i>"hierdie"</i>.</p> <p>The 3rd sentence of paragraph 4 states: <i>"...Tydens daardie risikobeoordeling oorweeg..."</i>. We propose that the word <i>"daardie"</i> be deleted and replaced by the word <i>"die"</i> e.g., <i>"Tydens die risikobeoordeling oorweeg..."</i></p>

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35 of 93	8	<p>The 3rd sentence of paragraph 3 states: “...<i>Daardie standaard vereis dat ons voldoen...</i>” We propose that the word “<i>daardie</i>” be changed to “<i>hierdie</i>”.</p> <p>The 3rd sentence of paragraph 4 states: “...<i>Tydens daardie risikobeoordeling oorweeg...</i>”. We propose that the word “<i>daardie</i>” be deleted and replaced by the word “<i>die</i>” e.g., “<i>Tydens die risikobeoordeling oorweeg...</i>”</p>
57 of 93	19	<p>In the instance that the requirements of the prescribed and applied financial reporting framework are not met which has a material and pervasive effect on the financial statements resulting in an adverse opinion, we question whether this may not result in a situation where the non-compliance with the reporting framework results in non-compliance with the financial reporting framework as prescribed by the Companies Act, 2008 that may require the reporting of a Reportable Irregularity in terms of Section 45 of the Auditing Profession Act. We recommend that consideration should be given to include an example in the report which deals with a report on other legal and regulatory requirements when the non-compliance is considered to be a contravention of the prescribed financial reporting framework in terms of the Companies Act, 2008 which then requires the auditor to report a reportable irregularity to the IRBA and to disclose this fact in the audit report.</p>
73 of 93	27	<p>The 3rd sentence of paragraph 3 states: “...<i>Daardie standaard vereis dat ons voldoen...</i>” We propose that the word “<i>daardie</i>” be changed to “<i>hierdie</i>”.</p> <p>The 3rd sentence of paragraph 4 states: “...<i>Tydens daardie risikobeoordeling oorweeg...</i>”. We propose that the word “<i>daardie</i>” be deleted and replaced by the word “<i>die</i>” e.g., “<i>Tydens die risikobeoordeling oorweeg...</i>”</p>
75 of 93	27	<p>We recommend that the word “tegeldemaking” stated in the 2nd sentence of the 4th paragraph in the “Lopende saak” note: “...<i>Hierdie grondslag aanvaar dat die maatskappy sal voortgaan om ondersteuning van sy houermaatskappy te ontvang en dat die tegeldemaking van bates...</i>” should be replaced with the following words: “tegeld making”.</p>
77 of 93	28	<p>We recommend that the word “uitwerking” in the 1st sentence of the opinion paragraph that reads “<i>Na ons mening, behalwe vir die uitwerking van die aangeleentheid...</i>” should be replaced with the word “<i>effek</i>” so that the sentence reads “<i>Na ons mening, behalwe vir die effek van die aangeleentheid...</i>”</p>
80 of 93	30	<p>We recommend that the report heading “<i>Onafhanklike Nasienersverslag</i>” should be changed to “<i>Onafhanklike Oorsigverslag</i>”. Furthermore we recommend that the word “kontantvloeie” in the 4th line of paragraph 1 should be changed to</p>

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		<i>"kontantvloei"</i> .
81 of 93	30	We recommend that the word "kontantvloei" in the 4 th line of paragraph 3 be replaced with the word: <i>"kontantvloei"</i>
82 of 93	31	We recommend that the report heading " <i>Onafhanklike Nasienersverslag</i> " should be changed to " <i>Onafhanklinke Oorsigverslag</i> ". Furthermore we recommend that the word "kontantvloei" in the 4 th line of paragraph 1 should be changed to <i>"kontantvloei"</i>
91 of 93	Appendix One	<p>As depicted in the going concern decision tree with reference to the 3rd block in the 4th line which states: <i>"Auditor able to obtain sufficient appropriate audit evidence, but multiple material uncertainties exists"</i>.</p> <p>There are extremely rare circumstances where the <i>"Auditor [is] able to obtain sufficient appropriate audit evidence, but multiple material uncertainties exists"</i> which results in a disclaimer of opinion.</p> <p>We recommend the insertion of a footnote stating that: <i>"Only applicable in extremely rare circumstances"</i></p> <p>Furthermore the last sentence under the going concern decision tree appears to be incomplete. The sentence reads: <i>"Material uncertainty: Exists when the magnitude of its potential impact is such that, in the auditor's judgement, clear disclosure of the nature and implications"</i>. This sentence should be completed.</p>

Should you wish to discuss the above, please do not hesitate to contact the writer.

Yours faithfully

Michael FJ Bourne

Professional Practice Director