



**Mr Imran Vanker**  
**Director: Standards**  
**The Independent Regulatory Board for Auditors**

Email: [standards@irba.co.za](mailto:standards@irba.co.za)

19 October 2015

Dear Mr Vanker

**Comment on the Proposed South African Auditing Practice Statement (SAAPS) 3  
(Revised 2015), *Illustrative Reports***

We appreciate the opportunity to comment on the Committee for Auditing Standards' (CFAS) proposed SAAPS 3 (Revised 2015), *Illustrative Reports*. This response summarises the views of the South African firm of PricewaterhouseCoopers.

We have provided our views on the matters on which comments were specifically requested.

If you would like to discuss our comments further, please do not hesitate to contact Michiel Engelbrecht at (011) 797 4421 or Annerie Pretorius at (012) 429 0299.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michiel Engelbrecht', is written over a light gray horizontal line.

Michiel Engelbrecht  
Director

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Reg. no. 1998/012055/21, VAT reg.no. 4950174682



## REQUEST FOR SPECIFIC COMMENTS

**Question 1: Whether you agree with the proposed wording for the auditor's statement of independence and fulfilment of other ethical responsibilities contained in the Basis for Opinion section of the auditor's report in South Africa.**

**If not, please suggest alternative wording to be included in the auditor's report.**

### **Our response:**

We believe that the proposed wording for the auditor's statement of independence and fulfilment of other ethical responsibilities contained in the Basis for Opinion section of the auditor's report in South Africa is appropriate.

**Questions 2: Whether you agree with the decision that no illustrative KAM are provided in the proposed SAAPS 3 (Revised 2015).**

**If not, please provide details of South African specific matters where illustrative KAM are necessary in order to assist auditors when reporting on financial statements that meet the requirements of the ISA 701.**

### **Our response:**

We support the decision not to provide illustrative KAMs in proposed SAAPS 3 (Revised 2015).

**Question 3: Whether you agree with the conclusions made by the CFAS on how to illustrate an auditor's response in the circumstances anticipated in the three illustrative report examples highlighted in the explanatory memorandum, being illustrative report 11, 17 and 21 contained in Part B of proposed SAAPS 3 (Revised 2015).**

**If not, please provide details of what you believe an auditor's response should be in those circumstances.**

### **Our response:**

We agree with the conclusions made by the CFAS on how to illustrate the auditor's response in the circumstance anticipated in the three illustrative report examples.

**Question 4: Whether, in your view, the illustrative reports contained in the proposed SAAPS 3 (Revised 2015) provide adequate examples of illustrative 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) and in compliance with South African jurisdictional requirements.**

**If not, please provide details of any illustrative reports you believe should be deleted, amended and / or added to Part B of proposed SAAPS 3 (Revised 2015).**

**Our response:**

In our experience there are often misunderstandings as to the nature and scope of an audit engagement as it pertains to a client's compliance with laws and regulations, as well as the related audit reporting implications of the identification of non-compliance. The proposed SAAPS 3 (Revised 2015) includes an illustrative report in Part B (illustrative report 9, *Non-compliance with the Companies Act but fair presentation not affected – other matter*) in which identified non-compliance which neither resulted in a qualified audit opinion, nor was deemed to be a reportable irregularity, has been addressed as an Other Matter paragraph in the audit report. We believe that this illustrative report may cause confusion amongst Registered Auditors and others (e.g. regulators) as to the auditor's reporting responsibilities with regards to non-compliance with laws and regulations. It may unintentionally create the impression that all non-compliance with laws and regulations are required by IRBA to be reported in the audit report. ISA 250 does not require the auditor to report non-compliance in her / his audit report where such non-compliance did not affect her / his opinion on the financial statements. The IAASB's NOCLAR proposals do not introduce changes to these principles.

Furthermore, from the manner in which the Other Matter has been articulated in the illustrative report we fail to see how the matter is "relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report" (refer to the ISA 706 definition of an Other Matter paragraph which has been included below).

We suggest that the illustrative report be removed.

**Relevant extracts:**

ISA 700 paragraph 6 states that the objective of an auditor is to: *'(a) To form an opinion on the financial statement based on an evaluation of the conclusions drawn from the audit evidence obtained'* and paragraph 10 states that *'The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.'*

As part of an ISA audit the auditor is required to meet the objective of ISA 250 paragraph 10 being:

*'(a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;*



*(b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and*

*(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.'*

ISA 250 paragraph 19, 25 and 28 place the following responsibilities on the auditor:

*'19. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A15-A16).'*

*25. If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with ISA 705 (Revised and Redrafted), express a qualified or adverse opinion on the financial statements.*

*28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref: Para. A19-A20)'*

Definition of "Other Matter" contained in par 7 (b) of ISA 706:

"A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report."

**Question 5: Whether you agree that the English auditor's and independent reviewer's reports have been appropriately translated into Afrikaans.**

**If not, please provide details of how you believe the Afrikaans auditor's and independent reviewer's reports should be worded.**

**Our response:**

We agree that the English auditor's and independent reviewer's reports have been appropriately translated into Afrikaans.



**Question 6: Whether you agree with the proposed effective date for proposed SAAPS 3 (Revised 2015).**

**If not, please suggest an alternative effective date and details of your reason for your suggestion.**

**Our response:**

We support the proposed effective date.