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15 May 2013

The Director: Standards
The Independent Regulatory Board for Auditors
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Dear Sandy

SAICA SUBMISSION ON THE PROPOSED GUIDE FOR REGISTERED AUDITORS ON REPORTING ON FINANCIAL INFORMATION CONTAINED IN INTERIM, PRELIMINARY, PROVISIONAL AND ABRIDGED REPORTS

In response to your request for comments on the *Proposed Guide for Registered Auditors on Reporting on Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Ashley Vandiar
Project Director – Assurance and Members’ Advice and Assurance Guidance sub-committee

cc: Auditing Guidance Committee

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RESPONSES TO REQUEST TO SPECIFIC COMMENTS

1. *Respondents are requested to indicate whether or not they agree that the reference to IAS 34 in 8.57(a) of the JSE Listing Requirements for the preparation of interim reports comprises an acceptable financial reporting framework for purposes of paragraph 6(a) of ISA 210 Agreeing the Terms of Audit Engagements when accepting an engagements to audit or review the interim report of an issuer. If “Not” please provide suggestions.*

Response:

We don't believe that IAS 34 is an acceptable accounting framework because it doesn't include the full disclosure requirements as required by the full IFRS. Accordingly, an ISA 810 audit opinion would need to be issued when the financial statements have been audited.

This question is confusing as the issue in the guide is whether IAS 34 is appropriate criteria in terms of the requirements of ISA 810 paragraph 6(a) and whether it is an acceptable framework in terms of ISRE 2410

ISRE 2410 does not contain a requirement to assess the acceptability of the framework and paragraphs 43(i) and (j) differentiate between a fair presentation framework and “everything else” when determining the form of opinion.

Although the auditor is not required in terms of ISRE 2410 to evaluate the framework, the auditor should do this anyway as the engagement is conducted by the auditor and IAS 34 requires the accounting policies to be consistent with the previous AFS, inherently, the auditor would consider the acceptability of the framework in terms of ISA 210 (on the basis of the accounting policies). If the guide explained the different forms of opinions in terms of ISRE 2410, it would highlight that IAS 34 is not a fair presentation framework.

It should be noted that IAS 34 is designed for use for preparation of interim financial statements, and it is being used for preliminary and provisional financial statements therefore consideration should be given to the appropriateness of IAS 34 for these types of financial statements.

2. *Respondents are requested to indicate which of the following descriptions they regard as the most appropriate description of the financial reporting framework as required by paragraph 8.57(a) of the JSE Listing Requirements in an auditor's review report on an interim report:*
 - a. *“International Financial Reporting Standard, IAS 34 Interim Financial Reporting;*
 - b. *“International Accounting Standard (IAS) 34 Interim Financial Reporting;”*
or
 - c. *“International Financial Reporting Standards, which include International Accounting Standard (IAS) 34 Interim Financial Reporting.”*

Response: We support (a) “International Financial Reporting Standard, IAS 34 Interim Financial Reporting” because it is important to acknowledge that the

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standard forms part of IFRS. We believe that option (c) gives the impression that the financial statements are presented in accordance with (full) IFRS and contains additional disclosures required by IAS 34, which is not the case.

3. *Do respondents believe there are any additional matters that should be addressed in the proposed Guide?*

If “Yes”, please provide suggestions.

Response:

Companies Act

The proposed Guide should consider the relationship between the JSE Listing Requirements and the Companies Act, 2008 (the Act), relating to Section 29 and Regulation 27.

Section 29(1)(a) states that: “ *if a company provides any financial statements to any person for any reason, they must satisfy the financial reporting standards as to form and content, if any such standards are prescribed*”. These financial reporting standards are prescribed in Regulation 27 as IFRS in respect of public companies listed on an exchange.

Section 29(3) of the Act permits a company to provide a summary of any particular financial statements. In this case, a complete set of financial statements must be available since the Act contains specific disclosure requirements that reference to the complete set of financial statements.

The abridged reports comply with the Act, since they represent a summary of the complete set of annual financial statements. The interim reports also comply with the Act, as these are prepared in accordance with IAS 34, which is specifically designed for use in preparing interim reports and therefore satisfies the financial reporting standards. The Provisional or preliminary reports may either comprise:

- Summarised financial statements i.e. complete financial statements have been prepared from which the summarised financial statements are comprised. In this case, these are issued in accordance with Section 29(3) of the Act.
or
- Condensed financial statements i.e. no complete financial statements are available and the condensed financial statements are presented in terms of IAS 34. In this case, these are not compliant with the Act, since they do not fully comply with the prescribed financial reporting standards, IFRS, as IAS 34 only relates to interim reporting.

We believe the above relationships between the Act and the JSE LR are important for practitioner’s understanding and therefore need further clarification. Furthermore, we have concerns with regards to condensed preliminary and provisional reports being represented as being in compliance with the Act.

Reportable Irregularities

The proposed Guide discusses the impact of Reportable Irregularities on the auditor’s opinion on summarised financial statements, where a Reportable

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Irregularity was included in the auditor's opinion on the complete set of financial statements. However, the proposed Guide lacks clarity on the treatment of Reportable Irregularities in the auditor's report where the auditor is engaged to perform a review engagement.

4. *An increased number of illustrative auditors' reports are included in Appendix 1 of this proposed Guide by comparison to those provided in the previous SAICA Guide that has been withdrawn.*

a. *Do respondents believe the additional illustrative auditors' reports are useful?*

If "Not" please indicate which illustrative reports you believe are unnecessary or could be omitted from the proposed Guide.

Response: Yes, additional illustrative auditors' reports will be useful.

b. *Are there additional illustrative reports that respondents believe should be provided?*

If "Yes" please provide suggestions and examples.

Response: An additional illustrative report where an adverse or disclaimer opinion was expressed on the complete set of financial statements would be useful.

In addition to the particular questions relating to the independent auditors review report, we raise the following comments relating to Appendix 1- Illustration 1, under paragraph *Suggested note in the interim financial statements on basis of preparation*:

- We question the necessity to include the wording "as issued by the APC", as no other organisation that have issued the respective standards has included such wording or similar. As the Guide is applicable to South African auditors we do not believe the inclusion of the words wording "as issued by the APC", is appropriate. For example we do not say that the "JSE listing requirements as issued by the JSE" or the "ISA issued by IAASB"...
- For appendix, illustration 1, with regard to the suggested note..... "

We believe that the illustrative reports relating to the preliminary and provisional financial statements should contain a description of the basis for preparation of the financial statements, and not only refer to the note in the financial statements. Based on this, we proposed the inclusion of the following statement below the existing directors' responsibility paragraph:

The JSE Listings Requirements require provisional financial statements to be prepared in accordance with the conceptual framework, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and also, as a minimum, to contain the information required by IAS 34 Interim Financial Reporting.

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5. *Do respondents find the summary of the relevant Listings Requirements in Appendix 4 that pertain to issuers' interim, preliminary, provisional and abridged reports and the related auditors' reporting responsibilities useful?*

If you answered "No", please explain why and, either suggest an alternative, or indicate whether you believe Appendix 4 should be excluded.

Response: Yes, we do find the summary of the relevant Listings Requirements in Appendix 4 that pertain to issuers' interim, preliminary, provisional and abridged reports and the related auditors' reporting responsibilities is useful.

We also recommend the inclusion of the following in the table:

- Companies Act Disclosure Requirements i.e. references to the sections rather than exact list of what is required, but useful as practitioners are confused between condensed and summarised FS
- In light of our comments on the Companies Act above, an indication whether report is prepared in accordance with the Companies Act i.e. condensed provisional & preliminary FS are not prepared in terms of the Act and shouldn't indicate as such.

6. *Respondents are requested to comment on whether or not the proposed effective date for implementation of the Guide to be applied to auditor's reports issued on or after 30 June 2013 will be sufficient to support effective implementation of the guidance.*

If not, what implementation date do respondents believe will be appropriate?

Response: It is our understanding that the authority of the document may require amendment due to proposed revisions to the Preface. We do not support the inclusion of an effective date as we believe that this document is not authoritative. As a result, the application of the guidance contained in the document is at the discretion of the practitioner.

Some overall comments

- **Title of the document**

We do not believe that the title of the document clearly explains what it relates to, since there is no indication that these are reports required by the JSE LR and it is not clear that the proposed Guide is addressing audit and review considerations when performing these engagements. As a result, we suggest that the proposed Guide is renamed to "Audit or review of Financial Information contained in Interim, Preliminary, Provisional and Abridged Reports required by the JSE Listings Requirements".

- **Structure of the document**

It is difficult to differentiate between what relates to ISA 810 (audit) and ISRE 2410 (review) as the content is all put together. Practitioners will want to see what specifically relates to them. We recommend that the requirements specific to each engagement type are separated and paragraphs relating to ISA 810

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requirements are marked “A” and paragraphs relating to ISRE 2410 requirements are marked “R” and presented in a table format, similar to the approach adopted in International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements.

- **ISA 810 reports on preliminary and provisional financial statements**

We cannot foresee a situation where an issuer would prepare summarised preliminary or provisional FS i.e. a complete set of audited annual financial statements are available. If the audited AFS are completed, then why wouldn't the issuer then just issue the abridged reports? Although we acknowledge that the guide needs to be “all encompassing” there is too much material in the guide that relates to this situation i.e. included in the discussions, illustrative reports, Appendix 4.