



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

24 February 2012

Dear Ms van Esch

Subject: Proposed South African Auditing Practice Statement (SAAPS) 3 (Revised), Illustrative Reports

We appreciate the opportunity to comment on the Committee for Auditing Standards (CFAS)' Proposed SAAPS 3 (Revised), *Illustrative reports*.

For the purposes of this letter "PwC" shall mean PricewaterhouseCoopers Inc., a company registered in South Africa, and does not extend to other member firms of PricewaterhouseCoopers International Limited. This response summarises the views of PwC Inc. following consultation with PwC directors and staff.

Overall comments

We support the proposed revision of the SAAPS. While the Clarity ISAs contain a number of example reports, those example reports do not, for obvious reasons, take South African legislation into consideration. As such, the revised SAAPS will aid in enhancing consistency in audit and independent review reports issued by Registered Auditors in South Africa.

Our comments in response to the specific questions raised in the exposure draft and additional comments in principle are set out below. We have also provided specific detailed suggestions for the CFAS to consider in the appendices to this letter.

We have not provided comments on whether or not the proposed document should be classified as a South African Auditing Practice Statement (SAAPS) or, for example, a South African Auditing Practice Note (SAAPN), as the consideration of the authority of the Independent Regulatory Board for Auditors' pronouncements is currently being considered as part of a separate process where we will provide our input. However, if it should be decided that this document should be an SAAPN, it is our contention that it should not have an effective date for reasons similar to those contained in paragraph 44 of the Basis for Conclusions to IAPN 1000, *Special Considerations in Auditing Financial Instruments*, which explains why the IAASB regarded it as inappropriate and unnecessary for IAPN 1000 to have an effective date:

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“.44 The amended Preface makes clear that IAPN 1000 is non-authoritative material which does not impose additional requirements on auditors. Rather, it provides practical assistance to auditors and is intended to be disseminated by those responsible for national standards, or used in developing corresponding national material, and provides material that firms can use in developing their training programs and internal guidance. Consistent with this status, the IAASB concluded that it is neither appropriate nor necessary to set an effective date.”

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Michiel Engelbrecht or Annerie Pretorius (012 429 0299).

Yours sincerely,

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Request for specific comments

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

Yes

2. *Do you agree with the two Appendices 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.*

The decision trees are useful, but see our detailed comments on the content of the two Appendices.

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

Yes

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

We do not have further suggestions for inclusion in Part A.

We recommend however that the following example reports be included in Part B:

- An audit report where a company has omitted disclosure required by IFRS (such as the name of a company's parent) and the omitted information is provided in the audit report as required by ISA 705.19 (Refer to Appendix B to this letter for example wording);
- An audit report where a company has omitted disclosure required by IFRS (such as segmental information) and the information is not provided in the auditor's report as it is deemed impracticable to do so. (Refer to Appendix B to this letter for example wording);
- An audit report on company financial statements where the company is required in terms of IFRS to prepare consolidated financial statements but has not done so (Refer to Appendix B to this letter for example wording); and
- An audit report where a company's annual financial statements were prepared in accordance with a liquidation basis of accounting. The auditor deemed the basis for preparation to be appropriate in the circumstances. (Refer to Appendix B to this letter for example wording)

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

Yes



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

- Large firm;
- Medium sized firm
- Small firm
- Academic
- Commerce and industry
- Public sector
- Other (give details)

Large firm

Other comments in principle

1. Directors' report, report of the audit committee and certification of the company secretary

Extracts from proposed SAAPS 3

"N12. 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 identified in the illustrative contents page as it is assumed, for illustrative purposes, that the financial statements contain the disclosures required in IAS 1, paragraph 138, and any other disclosures that may be relevant to the financial statements. The directors' report includes the statement of the company secretary referred to in the Companies Act, section 89(2) for the applicable category of company and when required by a company's Memorandum of Incorporation."

"N13. The Companies Act, section 94(2) states the categories of companies that require an audit committee report and section 94(7)(f) requires the audit committee report to be included in the annual financial statements. The audit committee report is not a financial statement that is audited in accordance with a financial reporting framework against which the financial position, financial performance and cash flows, which is the subject matter of the assurance report, is evaluated. Accordingly while the audit committee report is included in the annual financial statements, it is not part of the financial statements covered by the auditor's opinion."

Discussion

Section 30(2)(a) of the Companies Act, 2008 (the Act) requires the "annual financial statements" to be audited, as applicable to each category of company.

Section 30(3)(b) of the Act requires every company to include a report by the directors in its annual financial statements with respect to the state of affairs, the business and profit or loss of the company, or of the group of company, if the company is part of a group, including any matter material for the shareholders to appreciate the company's state of affairs and any prescribed information (currently the Companies Regulations do not contain any further prescribed information regarding directors' reports).



Section 88(e) of the Act requires the company secretary to certify in the annual financial statements whether the company has filed required returns and notices in terms of the Act and whether all such returns and notices appear to be true, correct and up to date.

Section 94(f) of the Act requires the audit committee to prepare a report to be included in the annual financial statements for that financial year –

- (i) Describing how the audit committee carried out its functions;
- (ii) Stating whether the audit committee is satisfied that the auditor was independent of the company; and;
- (iii) Commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company;

ISA 700.23 states that the introductory paragraph in the auditor’s report shall

- (c) Identify the title of each statement that comprises the financial statements

ISA 700.A19 clarifies that the auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting framework.

As explained in Note N6 in the proposed SAAPS, in the case of a South African company, the applicable financial reporting framework encompasses (i.e. includes) the requirements of the Act. The requirements of the Act (in addition to IFRS) therefore impacts the determination of the constitution of the “complete set of financial statements” in context of a South African company. The Act requires the directors’ report, the certification of the company secretary (where applicable) and the report of the audit committee (where applicable) to be included in the annual financial statements. A plain reading of ISA 700.23 and ISA 700.A19 with the requirements of the Act appears to lead to a conclusion that the complete set of financial statements as defined by the applicable financial reporting framework (IFRS and the requirements of the Act) would *include* the directors’ report, the certification of the company secretary and the report of the audit committee, and that all three should thus be included in the scope of our audit opinion.

Note N12 appears to contend that the *content* of the directors’ report is the deciding factor in determining whether or not it should be referred to in the introductory paragraph of the audit report (and therefore covered/not by the audit opinion). Notes N12 and N13 do not take into consideration that the applicable financial reporting framework in context of a South African company includes the requirements of the Companies Act. We are therefore not in agreement with the arguments contained in these two notes for excluding these statements from the “annual financial statements” that are subject to audit in terms of the Act.

We do, however, agree that it is questionable whether the information that is required to be contained in the directors’ report, report of the audit committee and certification of the company secretary is *auditable*. For example, the directors are required to deal with “any matter material for the shareholders to appreciate the company’s state of affairs” in their report. Directors may, in order to comply with this requirement, include forward looking information in the directors’ report, or include cross references from the directors’ report to other documents contained in e.g. an integrated report



such as the Chairman’s Report, Chief Executive’s Report, Operational reviews and Chief Operating Officer’s Report, for example. “Suitable criteria” to evaluate such information, as discussed in the International Framework for Assurance Engagements, does not currently exist, which results in the auditor being unable to accept such an assurance engagement.

PwC recommendation

While our preference would be for the directors’ report, certification of the company secretary and the report of the audit committee to be excluded from the scope of the audit, our reading of the Act and the ISAs leads us to conclude that these statements are required to be audited by the Companies Act. We recommend that CFAS should obtain legal advice in this regard and consider issuing guidance for auditors.

2. Introductory paragraph of the illustrative reports

Extracts from proposed SAAPS 3

The illustrative reports in part A state:

- 1. Auditor’s report on a complete set of general purpose financial statements prepared in accordance with a fair presentation framework [the illustrative example assumes that the financial statements prepared in accordance with International Financial Reporting Standards]***

*We have audited the financial statements of ABC Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, **and the notes, comprising** a summary of significant accounting policies and other explanatory information.*

- 2. Independent reviewer’s report on a complete set of general purpose financial statements prepared in accordance with a fair presentation framework [the illustrative example assumes that the financial statements were prepared in accordance with International Financial Reporting Standards]***

*We have reviewed the financial statements of ABC Proprietary Limited set out on pages ... to ..., which comprise the statement of financial position as at 31 December 20X1 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, **and the notes, comprising** a summary of significant accounting policies and other explanatory information.*

Discussion

ISA 700.23 states that the introductory paragraph in the auditor’s report shall

- (c) Identify the title of each statement that comprises the financial statements;*



(d) Refer to the summary of significant accounting policies and other explanatory information

Illustration 1 in ISA 700, whose “Circumstances” include that the financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards, states in its introductory paragraph:

“We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, **and a summary of significant accounting policies and other explanatory information.**”

The authority of illustrative examples that are contained in an appendix to an ISA is explained in ISA 200:

“A59. Where necessary, the application and other explanatory material provides further explanation of the requirements of an ISA and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover.
- Include examples of procedures that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, **it is relevant to the proper application of the requirements of an ISA.** The application and other explanatory material may also provide background information on matters addressed in an ISA.

A60. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISA or within the title and introduction of the appendix itself.”

ISA 700.23 (c) requires the title of each **statement** that comprise the financial statements be identified. While the notes, comprising a summary of significant accounting policies and other explanatory information form part of a complete set of financial statements (where IFRS is the applicable financial reporting framework), the notes are not a “statement” as envisaged in ISA 700.23(c), in our reading. ISA 700.23(d) requires that the introductory paragraph of the audit report should also refer to the “summary of significant accounting policies and other explanatory information”. The requirements of ISA 700.23 are illustrated in the illustrative reports in ISA 700.

Extracts from IRBA Circular 1/2004:

“5. ... The IAASB is encouraging convergence with international standards globally and member countries are following this lead as part of initiatives to standardize the nature and value of an audit internationally and to restore public confidence in the accounting and auditing profession. ...”

“7. In light of this and after due consideration the AASB has taken steps to adopt the original text of the IAASB Standards for use by Registered Accountants and Auditors in South Africa with effect from 1 January 2005.”



In line with the AASB's decision in 2004, the IRBA adopted the original texts of the Clarity ISAs in 2009.

The proposed SAAPS does not explain why it was deemed necessary to depart from Illustrative example 1 in ISA 700 regarding references to the notes in the introductory paragraph of the illustrative reports. We took cognisance of IAS1.10, but could not identify a supportable reason why the introductory paragraph of an ISA audit report issued in South Africa on a set of financial statements that have been prepared in accordance with IFRS should differ in referencing to the notes from an ISA audit report issued elsewhere in the world.

IAS 1.10 states that a complete set of financial statements comprises:

- (a) a statement of financial position as at the end of the period;
- (b) a statement of comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
- (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

We have attached the illustrative ISA audit reports contained in the latest PwC, Deloitte and EY international illustrative IFRS financial statements. The tailoring contained in the introductory paragraph in proposed SAAPS 3 is not replicated in any of the attached reports.

PwC recommendation

We do not agree with the suggested inclusion of “and the notes, comprising” in the introductory paragraphs in the proposed SAAPS and urge the CFAS to revert to the original text of the illustrative reports in the ISA in this regard.

3. Financial statements prepared on an entity specific basis of accounting

Reference to the relevant illustrative report in the proposed SAAPS

Example 5 in the proposed SAAPS contains an illustrative audit report on financial statements prepared on an entity specific basis of accounting.

Discussion

The example report follows an ISA 700 format, rather than ISA 800 format. In other words, the financial statements in question are regarded as general purpose financial statements rather than special purpose financial statements. The example report appears to base the consideration of the financial statements in question as being “general purpose financial statements” by stating in the “Circumstances” block that the intended users of the financial statements and the auditor's report are “as a minimum, the shareholders, the bank and SARS”.



ISA Definitions:

General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.

General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework of a compliance framework.

Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework.

Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

As illustrated in the definitions above, the classification of financial statements as either “general purpose” or “special purpose” depends on the classification of the framework (special purpose or general purpose) in terms of which the financial statements were prepared.

The key factor identified in the ISAs for determining whether the financial reporting framework is general purpose or special purpose is the *intention, or purpose* of the *framework*. A general purpose framework is not intended to, and is unlikely to, meet all of the specific information needs of each and every user of financial statements. Rather it is designed to recognise the broad range of information needs that users of financial statements have and meet the needs that are common to many users. Conversely, a special purpose framework will usually meet the specific information needs of each and every user whose needs it is designed to meet, and may not be appropriate for use by others.

ISA 210.A8 acknowledges that at present there is no objective and authoritative basis that has been generally recognised globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organisations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. It lists IFRS as an example of a general purpose framework. An entity specific basis of accounting, a framework that was designed by the preparer of the financial statements, cannot be regarded as a “general purpose financial reporting framework” as due process as described in ISA 210.A8 was not followed in the design thereof.

ISA 210 requires of the auditor to determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable. If the auditor determines, based on a consideration of the factors listed in ISA 210.A4, which includes the nature of the entity and the



purpose of the financial statements, that a company whose public interest score is less than 100 and whose annual financial statements are internally compiled *should* prepare its financial statements on a general purpose framework, preparation of that company's financial statements on an entity specific basis of accounting would not be acceptable to the auditor even if this is allowed by the Act. Such a company would then have to prepare its financial statements in accordance with IFRS, SA GAAP or IFRS for SMEs.

If the auditor determines that it is acceptable for a company to prepare its financial statements on an entity specific basis of accounting, a special purpose framework, the auditor shall issue an ISA 800 report, which is required to include all the paragraphs required by ISA 800.

We agree that an entity specific basis of accounting would be a compliance framework as opposed to a fair presentation framework.

PwC recommendation

Example 5 should be redrafted in an ISA 800 format. The "circumstances" block should be amended to make it clear that the auditor regarded the preparation of the company's financial statements on an entity specific basis of accounting acceptable in the circumstances. Our arguments apply similarly to example 29.

4. Reference to "annual" financial statements in the illustrative reports

Extract from the proposed SAAPS

Note N2

"... 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"."

Discussion

"Annual financial statements" is a subset of "financial statements", as defined in the Act. The Act contains disclosure requirements specific to annual financial statements that are not required for other "financial statements", such as disclosure of directors' and prescribed officers' remuneration per individual, where applicable.

PwC recommendation

The illustrative reports in the SAAPS should refer to "annual" financial statements to distinguish them from other financial statements.



5. Addressee of the auditor's report

Extract from proposed SAAPS 3

Note N1

"The auditor's report is normally addressed to those for whom the report is prepared, which may be the "Shareholders" or the "Members" when the financial statements are prepared in accordance with a general purpose framework, and to the "Directors" when the financial statements are prepared in accordance with a special purpose framework."

Discussion

ISA 800 does not contain specific matters for consideration regarding the addressee of the auditor's report on financial statements prepared in accordance with a special purpose framework. The addressee is thus not determined by the applicable financial reporting framework, but "as required by the circumstances of the engagement" (ISA 700.22). ISA 700.A16 states that "Law or regulation often specifies to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited."

In context of a South African company, the addressee would be determined, in our view, by whether or not the Companies Act requires the company to be audited (addressed to the shareholders/members) or by the parties that made the decision to appoint an auditor in the case of a voluntary audit, which may be the directors.

PwC recommendation

Suggested wording for the relevant sentence in Note 1:

"ISA 700.A16 states that the auditor's report is normally addressed to those for whom the report is prepared. In the case of a South African company, the report is addressed to the shareholders or members, as applicable, when the Companies Act (including the Companies Regulations) requires the company to be audited. When a company that is exempt from audit's Memorandum of Incorporation (MOI) requires it to appoint an auditor, the auditor's report is addressed to the shareholders/members, as appropriate. When a company that is exempt from audit, and whose MOI does not specifically require it to appoint an auditor, chooses to be audited, the addressee of the audit report will depend on whether the decision was taken by means of a shareholders'/members' resolution (auditor's report addressed to the shareholders or members as appropriate) or a directors' resolution (auditor's report addressed to the directors)." which may be the "Shareholders" or the "Members" when the financial statements are prepared in accordance with a general purpose framework, and to the "Directors" when the financial statements are prepared in accordance with a special purpose framework."



6. Illustrative contents page on page 14 of the proposed SAAPS

PwC recommendation

Neither IFRS nor the Act refers to a “Directors’ responsibility statement”. This statement therefore does not form part of the “annual financial statements” and should be deleted from the illustrative contents page in the SAAPS.

We furthermore recommend that a prominent notice be added regarding the illustrative contents page to clarify that the illustrative contents page in SAAPS 3 is not aimed at providing a suggested order for the contents of any company’s annual financial statements. Our preference would be for the auditor’s report to be placed *before* the Statement of financial position.



Appendix A – Comments on specific paragraphs

Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
8	<p>1. Auditor’s report on a complete set of general purpose financial statements prepared in accordance with a fair presentation framework</p> <p>“The unmodified illustrative report below accompanies financial statements prepared in accordance with a fair presentation framework that meets the requirements of public interest.”</p>	<p>The ISAs distinguish between fair presentation and compliance frameworks without reference to them meeting requirements of public interest or not.</p>	<p>We propose that this sentence should read: “The unmodified illustrative report below accompanies financial statements prepared in accordance with a general purpose financial reporting framework that achieves fair presentation.”</p>
15	<p>Paragraphs 3 and 4 of note N1</p>	<p>The fourth paragraph only applies to public sector.</p>	<p>The third and fourth paragraphs should be combined into one.</p>



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
16	<p>Note N4</p> <p>“The illustrative reports do not include a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, as required by IFRS when applicable.”</p>	<p>The wording in note N4 could be interpreted as meaning that reference should be made to such an additional statement of financial position, but that such an example report has not been included in the SAAPS. If the intention of this sentence was to clarify that reference is not made in the illustrative examples to such an additional statement of financial position because South Africa views comparatives as “Corresponding figures” and not as “Comparative Financial Statements”, we suggest that the sentence should be reworded.</p>	<p>Proposed wording change:</p> <p>“The <u>introductory paragraph illustrative reports</u> does not refer to include a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, as required by IFRS when applicable; <u>such an additional statement of financial position forms part of the comparative information which is not separately identified in the introductory paragraph of the report.</u>”</p>
17	<p>Footnote 21</p> <p>“Section 30(3)(c) and (d)”</p>	<p>The footnote doesn’t specify that this refers to the Companies Act, 2008</p>	<p>Footnote should read “Companies Act, 2008 section 30(3)(c) and (d)”</p>
18	<p>Note N12</p> <p>“The directors’ report</p>	<p>While the Companies Act, 2008 does not prohibit a company secretary from being a director</p>	<p>The statement of the company secretary should be a separate title in the</p>



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
	includes the statement of the company secretary referred to in the Companies Act, section 89(2) for the applicable category of company and when required by a company's Memorandum of Incorporation."	of the company, King III recommends ¹ that the company secretary should not be a director. We regard the statement made by the company secretary as being separate from the statements made by the directors in their report. Incorrect reference to section 89(2) – this should be section 88(e).	illustrative contents page in SAAPS 3. The sentence from Note N12 that states that the statement of the company secretary is included in the directors' report should be deleted. Reference should be corrected.
21	Circumstances include <ul style="list-style-type: none"> • "Consolidated financial statements are presented separately from the company's separate financial statements" 	We are concerned that this example may create the impression that stand-alone financial statements are not required by the Companies Act.	The relevant sentence in the "Circumstances" block should include the following footnote: "A company's "annual financial statements" include both its separate and consolidated financial statements (where applicable)"
23	"We have audited the consolidated and separate financial statements of ABC Limited set out on pages .. to .. which comprise the consolidated statements of financial position as at 31 December 20X1, and the	The introductory paragraph does not identify the separate statement of financial position, comprehensive income etc.	"We have audited the consolidated and separate financial statements of ABC Limited set out on pages .. to .. which comprise the consolidated statements of financial position as at 31 December 20X1, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then

¹ King III Report, Chapter 2 paragraph 98: "The company secretary should ideally not be a director of the company."



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
	consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended...”		<p>ended...”</p> <p>OR</p> <p>We have audited the consolidated and separate financial statements of ABC Limited set out on pages .. to .. which comprise the consolidated <u>and separate</u> statements of financial position as at 31 December 20X1, and the consolidated <u>and separate</u> statements of comprehensive income, changes in equity and cash flows for the year then ended...”</p> <p>Similar changes should be made throughout the report.</p>
33	Whole report	<p>This report is inconsistent with the English example that it translates.</p> <p>We however agree with the Afrikaans version as being more appropriate.</p>	The English version should be corrected.
51	<p>“Circumstances include</p> <p>The company has ceased trading and</p>	It is not immediately apparent whether the company ceased trading in the current or on prior years. The auditor may decide that an emphasis is	The title of this example should be “Company has ceased trading in prior years”



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
	has no assets or liabilities other than the amount due by/to its shareholder.”	necessary for a company that ceased trading in the current year, as per ISA 570.A26.	The first bullet in the “Circumstances” block should read: “The company has ceased trading <u>in prior years</u> and has no assets or liabilities other than the amount due by/to its shareholder.”
58	Basis for adverse opinion “...These required adjustments are considered pervasive.”	ISA 705 does not require such a statement. The illustrative reports in the ISAs do not contain a similar statement. To include this in the SAAPS creates an impression that the auditor should state whether misstatements are material or material and pervasive.	This sentence should be deleted from this and other illustrative reports, where applicable.
60	Qualified opinion on the Consolidated Financial Statements and Unqualified Opinion on the Separate Financial Statements	Two opinions are expressed in one paragraph.	Two separate opinion paragraphs, under two different headings should be included in this example.
62	Unqualified opinion on the Consolidated Financial Statements and qualified Opinion on the Separate Financial Statements		This example is unnecessary as it demonstrates a principle similar to the previous example report, but if it is retained, there should be two separate opinion paragraphs.



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
91	The “Qualified opinion ISA 705.7 or disclaimer of opinion ISA 705.9” block second from the left under “Inadequate disclosure”	In the circumstances described, the auditor has concluded that inadequate disclosure was made in the financial statements. This will result in a qualified opinion or an adverse opinion, not a disclaimer of opinion.	The wording in the block should be: “Qualified opinion ISA 705.7 <u>or adverse</u> opinion ISA 705.8”.
91	The “Disclaimer of opinion ISA 570.A22” block. Block is third from the left under the “Auditor able to obtain sufficient appropriate audit evidence, but multiple material uncertainties exist” block.	The decision tree does not indicate that this scenario is deemed by the ISAs to occur in extremely rare circumstances . See ISA 570.A22 and ISA 705.10.	The wording in the block should be: “Disclaimer of opinion <u>in extremely rare circumstances</u> ISA 570.A22 and ISA 705.10”
92	“Sun-categories (note 1)” heading	Spelling mistake.	Should be “Sub-categories (note 1)”
92	“Audit committee” and “Social and Ethics committee” columns	The “Audit Committee” column appears to deal with some, but not all exemptions from the appointment of an audit committee. The Social and ethics committee column does not deal with any exemptions to the appointment of a social and ethics committee.	If the exemptions to the appointment of an audit committee and social and ethics committee are going to be reflected in the table, it should be done consistently and completely.
92	Note 3: “Financial Reporting Standards - Regulation 27	SAICA has indicated in a document titled “Summary of financial reporting standards,	Note 3 should read:



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
	applies to all financial year ends after 30 April 2011”	<p>audit and review and persons eligible to do audit/review in terms of the Companies Act, 2008”, which was released on 15 June 2011, that Regulation 27 applies as follows:</p> <p>“The prescribed Financial Reporting Standards are applicable to all financial years commencing on or after 1 May 2011.”</p> <p>SAICA document:</p> <p>https://www.saica.co.za/Portals/o/Technical/LegalAndGovernance/Companies%20Act/Summary%20of%20frs%20audit%20and%20review%20v1.pdf</p>	<p>“Financial Reporting Standards - Regulation 27 applies to all financial years <u>commencing on or after 1 May 2011 ends after 30 April 2011</u>”</p>
92	<p>Social and ethics committee column</p> <p>“Yes if Public Interest Score >500”</p> <p>“No”</p>	<p>The column does not indicate that a social and ethics committee is required for companies other than state owned and listed public companies if the PI score >500 for any two of the previous five years.</p> <p>Any company (or CC) will be required to appoint a social and ethics committee if required by its MOI. The “audit committee” column includes reference to the fact that a company’s MOI may require it to appoint an audit committee. This is not done in</p>	<p>Should be, where applicable:</p> <p>“Yes if Public Interest Score >500 <u>for any two of the previous five years</u>”</p> <p>We suggest that the table should only deal with the requirements of the Act, and that a note should be added after Note 4 to indicate that a company’s/CC’s MOI may contain more onerous</p>



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
		the Social and ethics committee column.	requirements.
92	<p>“Public company, unlisted” row.</p> <p>Blank cells under “Company secretary and Audit committee columns.</p>	Unlisted public companies are required to appoint a company secretary and an audit committee	Row to be corrected
92	Private company – including Close Corporations rows	<p>The Section 30(2A) exemption from independent review does not apply to CCs – there is no “linkage” between the Close Corporation Act and Section 30(2A) of the Act.</p> <p>The requirement to appoint a social and ethics committee does not extend to Close Corporations – there is no “linkage” between the Close Corporation Act and Section 72(4) to (10) of the Act.</p>	Table to be corrected
92	<p>“Exemptions” column:</p> <p>“No Independent review if Shareholders = directors”</p>	<p>The Section 30(2A) exemption applies where every person who is a holder of, or has a beneficial interest in, any securities issued by that company is also a director of the company.</p> <p>Beneficial interest holders in securities are not necessarily the same as the shareholders.</p>	<p>Should be:</p> <p>“No Independent Review if <u>all holders of beneficial interest in securities</u> Shareholders = Directors”</p>



Page number in Proposed SAAPS 3	Extract from Proposed SAAPS 3	Discussion	PwC recommendation
93	<p>Non-profit company row</p> <p>“Linked to state or foreign company or statutory/regulatory function”</p>	<p>This cell presumably refers to companies incorporated in terms of Regulation 28(2)(b).</p>	<p>Cell should read:</p> <p><u>“Incorporated in terms of Regulation 28(2)(b) - Linked to state or foreign company or statutory/regulatory function”</u></p>



Appendix B – Illustrative example paragraphs

An audit report where a company has omitted disclosure required by IFRS (such as the name of a company's parent) and the omitted information is provided in the audit report as required by ISA 705.19

Example wording for the basis of modification of opinion paragraph

The ultimate controlling party of ABC Proprietary Limited is XYZ Limited. Contrary to the requirements of IAS 24, 'Related party disclosures', management has not disclosed either this information or the transactions and balances with this party in the accompanying financial statements. At the year end, an outstanding current liability of R10,000 was due to XYZ Limited (20X0: R8000) and, during the year the ABC Proprietary Limited purchased R15,000 of inventory from XYZ Limited (20X0: R20,000).

An audit report where a company has omitted disclosure required by IFRS (such as segmental information) and the information is not provided in the auditor's report as it is deemed impracticable to do so.

Example wording for the basis of modification of opinion paragraph

The financial statements do not contain information about the extent of the company's reliance on its major customers as required by IFRS 8, 'Operating segments'. Management has not provided us with this information. We have not included the omitted information in our audit report as it was impracticable to do so.

An audit report on company financial statements where the company (a parent company) is required in terms of IFRS to prepare consolidated financial statements but has not done so.

Example wording for a "Basis for adverse opinion" paragraph

As explained in Note x to the financial statements, the company has not consolidated the financial statements of its only subsidiary, XYZ Proprietary Limited, acquired during the year. This investment is accounted for on a cost basis in the company's financial statements. Under IFRS 10, 'Consolidated financial statements', the subsidiary should have been consolidated because it is controlled by the company. Had XYZ Proprietary Limited been consolidated, many elements in the accompanying financial statements would have been materially affected.

Adverse opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the annual financial statements do not present fairly the financial position of ABC Company as of 31 December 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.



Example wording where a company's annual financial statements were prepared in accordance with a liquidation basis of accounting. The auditor deemed the basis for preparation to be appropriate in the circumstances.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Inc. as at 31 December 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Emphasis of Matter

We draw attention to Note 1 to the annual financial statements which refers to the resolution of the directors of ABC Inc. to liquidate the remaining assets of the company subsequent to the balance sheet date, subject to approval from the company's shareholders. These financial statements have therefore been prepared using a liquidation basis of accounting. Our opinion is not qualified in respect of this matter.