

Imran Vanker
Director Standards
Independent Regulatory Board for Auditors
PO Box 8237
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Per Email: standards@irba.co.za

05 October 2022

Dear Mr Vanker

**COMMENT LETTER ON THE PROPOSED RULE ON ENHANCED AUDITOR REPORTING FOR THE
AUDIT OF FINANCIAL STATEMENTS**

Thank you for the opportunity to share with the audit regulator our views of the Proposed Rule on Enhanced Auditor Reporting for the Audit of Financial Statements. We have structured our comment based on the questions asked in the Exposure draft.

Broadly we support the principles behind the proposals and believe they will enable the IRBA in its objective of endeavouring to protect the financial interests of South Africa through the effective and appropriate regulation of assurance services conducted by registered assurance providers in accordance with internationally recognised standards and processes.

We have addressed question 1 and 2 per the various points as listed in the Exposure draft then question 3 which we believe applies to all the matters raised on its own.

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| Proposed IRBA Rule | | Question 1 | Question 2 |
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| | | <p>Do you support the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements? Yes / No.</p> <p>If "No", please indicate the reason(s) for your response.</p> | <p>Do you believe that there is guidance required in support of the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements? Yes / No.</p> <p>If "Yes", please indicate the areas in which guidance is needed.</p> |
| 1a) | <p>For all audits of annual financial statements, the audit firm shall disclose in the independent auditor's report:</p> <p>The materiality applied, and an explanation of significant judgements made by the auditor in determining materiality for the audit.</p> | <p>Yes, we agree with the inclusion of the materiality applied. However, we believe determination of materiality of financial information presented is first and foremost at the discretion of management and to that end recommend conversations with accounting standard setters with regards to management also disclosing their materiality as well as their materiality considerations in presenting financial information.</p> <p>We also think that there is a risk that management adopts the auditor's materiality amount instead of determining their own and providing broader considerations of qualitative aspects of materiality with respect to financial information produced by the entity</p> | <p>Yes for the reasons stated below:</p> <ul style="list-style-type: none"> • The users need to be educated on the materiality concept. • Consideration for and guidance on how qualitative materiality should be included in the audit report. • There is need for guidance or ways to manage the risk that management adopts the auditor's materiality amount. |
| 1b) | <p>How the auditor evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.</p> | <p>No, we disagree with including the auditor's evaluations and the key observations on going concern. We believe that the current audit report incorporates a lot about going concern where there are no going concern issues. We believe where the going concern presumption is clearly appropriate then such disclosure may lead to boiler plate language that is not relevant to users of financial information.</p> | <p>Yes, the users need to be educated about the auditor's responsibility on going concern.</p> |

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| 1c) | Audit procedures specific to the auditor's response to the material uncertainty related to going concern, where relevant. | <p>Yes, we agree with adding the procedures performed where there is a material uncertainty as this will afford auditors an opportunity to clarify their responsibilities.</p> <p>We acknowledge that the auditor is already allowed to include a KAM where there is a close call, and that affords the auditor the opportunity to share their procedures performed to respond to going concern indicators.</p> | <p>Yes, guidance is need on what and where the procedures should be included in the report. At the moment the auditor includes the material uncertainty paragraph where there exists uncertainty, this does not specifically include the procedures the auditor has performed. The guidance should be clear if this paragraph requires presentation of auditor's procedures performed.</p> <p>International guidance further retains the use of emphasis of matter (EOM) paragraph for going concern. Should exercise of this option also be expanded to include procedures performed.</p> |
| 1d (i) | <p>The following matters, where the disclosure has not been made by the preparer in the annual financial statements or the annual report:</p> <p>Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.</p> | <p>No, we disagree with including audit fees in the audit report as these are not regulated and is dependent on a number of factors which will make it difficult to compare from one entity to another.</p> <p>The inclusion may also unduly present some audit fees as low balling as well as lead to low balling.</p> | No |
| 1d(ii) | Fees, other than those disclosed under (d)(i), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the | <p>Yes, we do agree with including fees other than audit fees. We believe that this will increase transparency and encourage a more robust pre-assessment of other non-audit services to be provided to audit clients.</p> <p>We suggest that the rule must require inclusion of the nature of services provided.</p> | No |

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| | financial statements on which the firm will express an opinion. | | |
| 1d(iii) | Any fees, other than those disclosed under (d) (i) and(ii), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence | Yes, we agree with disclosing fees for any other related entities as this will increase transparency and encourage a robust independence assessment. | No |
| 1d(iv) | If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose. | Yes, we agree as this will increase transparency and encourage firms to avoid fee dependency or put robust safeguards to manage the fees dependency | Yes clarity is needed on the definition of the "firm". Is the definition same as the definition included in the IRBA Code? |
| 2 | For the audit of all Public Interest Entities as defined in the IRBA Code, the audit firm, shall disclose in the independent auditor's report: a) Additional disclosures in the auditor's report about the scope of the audit in relation to group audits. | Yes, we support disclosure of audit scope subject to guidance provided. We believe that this will provide the users with useful information regarding the auditor's areas of focus within the group. We suggest that the rule must require inclusion of the reasons for the scope adopted. | To encourage consistency of disclosure, please provide clarification on what you mean by audit scope including examples of how audit scope can be disclosed. |
| b) | The communication of Key Audit Matters, as defined in ISA 701. | Yes, we support the KAM inclusion for the audit of all PIE. We believe that the auditor effort will increase which will lead to increased audit quality. | No |
| 3 | Where the auditor has communicated | Yes, we agree with including the outcome of audit | Yes, guidance should be included on what and how the |

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| | <p>Key Audit Matters, as defined in ISA 701, the outcome of audit procedures or key observations with respect to Key Audit Matters shall be disclosed in the independent auditor's report.</p> | <p>procedures or key observations as optional in line with ISA 701 and not mandatory to avoid giving a separate opinion.</p> <p>Where the inclusion is optional, the auditor will be in a position to assess whether inclusion of the outcome of audit procedures has a potential of giving a separate opinion on a separate element of the AFS and where such risk exists, the auditor must be at liberty to omit such outcome.</p> | <p>outcome should be included in the audit report.</p> |
| <p>Proposed effective date</p> | | <p>Question 3 Do you agree with the effective date for the proposed IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements, as indicated in paragraph 29 of the Explanatory Memorandum? Yes / No.</p> <p>If "No", please indicate the reason(s) for disagreeing and also suggest an effective date that will be appropriate</p> | |
| <p>The IRBA recommends that the proposed IRBA Rule be effective at least 12 months (one year) after the IRBA Board's prescription and/or publication of the final IRBA Rule.</p> <p>Paragraph 29: Subject to the comments received throughout this period, the IRBA intends to issue the final IRBA Rule during the fourth quarter of 2022, and recommends that:</p> <ul style="list-style-type: none"> • The proposed IRBA Rule be effective at least 12 months (one year) after the IRBA Board's prescription and/or publication of the final IRBA Rule. | | <p>Yes, we agree that the rule should be effective 12 months after its publication, however we disagree with issuing the rule in the fourth quarter of 2022 as there appears to be a lot of considerations and guidance needed. Our suggestion will be to issue the final rule after providing and consulting on the guidance needed.</p> | |



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We hope you find the above information useful.

Yours faithfully,

Yvonne Kgoedi

Director

For and on behalf of SizweNtsalubaGobodo Grant Thornton Inc