

Reference #773408

12 September 2022

Imran Vanker
The Director Standards
Independent Regulatory Board for Auditors
PO Box 8237
Greenstone, 1616
South Africa

By e-mail: standards@irba.co.za

Dear Imran,

Comments on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft: Proposed Narrow Scope Amendments to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* and ISA 260 (Revised), *Communication with Those Charged with Governance*, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs) (the IAASB Exposure Draft)

The South African Institute of Chartered Accountants (SAICA) appreciates the opportunity to provide comments on the IAASB Exposure Draft.

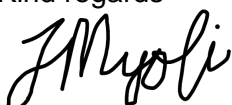
To inform our submission, SAICA established a task group consisting of members of our Assurance Guidance Committee and its related project groups. Our Assurance Guidance Committee has approved this submission.

We have categorised our comments as follows:

- General Comments
- Response to the Request for Comments
- Detail Comments on the Proposed amendments

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Annerie Pretorius (AnnerieP@saica.co.za).

Kind regards



Thandokuhle Myoli
Executive: Audit and Assurance
The South African Institute of Chartered Accountants



GENERAL COMMENTS

1. SAICA acknowledges coordination to date, and encourages continued coordination, between the IAASB and the International Ethics Standards Board for Accountants (IESBA) to facilitate the IAASB standards and the IESBA Code operating in harmony with each other.
2. We acknowledge that the proposed amendments in the IAASB Exposure Draft utilise the only mechanism available in the IAASB standards to communicate to all users of the audited financial statements, namely the auditor's report.
3. While we are supportive of the auditor's report being informative to the user thereof, we are concerned that overcomplicating the auditor's report may have an unintended consequence of detracting the auditor's focus from what is most important, namely performing a quality audit. We note with concern that the ISA auditor's report continues on a trajectory of increased complexity and length through differentiation between categories of auditees.
4. Some local investors have, colloquially, indicated to us that as far as the auditor's report is concerned, they are still primarily reading the auditor's opinion on the financial statements and that they accept that the auditor has complied with all obligations/requirements applicable to the audit, including ethical requirements, without reading the entire report. It is critical that the IAASB engages with the users of the auditor's report to ensure that changes made to the auditor's report for the benefit to the users thereof, meet a need that has been expressed by those users.
5. We have reservations about whether the auditor's compliance with the proposed amended requirements to ISA 700 (Revised) would in all instances result in a firm's compliance with the requirement of paragraph R400.20 of the revised IESBA Code to "publicly disclose" the information. In our view, where the auditor's report on a PIE is not available publicly, the firm would have to publicly disclose the information, "in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders", in addition to the auditor complying with the IAASB's proposed amended requirements to ISA 700 (Revised).
6. In our view, it would be sufficient for the auditor to include the required disclosure in the auditor's report, irrespective of the availability thereof (i.e. irrespective of whether or not the auditor's report is available in the public domain).
7. The overall objectives of the auditor, as described in ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*¹ remain the expression of an opinion on the financial statements, and to report as required by the ISAs in accordance with the auditor's findings. In the context of ISA 200, we do not support the auditor/firm publicly disclosing only certain aspects relating to an audit and in doing so giving elevated prominence to those aspects

¹ ISA 200 paragraphs 11 and 12.



(for example independence requirements) over others (for example the opinion on the financial statements).

8. We acknowledge the statements made in paragraphs 144 and 145 of the Basis for Conclusions, *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*, including that the IESBA may need to reconsider its position on public disclosure once the IAASB has completed its own due process in this regard.

Extracts from the Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

R400.20 Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

Extract from the Basis for Conclusions, *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*:

144. With regards to determining what might be an “appropriate” form of public disclosure, firms may consider factors such as:

- Whether there is a need to disclose the information to those stakeholders that do not have access to the auditor’s report or the entity’s financial statements.
- Whether an appropriate disclosure mechanism would be simply to provide a general statement publicly about which entities they have applied the independence requirements for PIEs in relation to the audit.

145. The IESBA also considered how the transparency requirement can be complied with by a firm if the auditor’s report is not made available to the public. In this regard, the IESBA considered the option of limiting the disclosure requirement to only those stakeholders who have access to the auditor’s report on the basis that it would be of no benefit to those who do not have such access to know if additional independence requirements have been applied. The IESBA appreciated, however, that this may be seen to be concluding on the appropriate means of disclosure before the IAASB has considered the matter. On balance, therefore, the IESBA determined that requiring firms to make the disclosure in “a manner deemed appropriate” is sufficient given that the IAASB is yet to consider this matter. The IESBA expressed its continued support for the IAASB to consider the matter under the IAASB’s own due process. As mentioned earlier, the IESBA will consider what further actions, if any, might be warranted once the IAASB has concluded its deliberations on whether the auditor’s report is a suitable location for such disclosure and, if so, how this may be accomplished.



9. As explained in the Explanatory Memorandum, Track 2 of the IAASB's project will focus on convergence of definitions in the IEBSA Code and the IAASB Standards. "Public interest entity" is not currently defined in the IAASB standards, and we have suggested amendments to the proposals in the Exposure Draft to avoid creating the impression that it is a term used in the IAASB standards.



RESPONSE TO THE REQUEST FOR COMMENTS

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements

1. Do you agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code

10. We agree that the auditor's report is an appropriate mechanism for disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code. Refer, however, to our General Comments regarding "public" disclosure in paragraphs 5 to 8.

Please answer question 2A or 2B based on your answer to question 1

2A. If you agree:

(a) Do you support the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirement as explained in paragraphs 18-24 of the Explanatory Memorandum?

11. Yes, we support the conditional requirement as explained in the Explanatory Memorandum. Refer, however, to our General Comments in paragraphs 3 and 4.

12. We have provided suggested amendments to the proposed changes to ISA 700 (Revised) in our Detail Comments on the Proposed Amendments.

2A. (b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?

13. Yes, we support the proposed revisions in the ED to ISA 260 (Revised).

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

3. Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?



14. Yes, we support a revision to ISRE 2400. There are limited examples in the South African environment of ISRE 2400 engagements performed for PIEs, for example placing documents or circulars required by one of the local securities exchanges.

4. If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C?

15. Yes, we support a consistent approach to be followed in ISRE 2400 (Revised) as explained in Section 2-C.

Matter for IESBA Consideration

5. To assist IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioners report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

16. There are no such requirements in South Africa.

Requests for General Comments

The IAASB is also seeking comments on the following matters:

6. Translations –Recognising that many respondents may intend to translate the final pronouncement for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing this ED.

17. The IAASB pronouncements are not translated in South Africa.

18. The proposed amendments to the illustrative reports in ISA 700 (Revised) do not pose significant translation difficulties regarding the illustrative reports that are in Afrikaans in SAAPS 3, *Illustrative Reports*.

7. Effective Date –Given the need to align the effective date with IESBA, do you support the proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024 as explained in paragraph 26?

19. We support the proposed effective date of the amendments to the relevant ISAs to align to the effective date of the related requirement of the IESBA Code.



DETAIL COMMENTS ON THE PROPOSED AMENDMENTS

Note: Our suggested wording changes are all shaded in grey.

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Comments on the proposed application material in ISA 700 (Revised)

Proposed paragraph A35A:

A35A. Relevant ethical requirements may require the auditor to:

...

- Publicly disclose that the differential independence requirements that are applicable to audits of financial statements of certain entities were applied. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.
20. To avoid inappropriate application of the exemption provided in IESBA Code paragraph R400.21, we propose the inclusion of parameters, such as referring to “confidential future plans of the entity that are likely to be implemented in the foreseeable future”.
21. Due to the importance of consistency between the ISAs and the IESBA Code, we suggest that the IAASB should liaise with the IESBA to implement consistent wording in the IESBA Code.

Comments on the proposed amendments to illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

Assumed circumstances of the illustration

22. To clarify that “public interest entity” is not a defined term in the IAASB standards, but refers to the definitions in the IESBA Code and jurisdictional ethical requirements, we propose the following amendment, shaded in grey, to the assumed circumstances of illustration 1:
- **...The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities, as defined in the IESBA Code and jurisdictional ethical requirements. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.**



Articulation of the illustrative report

23. To avoid creating the impression that jurisdictional ethical requirements apply to *the public interest entity* as opposed to the *audit of the financial statements* of the public interest entity, we propose amendments to the wording of the report, shaded in grey below.
24. We regard the addition of “also” in the sentence that reads “We have also fulfilled our other ethical responsibilities...” as unnecessary. Its inclusion in this example results in inconsistency with the other illustrative examples in the Appendix to ISA 700 (Revised) and in other ISAs that contain illustrative reports. We propose that the word “also” should be removed, see proposal shaded in grey below.

Report on the Audit of the Financial Statements

...

Basis for Opinion

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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, as applicable to public interest entities, together with the ethical requirements that are relevant to our audit of the financial statements of for public interest entities that are relevant to our audit of the financial statements in [jurisdiction]. and We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Comments on the proposed amendments to Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

25. To clarify that “public interest entity” is not a defined term in the IAASB standards, but refers to the definitions in the jurisdictional ethical requirements, we propose the following amendment to the assumed circumstances of illustration 2 (our proposal is shaded in grey):
 - The relevant ethical requirements that apply to the audit are those of the jurisdiction. The ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities, as defined in the jurisdictional ethical requirements. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.



26. To avoid creating the impression that jurisdictional ethical requirements apply to *the public interest entity* as opposed to the *audit of the financial statements* of the public interest entity, we propose the amendment shaded in gray.

Report on the Audit of the Consolidated Financial Statements

...

Basis for Opinion

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 Financial Statements* section of our report. We are independent of the Group in accordance with ~~the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)~~, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code the ethical requirements that are relevant to our audit of the financial statements of for public interest entities that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Proposed amendments to other ISAs

Comments on the illustrative examples in ISAs other than ISA 700 (Revised)

27. To avoid confusion, we suggest that the circumstances assumed in all the illustrative reports in the ISAs², other than illustration 1 and 2 of ISA 700 (Revised), should be amended to clarify the circumstances. For example:

- The relevant ethical requirements that apply to the audit are those of the jurisdiction. Those ethical requirements do not include differential independence requirements that are applicable to audits of financial statements of certain entities.

28. We believe it would be useful to auditors if one of the illustrative audit reports in the ISAs reflected the circumstances of example 4 on page 17 of the Exposure Draft. We suggest that ISA 705 (Revised), Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements should be amended to reflect the following circumstances:

- The IESBA Code is applied; and
- Jurisdictional ethical requirements apply. The jurisdictional requirements contain differential independence requirements for certain entities but do not contain a public disclosure requirement regarding the application thereof.

² We are referring to the illustrative reports in ISA 570 (Revised), ISA 700 (Revised) (other than illustrations 1 and 2), ISA 705 (Revised), ISA 706 (Revised), ISA 710, ISA 720 (Revised), ISA 800 (Revised) and ISA 805 (Revised).



Proposed wording for ISA 705 (Revised), Illustration 1:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The relevant ethical requirements that apply to the audit ~~are those of the jurisdiction.~~ comprise the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both. The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities as defined in the IESBA Code and jurisdictional ethical requirements. The IESBA Code requires the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied. The ethical requirements relating to the audit in the jurisdiction do not require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.

Basis for Qualified Opinion

...

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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), as applicable to public interest entities, together with the ethical requirements that are relevant to our audit of financial statements in [jurisdiction], ~~and we~~. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Application material to be added to ISA 210, *Agreeing the Terms of Audit Engagements* and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*:

29. While we appreciate that this project proposes narrow scope amendments to operationalise the transparency requirement in the IESBA Code, we are of the view that even narrow scope amendments to the ISAs should reflect and support the natural flow of an audit. We therefore propose that application material, similar to the proposed



amendment to ISA 260 (Revised) should be included in ISA 210 and that an amendment should be made to ISA 220 (Revised).

Proposed amendment to ISA 210, *Agreeing the Terms of Audit Engagements*:

A24A. Relevant ethical requirements may include differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The audit engagement letter may indicate which independence requirements will be applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements will be applied. The audit engagement letter may also indicate whether the auditor is required to provide information about such compliance with such differential independence requirements in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised).

Proposed amendment to ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*:

A38. ISA 200 requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, ~~certain requirements related to independence may be applicable only when performing audits of listed entities~~ relevant ethical requirements may include differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised). ISA 600 includes additional requirements and guidance to those in this ISA regarding communications about relevant ethical requirements with component auditors.