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| **INDEPENDENT REGULATORY BOARD FOR AUDITORS****COMMITTEE FOR AUDITING STANDARDS** |

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| **South African Auditing Practice Statement (SAAPS) 2 (Revised 2018)*****Financial Reporting Frameworks and the Auditor's Report***Johannesburg / 9 March 2018The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS) approved the release of SAAPS 2 (Revised 2018), *Financial Reporting Frameworks and the Auditor's Report* (this SAAPS 2 (Revised 2018)), in March 2018 for issue.This SAAPS 2 (Revised 2018) provides guidance to registered auditors on the application of International Standards on Auditing (ISAs) in determining the acceptability of the financial reporting framework applied in the preparation of a set of financial statements.**Revisions made to this SAAPS 2 (Revised 2018)**This SAAPS 2 (Revised 2018) includes:* Conforming amendments arising from the withdrawal of the application of Statements of GAAP called the ‘GAAP Reporting Framework' from 1 April 2018.
* Conforming amendments arising from the introduction of the Modified Cash Standard (MCS) by the Office of the Accountant-General (OAG) at National Treasury in January 2015.
* Conforming amendments, where considered necessary, arising from the revision of the following ISAs:
	+ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
	+ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*;
	+ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*;
	+ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; and
	+ ISA 800 (Revised), *Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.

The abovementioned ISAs are effective for audits of financial statements for periods ending on or after 15 December 2016.* An update of the reference from the *International Framework for Assurance Engagements* (the Framework) to ISA 210*, Agreeing the Terms of Audit Engagements*, regarding characteristics of suitable criteria for a financial reporting framework. This is because the Framework has been revised to include assurance engagements other than audits or reviews of historical financial information.

**Effective date**This SAAPS (Revised 2018) is effective for audits of financial statements for periods ending on or after 1 April 2018. As with the early adoption of the new and revised ISAs permitted by the IAASB, the early adoption of this SAAPS 2 (Revised 2018) is permitted where the auditor has early adopted the underlying suite of new and revised IAASB standards.**Summary of responses to the significant issues from the exposure process**The significant issues arising out of the exposure process were whether National Treasury, through the OAG, is an organisation authorised or recognised to promulgate standards to be used by certain types of entities; and whether the MCS is a general purpose, fair presentation framework.**General purpose framework:**ISA 210, paragraph A8 states that: 'At present, there is no objective and authoritative basis that has been recognised globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organisations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.' The application guidance of ISA 210 refers to the presumption that reporting standards established by authorised organisations to be used by certain types of entities are accepted as general purpose frameworks. The presumption applies if the organisation follows an established and transparent process involving deliberation and the involvement of views from a wide range of stakeholders.The OAG, based on the process followed and the due process described in paragraphs 11-16 of the MCS, considered best practices, both locally and internationally, the capacity of departments to comply with the reporting requirements, and the systems used by departments in preparing and collating the information required to comply with the reporting requirements. The OAG also made use of the pronouncements issued by the Accounting Standards Board (ASB), the International Public Sector Accounting Standards Board (IPSASB) and other organisations that develop financial reporting, accounting and auditing requirements.The due process followed by the OAG at National Treasury while setting the MCS is similar to that followed by the ASB when setting the standards of Generally Recognised Accounting Practice (GRAP). Both the statements of GRAP, as set by the ASB, and the MCS were developed through a due process that involved accountants, auditors, preparers, regulators and users of financial information in the public sector. The process also involved the request for and consideration of comments on the proposed draft MCS published on the OAG's website for a specific period to allow interested parties to consider and comment on the proposed draft MCS. The OAG considered all the comments received and made modifications where appropriate. The process followed, as described above, indicates that common needs of a wide range of users were considered.Paragraph A5 of ISA 210 states that: 'Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users are referred to as general purpose financial statements.'The MCS has been set to meet the information needs of a wide range of users, as described in paragraphs 12-14 of the MCS, and is therefore a general purpose framework.**Fair presentation framework:**The IAASB Glossary of Terms (2016) states that the term 'fair presentation framework' refers to a financial reporting framework that requires compliance with the requirements of the framework and:* Acknowledges explicitly or implicitly that to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
* Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The MCS complies with the second requirement of the fair presentation definition in that it contains the following wording in paragraph 18 of the MCS:* 'In the extremely rare circumstances when management, in consultation with the Office of the Accountant General, concludes that compliance with a requirement of this Standard would be so misleading that it would conflict with the overall objectives of the Standard with regard to fair presentation, the department shall depart from that requirement in the manner set out in par 19 and 20.'

This SAAPS is available in PDF format and may be downloaded from the IRBA website at [www.irba.co.za](https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/south-african-standards-and-practice-statements). Should you have any other queries please do not hesitate to contact the Standards Department by sending an email to standards@irba.co.za..**Imran Vanker****Director: Standards*****About the IRBA****The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.**The statutory responsibility of the CFAS is to assist the IRBA to develop, maintain, adopt, issue or prescribe auditing pronouncements; to consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and to promote and ensure the relevance of auditing pronouncements.* |