



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

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

26 February 2019

Dear Mr Vanker

**Comment on the Exposure Draft: Proposed South African Auditing Practice Statement (SAAPS) 3 (Revised 2019), Illustrative Reports**

We appreciate the opportunity to comment on the Committee for Auditing Standards' (CFAS) proposed South African Auditing Practice Statement (SAAPS) 3 (Revised 2019), 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 Coenraad Richardson on (011) 797 4713 or Kumukakwashe Matambo on (011) 287 0958.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Coenraad Richardson', written over a horizontal line.

Coenraad Richardson  
Director

---

*PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090  
Private Bag X36, Sunninghill, 2157, South Africa  
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, [www.pwc.co.za](http://www.pwc.co.za)*

Chief Executive Officer: T D Shango  
Management Committee: S N Madikane, J S Masondo, P J Mothibe, C Richardson, F Tonelli, C Volschenk  
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.  
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

## **REQUEST FOR SPECIFIC COMMENTS**

### **Question 1: Do you agree with the recommended effective date?**

We agree with the recommended time frame of the effective date. We however, recommend that an effective date be specified as compared to the following statement that is included in the Explanatory Memorandum:

*“Depending on the comments received, the expectation is that the final SAAPS may be approved and issued by the CFAS in June 2019, with such approval and issue being noted at the subsequent meeting of the IRBA Board.*

*It is expected that this proposed SAAPS will be effective immediately for audits (or reviews) of financial statements.”*

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

We support the new format of the proposed SAAPS. The structure of the extant SAAPS 3 is confusing as part B restarts the numbering of illustrative reports from 1 after the illustrative report number 4 in Part A - Guidance.

The contents page in Part B after the guidance notes in the extant SAAPS 3 is also confusing as it refers to Part A. We therefore support the continuity of numbering of the illustrative reports and the moving of the contents page from Part B to Part A to cater for all the parts. We believe this enhances navigation and makes using the proposed SAAPS easy.

### **Question 3: Do you agree with the amended illustrative auditor’s reports included in this proposed SAAPS?**

#### Illustrative Report 1

We agree with this amended illustrative auditor’s report. However, the following should be considered:

- a) Many companies that are listed on the Johannesburg Stock Exchange (the JSE) issue a set of Annual Financial Statements for the purposes of the SENS announcement and then issue an integrated report later. Consideration should be made for an illustrative example for when Other Information is received after signing the auditor’s report.

In addition to this, we recommend that the first bullet in the circumstances block of this illustrative report include the following:

...The consolidated financial statements are presented in the entity's integrated report. Separate financial statements are also prepared for the listed entity but have not been included in the entity's integrated report and there is no other set of consolidated financial statements. The auditor's reports on both the consolidated and separate financial statements are signed on the same day.

- b) The fifth bullet in the circumstances block of this illustrative report, that relates to other information being obtained prior to the date of the auditor's report, except for illustrative report 5, does not appear in any of the other illustrative reports. It is our recommendation that this bullet should be applied consistently in all the other illustrative reports taking into account the circumstances that all other information was received prior to the audit report date.

#### Illustrative Report 2

The assumption made in the fourth bullet of the circumstances paragraph is not consistent with what happens in the South African context for private companies. In practice, for private companies, a general set of Annual Financial Statements usually contains other information in addition to a director's report, such as the index page, general information, directors' responsibilities and approval, a detailed income statement and convenience translations.

This illustrative report is not consistent with the other illustrative reports. This illustrative report identifies Other Information only as the Director's Report as required by the Companies Act of South Africa. Other information should be everything contained in the set of Annual Financial Statements except the financial statements and the auditor's report thereon.

The approach followed in this example is taking a different approach to the approach followed in Illustrative reports 1 and 5. This appears to be the case in the following illustrative reports 6, 8, 9, 10, 11, 12, 14, 15, 18, 19, 20, 21, 22, 23, 24 and 25.

This is not consistent with how other information in the illustrative disclaimer reports is identified where it is stated that "the annual financial statements include ...".

We agree with not listing the other information stated above individually as this could make the other information paragraph complex and confusing. We therefore propose the following in the first paragraph in the Other Information paragraph of these reports:





The directors are responsible for the other information. The other information comprises the information included in the ABC Proprietary Limited Annual Financial Statements for the year ended 31 December 20X1, which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

#### Illustrative report 3

There is an omission of the article "the" before Directors' Report in the *Other Reports Required by the Companies Act* paragraph. This should read as follows:

The annual financial statements include the Directors' Report as required by the Companies Act of South Africa. The directors are responsible for the Directors' Report. Our conclusion on the financial statements does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

#### Illustrative report 5

It is not clear which set of financial statements is being referred to in the other information paragraph. We propose the following amendment:

The directors are responsible for the other information. The other information comprises the information included in the separate financial statements and the Integrated Report, which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. Other information does not include the consolidated ~~or~~ and the separate financial statements and our auditor's reports thereon.

This comment is also applicable to illustrative report 1.

**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?**

**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.**

Yes, the following should however be considered for the illustrative auditor's and independent reviewer's reports:

- a) Our comments raised in Question 3 above
- b) For illustrative reports 14, 19, 21, 23, 24, 25 and 26; even though the circumstances block indicates that the auditor has not identified material inconsistencies between the other information and the financial statements for the knowledge obtained in the audit or a material misstatement of the other information, we recommend the inclusion of a reminder of the ISA 720 paragraph 23 in Note 8 or in the other information bullet in the circumstances bullets.

**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.**

Yes, however, the guidance appears to be implying that the other information will be the Directors' Report, Audit Committee Report and the Company Secretary's report in certain instances. However, in South Africa, companies often include other documents with the financial statements that could qualify as other information such as the following:

- General information page
- Statement of Directors' Responsibilities
- Index pages; and
- Detailed Income Statements.

We agree that we do not have to list all of the above in the audit report. However, they should be identified as other information and the auditor should demonstrate that he / she has read these documents. We therefore suggest that consideration in relation to these documents be included in Note 8 and the following input to the other information paragraphs:

The other information comprises the information included in the Annual Financial Statements and the Integrated Report, which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.





Footnote 28 on page 56 and footnote 35 on page 57 of the proposed SAAPS incorrectly refers to section 30 (b) of Companies Act (which does not exist). These footnotes should be corrected to the following:

Companies Act, 2008, Section 30 (3) (b).

**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?**

**If not, why?**

We support the withdrawal of the IRBA Staff Practice Alert: *Determining Other Information as Defined in ISA 720 (Revised) In the South African Context* and the inclusion of the information contained in this IRBA Staff Practice Alert in Note 8 and Appendix 2 of the Proposed SAAPS.

We believe including the guidance in the Proposed SAAPS will promote consistency in the application of the guidance.

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

**If not, why?**

Yes, and we agree that specifically audited performance information should not form part of the other information. However, this information should be reflected and mentioned in the "what we have audited" part in the Opinion paragraph so that the Opinion paragraph agrees with the other information paragraph.

**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?**

We believe the proposal by CFAS to provide for two options (transitional period and period going forward) is accurate but cumbersome, and may result in errors in drafting the report. The proposal will involve a lot of information and a reader or user could end up missing the whole essence of the paragraph, which is to have an assertion about the auditor's independence and compliance with ethical principles. Please see our comments in Question 10 below.

**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 agree the wording used to describe the transitional period and the periods going forward addresses the different effective dates of the different parts of the IRBA Code (Revised 2018). However, please see our comments in Question 10 below.

**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?**

ISA 700 (Revised) paragraph 50 (c) and A34 provides the requirements about the form and content of the audit report where the International Standards on Auditing have been applied, which state the following:

ISA 700 (Revised) paragraph 50(c) *"A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements **or refer to the IESBA Code.**"*

ISA 700 (Revised) paragraph A34 *"The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that relevant ethical requirements ordinarily comprise Parts A and B of the IESBA Code related to an audit of financial statements together with national requirements that are more restrictive. When the relevant ethical requirements include those of the IESBA Code, the statement **may also make reference to the IESBA Code.** If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin."*



Although from the requirements of ISA 700 stated above, it is not a requirement of the ISAs to state that the IRBA Code is consistent with the IESBA Code in the audit report. We however support the extant SAAPS 3 independence paragraph in the Basis of Opinion section indicating the IRBA Code is consistent with the IESBA Code. We believe this helps the users, particularly those outside of South Africa, to understand that the auditor has complied with the relevant international ethical requirements.

We do not consider it necessary to provide for two options on the wording based on the effective dates of the parts in both the IRBA Code and IESBA Code (transitional period and period going forward) in this proposed SAAPS. This will involve a lot of information and a reader or user could end up missing the whole essence of the paragraph, which is to include an assertion about the auditor's independence and compliance with relevant international ethical principles. We suggest the IRBA consults with regulators in other countries to consider their approach in relation to the different effective dates and the implication on the auditor's report. As a general rule, we do not support different effective dates other than those proposed by the IESBA Code.

Based on our comments and suggestions above, we propose the following changes to the extant SAAPS 3 independence paragraph in the Basis of Opinion section of the auditor's report to be made and applied to the proposed SAAPS for both, the transitional period and the period going forward:

"We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of the consolidated financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (~~Parts A and B~~). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion".

We believe the above-proposed approach sufficiently addresses the requirements of paragraph 50 (c) of ISA 700 (Revised) that the statement shall identify the jurisdiction of origin of the relevant ethical requirements, which is South Africa as well as the applicable ethical requirements.





**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?**

**If not, please provide your views, including your reasons for disagreement.**

Yes, the FRPs are issued in terms of the Companies Act and the illustrative reports already include a reference to the Companies Act. This is also consistent with the requirements proposed in the Draft Companies Amendment Bill which Amends section 204 of the Companies Act 71 of 2008 by giving the Financial Reporting Standards Council the power to issue financial reporting pronouncements.

The extant pronouncements issued by the Financial Reporting Standards Council and signed by the Minister in March 2018 were subject of a debate around referring to these pronouncements in the auditor's report. Since the auditors already refer to the Companies Act in the auditor's report and the pronouncements are now being made part of the Act by the proposed Companies Amendment Bill, they will no longer be a subject of debate.