8 October 2012,

The International Auditing and Assurance Standards Board (the “IAASB”)

To whom it may concern

INVITATION TO COMMENT: IMPROVING THE AUDITORS’ REPORT

By way of background the Johannesburg Stock Exchange (the “JSE”) is licensed as an exchange in South Africa under the Securities Services Act, 2004. The JSE was established in 1887 and became a member of the World Federation of Exchanges in 1963. We provide a platform on which trade occurs as well as regulating the market, both from a trading perspective as well as regulating the companies and products listed.

In terms of the JSE Listings Requirements (the “Requirements”) auditors must conduct their assurance engagements in accordance with International Standards on Auditing (the “ISA”). We therefore have a direct interest in the outcome of your proposals, from the perspective of the impact it will have:

- directly on our listed entities;
- on the content of the auditors’ reports;
- on our regulatory response to the content of the auditors; and
- on capital markets as a whole;

The auditors’ report is important to the JSE:

- as a regulatory tool;
- for investors in our market; and
- as the content of the auditor report directs our regulatory actions in various respects, from deciding on whether or not to list a company on one hand to releasing announcements on our news service in order to advise and warn investors about a specific aspect within the auditors’ report.

In terms of our regulatory approach we wish to point out that the general principles that form part of and underpin our of the Requirements talk to inter alia the need to ensure full information is provided to investors and that our Requirements promote investor confidence in standards of disclosure and corporate governance in the conduct of the listed entities affairs and in the market as a whole.
We take note that the objectives of this project are to enhance the communicative value and relevance of the auditors’ report through proposed revisions to the ISA requirements that address both the structure and content of the report. In this regard your call for comments aims to understand whether or not the direction outlined in your paper does in fact enhance the value of auditor reporting to users.

We also take note of the following two important definitions set out in your paper, which we refer to in our comment letter:

- "expectations gap" is the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is, and
- "information gap" describes the divide between what users believe is necessary to make informed investment and fiduciary decisions, and what is available to them through the entity’s audited financial statements, the auditor’s report or other publicly available information.

Overall Considerations

Question 1 – Overall, do you believe that the IAASB’s suggested improvements sufficiently enhance the relevance and informational value of the auditors’ report, in view of possible impediments (including costs)? Why or why not?

Yes we agree that, within the scope of the project (and specifically the point objective of not expanding the current scope and work effort of the audit performed under ISA) the proposed improvements will enhance the relevance of the auditors’ report. Specifically we believe that the proposals suggested auditors commentary section will assist in closing the information gap.

The proposal will also assist in closing the expectation gap in terms of:

- the specific reference to other information provides useful clarity to with regards to the assurance work (or lack thereof on this information); and
- the scope paragraph dealing with fraud.

Nevertheless we believe that IAASB should consider expanding the scope of certain specific ISAs in future to address the expectation gap in so far as matters such as fraud, forward looking information and other information accompanying the annual financial statements (for example in an integrated report) are concerned.

Question 2 – Are there other alternatives to improve the auditors’ report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

Please refer to the answer in Question 1 above.
Furthermore, in South Africa many JSE listed entities are preparing integrated reports. We believe that there is a growing need to provide guidance with respect to the area of assurance on such reports. An integrated report by nature is a combination of historical financial-, non-financial- and forward looking information. Currently there is no mechanism for auditors to provide a single opinion on and the integrated report and the practice is very diverse. As the uptake of integrated reporting gains momentum elsewhere in the world, there will be an expectation that the IAASB addresses the assurance aspect, a project which is by no means a small task. We would therefore like to encourage the IAASB to pro-actively engage and commence with this task.

Auditor Commentary

Question 3 – Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditors’ report? Why or why not? (See paragraphs 35 – 64.)

Yes, we support the concept of Auditor Commentary and that the auditor highlights entity specific information for the users of the financial statements and its accompanying auditors’ report.

The current audit report does serve as an important traffic light (pass/fail message) as to whether the financial statements are a fair presentation of events, or not. The auditors’ report however is the only tangible mechanism of communication between auditor and investor and unfortunately that report does not share any of the valuable insights that the auditor obtains in conducting their audit. This information would be useful in the following respects:

- provided important information on the entity itself ie to enhance the user’s understanding of the entity;
- insight to the manner in which the auditor has conducted their engagement. This information in itself would assist shareholders in deciding whether they should approve the appointment of that specific auditor for the next period as it can be seen to be an indication of the quality of the audit; and
- enhanced comfort with regards to the auditors’ independence both in fact and perception.

Auditor Commentary would not only enhance the value of the audit report, but also enhance the user’s understanding of the entity. Auditor Commentary would however only be valuable and would only enhance the value of the audit report if it is entity specific and if auditors avoid merely including a standard/boiler plate list of matters in such commentary.

Question 4 – Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditors’ judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditors’ judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditors’ decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43 – 50.)
Auditor Commentary should steer away from being cast into a pre-fabricated mould and should be flexible. Only then can it bridge the information gap, and add value to the auditors’ report. We therefore support the proposal that there is guidance in the standard, but that the specific aspects and nature thereof should be left to the judgement of the auditor. Any other approach runs the risk that, Auditor Commentary becomes standardised information set and agreed by the audit firms’ risk management processes.

We believe that the first three and final item highlighted as proposed guidance in paragraph 45 are appropriate and useful. For example, disclosure within the IFRS accounts of significant judgements is not always well presented, thus the call for the auditor to consider this aspect will perhaps also focus managements mind on the matter and could lead to improved disclosure in the IFRS accounts themselves.

The final item

We are however concerned about the information to be disclosed under topic of ‘difficult or contentious matter noted for the following reasons:

- in its current wording this guideline could lead to unrealistic disclosure expectations by investors. As such we believe that this item needs to be clarified/ expanded;
- a detailed discussion on what a specific number within the IFRS accounts might have been could cause confusion about the validity of the actual. An example could be a discussion around the level of impairment. If the disagreement is material, the item will be highlighted through a modified opinion; and
- these disclosures could create unnecessary concern and uncertainty in the market about some possible negative event that is unlikely to occur, and runs the risk of creating false (negative) expectations in the market. Whilst, as a regulator we want a fully informed capital market we also expect our listed entities to exercise due care before releasing information, and in fact it is an offence in South African law to public false and misleading statements. We are concerned that information discussed under this heading is fraught with risk to our market.

Question 5 – Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58 – 61.)

In our view the examples, albeit useful, are at a superficial level and are not giving adequate guidance of practical aspects that auditors might need to highlight in Auditor Commentary. More focus is needed on information in respect of the auditors’ assessment or insight, as set out in paragraph 45. More practical examples would better address users’ needs and provide more tangible evidence that the auditor has in fact applied their professional scepticism and are not just blindly accepting managements explanations.
It would also be useful to focus on investment risk in the examples, as investors focus on investment return. Therefore Auditor Commentary should assist investors to understand the auditors’ view on the significance of risks.

In our view further disclosure of audit procedures would not be useful. They could have the effect of unnecessarily increasing the size of the audit report and do little else than be seen as auditors putting disclaimers on their opinions. Instead the outcome of the audit process and thus the conclusions reached by auditors should be the focus in Auditor Commentary.

Question 6 – What are the implications for the financial reporting process of including Auditor Commentary in the auditors’ report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements and costs? (See paragraphs 38 and 62 – 64.)

As it relates to the role of management and TCWG, there are strong and valid arguments that:

- it is not the role of the auditor to provide information that will assist the user to better navigate through the financial statements and that this is a matter that should be addressed in IFRS; and
- the auditor should not be the originator of information, this is management’s role.

A counter argument that can be advanced is that the auditor, as the effective agent of the shareholder, should be required to provide such information that he/she believes it is essential for the understanding of the financial statements and for decision-making by shareholders.

Furthermore we understand that given that management might not currently be doing this adequately and completely it has resulted in the call for more information to be provided by the auditor. We believe that the auditor can assist in breaching the information gap. One of the positive consequences of Auditor Commentary might in fact be that there is better disclosure in future from management.

The risks associated with this approach as highlighted in paragraph 63 need to be carefully considered and mitigated as far as possible.

We do not believe that we are in a position to comment on the possible timing and cost implications of this approach. We do however note that as the scope of the audit has not being amended one would expect that the impact on costs and timing should not be significant. The improvement of the auditors’ report could also be seen as an enhancement to the audit which would could in justifying the current quantum of the audit fee, which is often seen as a grudge purchase.

Question 7 – Do you agree that providing Auditor Commentary for certain audits (e.g. audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the auditors for which Auditor commentary should be provided? (See paragraphs 51 – 56.)
As a stock exchange our focus is on PIEs and we are therefore not in a position to comment on other entities. We believe that by definition, all listed entities are PIEs.

**Going Concern/Other Information**

*Question 8 – What are your view on the value or impediments of the suggested auditor statements related to going concern, which address the appropriateness of management’s use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24 – 34.)*

There is some confusion within our market when it comes to understanding the current reporting on the going concern concept. We would therefore welcome any reporting improvements within this area.

We believe that there is substantial benefit in the always auditor making a statement on going concern. Such information would be appropriate and useful. Even though the current auditor reporting regime provides a vehicle for the auditor to report on going concern, we are concerned about the appropriateness of the current application of the auditing standards. On this basis we would suggest that, the going concern disclosures should not only be voluntary in instances where substantial doubt exists as to the entity’s ability to continue as a going concern, but should always be disclosed.

Furthermore, the threshold for substantial doubt should not be set too high, but rather at a ‘more likely than not’, thus 51%, level. We believe that limiting the forward looking view to the next 12 months (foreseeable future) would be acceptable.

*Question 9 – What are your views on the value and impediments of including additional information in the auditors’ report about the auditors’ judgments and processes to support the auditors’ statement that no material uncertainties have been identified? (See paragraphs 30 – 31.)*

If going concern is a ‘border line case’ within the entity, it is critical for the auditor to disclose this fact and to give insight into his processes and judgement that resulted in the conclusion. The fact that some of this information might be not have been disclosed by management is of relevance, but the auditors’ duty is to act in the best interest of the public. Furthermore, in terms of these new proposals, the risk of disclosing information in the auditors’ report that has not been disclosed by management is not limited to the going concern. We did however refer you to our detailed comments set out in Question 4 and the concern we have raised about creating confusion and uncertainty in the market.

*Question 10 – What are your views on the value and impediments of the suggested auditor statement in relations to other information? (See paragraphs 65 – 71.)*
We support the proposals and the fact that this matter is addressed in ISA 720. We would also like to refer you back to our response to Question 1.

Clarifications and Transparency

Question 11 – Do you believe the enhanced descriptions of the responsibilities of management, TCWG and the auditor in the illustrative auditors’ report are helpful to users’ understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditors’ responsibilities? (See paragraphs 81 – 86.)

Yes, we agree that this information is useful. However, this information should not be the main feature of the auditors’ report and might even be moved to an appendix.

Question 12 – What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72 – 73.)

In South Africa this is already the practice as it is required by law. From a regulatory perspective this is crucial information for us, and in terms of our Requirements we have a system whereby we accredit individual partners and the audit firm as a whole. Within that framework it is imperative that we hold individual partners accountable for their actions and that an entire audit firm is not penalised. Furthermore this information is an important risk management tool

- to ensure that those partners actually involved in audits of PIE’s are subject to regular and detailed reviews by their regulator in South Africa, the IRBA; and
- to give an indication of the size of a potential risk if a specific auditor is found wanting.

Finally such disclosure gives full transparency to the market of the application of the independence rules for auditors, for example to ensure that there is the necessary audit partner rotation.

Question 13 – What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such disclosure should be included in all relevant circumstances, or left to the auditors’ judgment as part of Auditor Commentary? (See paragraphs 77 – 80.)

As it relates to the issues discussed under paragraph 77 to 80, we would suggest that this disclosure should in fact be mandatory and should not be left as an item of discretionary disclosure under the Auditor Commentary section. Within the South African context we have recently moved to an environment where it is no longer mandatory in terms of our Company’s Act to audit all companies. Despite this, based on strong investor representations, it remains a Requirement for listed companies to do so. We believe that this desire by investors stems in part from their distrust for the effectiveness of group audits. Disclosure of component auditors can assist with the information gap in this area.
Whilst a detailed list of other auditors and the areas that they were responsible might be cumbersome for in multi-nationals, it can provide very useful regulatory insight into the application by the auditor of ISA x-using the work of another auditor. It must however be carefully worded to as to ensure it is not misinterpreted as the auditor disclaiming or passing on some responsibility to other auditors.

**Question 14** — What are your views on explicitly allowing the standardized material describing the auditors’ responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditors’ report? (See paragraphs 83 – 84.)

There is a constant cry of information overload from the investment community. Information with regard to the auditors’ responsibilities, whilst important, is in our opinion really there to assist with managing the expectation gap. We would therefore support the proposal to moving this part of the auditor’s report to an appendix or a website of the appropriate authoritative body. Addressing practicalities of having a website, it is unclear who will host the website, how will users know where to find the information etc. and in which case placing the standardised information in an appendix to the auditors’ report may be a more practical solution.

**Form and Structure**

**Questions 15** — What are your views on whether the IAASB’s suggested structure of the illustrative report, including placement of the auditors’ opinion an Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17 – 20.)

We fully support that the audit opinion moves towards the beginning of the report and are comfortable with the proposed structure. As a user of audit reports the opinion is in fact the very first thing that we look for.

**Questions 16** — What are your views regarding the need for global consistency in auditors’ reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21 – 23 and 87 - 90.)

In our view global consistency is extremely important and it would create a lot of confusion and uncertainties if auditors, all reporting under ISA, are allowed to change the format and structure of the auditors’ report and for example for the opinion to be placed anywhere in the report where the auditor prefers.

**Questions 17** — What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraphs 17 and Appendix 4.)

We support mandating the ordering – as per our answer to Question 16 above.
Questions 18 – In your view, are the IAASB’s suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91 – 95.)

As mentioned before, the JSE only focuses on listed entities.

Conclusion

We thank you for providing us with an opportunity to comment on these proposals, and welcome the progression of this project. Please feel free to contact us should you wish to discuss the content of our comments or if you wish to engage further with us.

Yours faithfully

TANIA WIMBERLEY
HEAD: FINANCIAL REPORTING
ISSUER REGULATION