

**RE: Comments on SAAPS 3 (Revised 2019) Illustrative reports**

Dear Sir/Madam

We thank you for providing us with the opportunity to present our views on SAAPS 3 (revised 2019) Illustrative Reports. Views are presented per question as contained in the practice statement.

Question 1: Do you agree with the effective date?

Whilst we agree that this practice statement must be effective as soon as possible, we recommend that the first day of a calendar month be used i.e. 1 July 2019 instead of only stating effective immediately. There is a risk that firms are only informed about this practice statement at a later stage, which would result in some audit reports potentially being issued in the incorrect format, wording etc. The purpose of this practice statement is to assist the audit profession in issuing appropriate reports.

Question 2: Do you believe that the new format of this proposed SAAPS enhances navigation and ease of use?

We prefer the previous SAAPS contents page, which clearly indicated that the principal information related to guidance on an unmodified audit report with Part B dealing with specific situations and therefore applying the guidance contained in Part B.

The amendments to titles of reports and clarification of circumstances will enhance navigation and ease of use.

The background information provided for each example is significantly more than the previous practice statement. It is recommended that auditors be educated with regards to the background information. It should also be noted that the background information is very specific and could result in other scenarios where some of the information may be applicable to the specific situation, will not result in the same auditor's report being issued. There may be instances where inconsistent audit reports are issued.

Question 3: Do you agree with the new or amended illustrative auditor's reports included in this proposed SAAPS?

We have the following comments on the specific reports:

- a) Illustrative report 1 and 5: It is stated that the amendment serves to illustrate the effect of the circumstances in the other information sections of the auditor's reports. The other information section however refers to both the consolidated and separate

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financial statements. It is not evident why the disclaimer with regards to other information would refer to both the consolidated and separate financial statements since each audit report clearly states the scope of the audit report in the introductory paragraph to the report.

- b) Illustrative report 16: We agree with the amendment. Auditors will however need to be educated that even though a disclaimer of opinion will be issued, that audit evidence is still required with regards to material misstatements and the effect thereof on the audit report.
- c) Illustrative report 26: It is an interesting view that the audit report can be split between the various primary statements of the financial statements. Whilst we acknowledge that this will result in users better understanding the extent of which the modification relates to, we are however not sure whether the auditor is in fact responding to his/her responsibility to issue an audit report on whether the financial statements, as a whole, are materially misstated or not.

Question 4: Do the illustrative auditor's and independent reviewer's reports contained in this proposed SAAPS provide adequate examples of illustrative auditor's and independent reviewer's reports that provide practical assistance to auditors when reporting on financial statements in accordance with the requirements of the International Standards on Auditing (ISAs) and the International Standards on Review Engagements (ISREs) in compliance with South African jurisdictional requirements?

We believe that it does. However, please see other questions dealing with specific examples provided.

If not, why? Please provide details of any further illustrative auditor's and independent reviewer's reports you believe should be deleted, amended and/or added to Part B of this proposed SAAPS.

With reference to illustrative report 20, we do not believe that an adverse opinion is appropriate on the separate financial statements. The standalone entity is not required to comply with IFRS 10 *Consolidated Financial Statements* as the entity is only required to comply with IFRS to the extent that it relates to its business. We believe the more appropriate response is a split opinion being an adverse opinion on the consolidated financial statements not prepared and a separate opinion on the standalone holding company's financial statements, be it modified or unmodified.

Other than the above, we believe the illustrative examples contained in Part B are sufficient.

Question 5: Do you believe that the guidance provided in Note 8 to Part A of this proposed SAAPS provides helpful guidance on determining other information as defined in ISA 720 (Revised) in the South African context?

If not, why? Please suggest what further guidance is necessary in the South African context.

A significant number of entities also attach their tax computations to the financial statements. Whilst it is obvious that this forms part of other information, it is recommended that this be specifically mentioned to ensure the practice statement is complete.

Question 6: Do you agree that the IRBA Staff Practice Alert can be withdrawn by the IRBA when the final SAAPS 3 (Revised 2019) becomes effective?

We agree that the practice alert can be withdrawn.

Question 7: Considering the requirements of ISA 720 (Revised), do you believe the practice of the Auditor-General of South Africa is appropriate?

We deem it appropriate provided that the requirements by the Auditor-General of South Africa does in deed result in sufficient appropriate audit evidence being obtained and that the auditor is required to provide assurance on it.

Question 8: Because of the different effective dates of the parts in both the IRBA Code and IESBA Code, do you agree with the conclusion reached by the CFAS to provide for two options (transitional period and period going forward) for the wording to be included in this proposed SAAPS?

Whilst we agree with the two options provided in each of the illustrative reports contained in the practice statement, it does make the reading of the practice statement a bit more difficult. We suggest that only the specific paragraph dealing with the IRBA Code and IESBA Code be included and not also the basis for the opinion.

Question 9: Do you agree with the wording used to describe the periods to which each of the options relate, as follows:

- Transitional period: For auditor's reports issued on or after 15 June 2019 in respect of audits of financial statements for financial periods beginning before or on 14 June 2019; and
- Period going forward: For audits of financial statements for financial periods beginning on or after 15 June 2019?

We acknowledge that this is the standard wording used by the IRBA for all documents issued, however this can lead to some confusion as to whether the effective date relates to audits commencing before or after a certain date or the reporting year-end of the entity being audited. It is requested that this be clarified/simplified.

Question 10: Do you agree with the wordings and the descriptions of the parts of both the extant IRBA and IESBA Codes and the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) used in the Basis for Opinion section of the illustrative auditor's reports?

We agree with the proposed wording.

Question 11: Do you agree with the conclusion reached by CFAS on not requiring a reference to the FRPs in the auditor's and independent reviewer's reports?

We agree with the conclusions reached by CFAS.

We trust that you find our comments detailed above in order.

Yours truly

Minette van der Merwe (PKF SA Head of Technical)

Date: 28 February 2019