

Ref #533601

20 October 2015

Imran Vanker
Director: Standards
Independent Regulatory Board for Auditors
Building 2, Greenstone Hill Office Park,
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Email: IVanker@irba.co.za

Dear Sir

SAICA SUBMISSION ON THE PROPOSED SOUTH AFRICAN AUDITING PRACTICES STATEMENT (SAAPS) 3, *ILLUSTRATIVE REPORTS* (Revised 2015)

In response to your request for comments on the Proposed South African Auditing Practice Statement (SAAPS) 3 (Revised 2015), attached are the comments prepared by The South African Institute of Chartered Accountants (SAICA).

The comments included in this comment letter were provided by a Task Group (TG) of the SAICA Assurance Guidance Committee.

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

Julius Mojapelo
Project Director– Public Sector and Assurance

cc: Willie Botha (Senior Executive: Assurance and Practice)

RESPONSES TO REQUEST FOR SPECIFIC COMMENTS

No	Request	Response	Suggested alternative wording (if applicable)
1	<p>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.</p> <p>If not, please suggest alternative wording to be included in the auditor's report.</p>	<p>We found the use of the word "other" in the second sentence, as a separate sentence, to be confusing. The message should be that the auditor is independent in accordance with the relevant ethical requirements, and has (also) fulfilled his/her other ethical responsibilities in accordance with those requirements.</p> <p>Furthermore, the dual reference to the IRBA Code is not necessary, since the "requirements" as articulated also include the IRBA Code.</p>	<p><i>We are independent of the company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code); together with the ethical requirements that are relevant to our audit of the financial statements in South Africa; and We have fulfilled our other ethical responsibilities in accordance with these requirements. and the IRBA Code. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).</i></p>
2	<p>Whether you agree with the decision that no illustrative KAM are provided in the proposed SAAPS 3 (Revised 2015).</p> <p>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.</p>	Agreed	n/a

No	Request	Response	Suggested alternative wording (if applicable)
3	<p>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.</p>		
	- Illustrative report 11	Agreed	n/a
	- Illustrative report 17	Agreed	n/a
	<p>- Illustrative report 21 (Also refer to additional point below)</p>	<p>The matter we are highlighting here arose originally during the deliberations of the TG on illustrative report 21, but we believe it has a more pervasive effect with respect to all of the illustrative reports.</p> <p>The TG discussed the argument presented in the explanatory memorandum (page 14) with respect to fair presentation in accordance with IFRS together with the requirements of the Companies Act of South Africa, and that these cannot be separated. Views were expressed that non-compliance with the Companies Act</p>	<p>In illustrative report 21:</p> <p>“In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC Proprietary Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the <u>additional financial reporting</u> requirements of the Companies Act of South Africa.”</p>

No	Request	Response	Suggested alternative wording (if applicable)
		<p>does not necessarily detract from fair presentation (or may not even affect the financial statements).</p> <p>However, ISA 210, par. 18 and A34 contemplate a situation where the financial reporting standards are supplemented by requirements of law or regulation; in which instance the applicable financial reporting framework for the purposes of applying the ISAs encompasses both the identified financial reporting standards and such additional requirements provided that they do not conflict with the identified financial reporting standards.</p> <p>The question becomes a more fundamental one: Which requirements of the Companies Act are supplementing the financial reporting standards (e.g. IFRS or IFRS for SMEs)? It can clearly only refer to any additional financial reporting provisions of said law or regulation. We believe this should be made clear in referring to the applicable financial reporting framework in the auditor's report.</p>	<p>General illustrative wording to be used in an unmodified report:</p> <p>In our opinion, the financial statements present fairly, in all material respects, the financial position of [Name of entity] as at [date], and its financial performance and cash flows for the year then ended in accordance with [financial reporting framework] [and the additional financial reporting requirements of [law or regulation] of [Jurisdiction]].</p>

No	Request	Response	Suggested alternative wording (if applicable)
	<p>- Illustrative example 21 (Following on from the point above)</p>	<p>A concern was expressed that since this example deals with a departure from the additional disclosure requirements of the Companies Act as opposed to the normal departure from the financial reporting standards, users of SAAPS 3 could inappropriately deduce that the disclosure deficiency relating to directors' and prescribed officers' remuneration will always be material.</p> <p>We acknowledge that the sentence, "This is deemed to be material but not pervasive to the financial statements", is aimed at indicating the auditor's conclusion in the circumstances of this illustrative report. However it may be prudent to emphasise this point further.</p> <p>This could also be used as an opportunity to draw attention by way of a footnote to the principle of the financial reporting standards being supplemented by additional disclosure requirements from law or regulation as discussed in ISA 210, par. 18 and A34 (see discussion</p>	<p>Proposed amendments to second bullet point: The directors' and prescribed officers' remuneration has been disclosed in aggregate and not individually as required by the Companies Act. The auditor has interpreted the Companies Act of South Africa to require disclosure of such remuneration to be per each individual director and / or prescribed officer. <u>Based on the audit evidence in the engagement circumstances, the auditor has concluded that this misstatement related to the non-disclosure of information is</u>—This is deemed to be material but not pervasive to the financial statements.—The auditor has determined that it is practical to include the omitted disclosures in the auditor's report and the auditor has obtained sufficient appropriate audit evidence in this regard.—(i.e., a qualified opinion is appropriate).</p>

No	Request	Response	Suggested alternative wording (if applicable)
		<p>above).</p> <p>We also noted that the last sentence of the second bullet is repeated in the third bullet point. We suggest retaining the third bullet point.</p>	
4	<p>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.</p> <p>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).</p>	<p>Illustrative example 9:</p> <p>A question arose: When does non-compliance with laws and regulation become a matter to be reported in the auditor's report?</p> <p>ISA 250, par. A17-A18 contemplate a situation where the auditor may decide to include an Other Matter paragraph in the case of an identified non-compliance that is not material to the financial statements. Owing to the specificity of this type of scenario, CFAS should consider including a footnote in this regard.</p>	n/a
5	<p>Whether you agree that the English auditor's and independent reviewer's reports have been appropriately translated into Afrikaans.</p> <p>If not, please provide details of how you believe the Afrikaans auditor's and independent reviewer's reports</p>	No comment	n/a

No	Request	Response	Suggested alternative wording (if applicable)
	should be worded.		
6	<p>Whether you agree with the proposed effective date for proposed SAAPS 3 (Revised 2015).</p> <p>If not, please suggest an alternative effective date and details of your reason for your suggestion.</p>	Agreed	n/a

GENERAL COMMENTS

No	Reference to SAAPS 3	Comment	Proposed Changes (if applicable)
1	Page 6	Clarity provided on the status of the three reports required by the Companies Act is very useful.	If possible, consider including additional components of this section in the explanatory memorandum, in the SAAPS.
2	Page 18, status and authority statement	<p>The 2nd last paragraph states (emphasis added): “... whether or not any particular South African Practice Statement is relevant to an engagement, and if so, <u>to enable the auditor to apply the requirements</u> of the particular International or South African Standard/s to which the South African Practice Statement relates, properly.”</p> <p>The underlined text could be interpreted to inappropriately mean that the auditor cannot comply with the requirements of ISAs, without the SAAPS. Rather, the SAAPS provides guidance to the auditor in complying with the requirements of ISAs.</p>	<p>Drawing from the text that has been used in SAAPS 6, consider the following wording:</p> <p>“... whether or not any particular South African Practice Statement is relevant to an engagement. A registered auditor who does not consider and apply the guidance included in a relevant SAAPS should be prepared to explain how the requirements in relevant International or South African Standard/s to which the SAAPS relate, have been complied with.”</p>
3	Page 64 last bullet and pager 65 first bullet	Inconsistencies between use of management and directors.	Use consistent reference
4	Page 152 Illustrative example 27	The report is a Review Engagement Report but refers to adverse opinion in the heading.	Heading should be changed to adverse conclusion