

28 November 2013

Submitted electronically to jamesgunn@ifac.org

Mr James Gunn

Technical Director

International Auditing and Assurance Standards Board

545 Fifth Avenue

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Dear James

Comments on the Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISA)

The Independent Regulatory Board for Auditors (IRBA) is both the Audit Regulator and National Auditing Standard Setter in South Africa. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic.

We appreciate this opportunity to comment on the *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing ISAs* developed by the International Auditing and Assurance Standards Board (IAASB). Our comments differentiate the views of the IRBA from those of other stakeholders views expressed during the Round Table Discussions as indicated below.

Round Table Discussions

The IRBA with a task group of the Committee for Auditing Standards (CFAS), the statutory committee responsible for standard setting in South Africa, comprising representatives from large firms, small and medium practices (SMPs) and the public sector, held three Round Table Discussions in Johannesburg and Cape Town on the IAASB's *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*.

The Round Table Discussion sessions included a panel comprised of auditors, investors, analysts, non-executive directors of listed companies (who serve as chairmen or members of audit committees), who contributed to a discussion of the proposed changes from their different perspectives. Our comments convey views expressed by attendees, including

directors responsible for financial statement preparation of listed companies, who had participated in field tests with their auditors.

We also received insights from field testing conducted by a few audit firms with listed clients that provide further insights to the possible implementation implications for the proposed changes. These views are indicated as "*Other stakeholder views*" in our responses to the IAASB's request for specific comments.

Please accept our apologies for the delay in our submission in order to follow our Due Process Policy established for the IRBA's Committee for Auditing Standards (CFAS), to consider the views of CFAS members when commenting on proposed changes to the IAASB's International Standards. I hope you will still be able to take our comments into account in finalising the proposed amendments to the international reporting standards that you expect to issue in the second half of 2014.

Kindly e-mail me at svanesch@irba.co.za, or phone on direct line: +27 87 940 8871 if further clarity is required in respect of our comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "Sandy van Esch". The signature is written in a cursive, flowing style.

Sandy van Esch

Director: Standards

REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

1. *Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?*

Response

1. The IAASB's Explanatory Memorandum¹ states that the primary beneficiaries of the IAASB's work on auditor reporting will be investors, analysts and other users of the auditor's report and discusses expected benefits from the proposed ISA and revised ISAs. The anticipated benefits will only be achieved if the content of the new section (key audit matters) in the auditor's report is drafted in a manner that provides balanced and clear insight that is both meaningful and understandable to the reader. It is for the investors, analysts and other users of the financial statements to judge the usefulness of the new disclosures.
2. The IAASB proposes to limit key audit matters to be reported to be "those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements... selected from matters communicated with those charged with governance."² While we understand the desirability of the auditor selecting matters from those communicated, we query whether this would always be appropriate in identifying key audit matters. For example, if an entity were to change primary computer systems during the year under review, this may be expected to be reported as a key audit matter in accordance with proposed ISA 701. Such information may be irrelevant to the users of the auditor's report because they would only be concerned about whether the financial statements "fairly present".
3. In our experience illustrative reports, although intended to be illustrative, become "boilerplate" because the auditor may be under pressure within their own firms to use consistent layout and wording that is understood by users and manages their assessed risk exposure. Accordingly, we think that the auditor's report on the financial statements should be simplified and only include the following paragraphs:
 - 3.1. Audit opinion;
 - 3.2. Basis for a modified opinion;
 - 3.3. Going concern; and, where applicable
 - 3.4. Emphasis of matter, and

¹ IAASB, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing, Explanatory Memorandum, paragraph 7

² Proposed ISA 701, paragraph 7

3.5. Other matters paragraphs.

Paragraphs 3.1 and 3.2 would, in time develop as boilerplate wording which most users should understand.

4. It should be appreciated that the subtleties of auditor reporting, required by the ISAs, are not understood by the users, e.g. the difference between a qualified opinion and an emphasis of matter paragraph. We see key audit matters as informative rather than as further commentary on the auditor's opinion on the financial statements. The remaining matters: (i) Key audit matters; (ii) Responsibility of management and those charged with governance and (iii) Auditor's responsibility for the audit, in our view (supported by views expressed by attendees at the Round Table Discussions) should rather be included as an appendix to the auditor's report so as not to detract from the conciseness of the opinion expressed.
5. The key audit matters illustrated, describe audit procedures, some in more detail than others. In our view, the user is unable to evaluate the effects of audit such procedures described on the audit and whether these were all the procedures, were the relevant procedures, and whether there were any procedures omitted. No doubt the adequacy of the audit procedures described will be queried when the effectiveness of the audit is under investigation. Because the introduction of a new section in the auditor's report dealing with key audit matters is perceived to have little benefit, more guidance will be needed in ISA 701 on the following:
 - 5.1. Identifying and describing key audit matters and the disclosure of relevant audit procedures which relate to specific components, when the auditor reports on group financial statements as a whole;
 - 5.2. Guidance to auditors to exercise care to avoid procedures described being misunderstood in the context of the auditor's opinion; and
 - 5.3. Clarifying whether key audit matters should illustrate recurring audit matters or matters specific to the current period audit, or circumstances when both might be appropriate.
6. We believe that what would be meaningful in describing a key audit matter, is for the auditor to explain why it is of particular importance to the audit and, at a high level, how it was addressed in the audit.
7. The legal and regulatory environment in which auditors operate will affect how the new auditor reporting model is and can be implemented. Regulators in certain industries may impose jurisdictional restrictions where they have concerns that key audit matters dealt with in an auditor's report may unintentionally give rise to systemic risk for the industry. ISA 701 should address the possibility of such circumstances.

Other stakeholder views

8. We did not receive a positive response for the introduction of a new section in the auditor's report describing the key audit matters the auditor determines to be of most significance in the audit, nor did users express a view saying "*we want to hear more*".
9. Investors on the panel expressed the view that in their experience, users of financial statements do not necessarily read the auditor's report in full or in detail, and that they may read, for example, only the opinion paragraph of the auditor's report. Generally, users of the financial statements would usually read the chairman's report or director's report more readily than the auditor's report and believe that the quality of the financial reporting is fundamentally more important than the layout and wording of the auditor's report. However, they also indicated that if more information is provided in the auditor's report, the auditor's report may be more useful and valuable to users in making decisions about the entities in which they invest, but not on the basis of the four key audit matters contained in the illustrative examples.
10. Other attendees indicated that the key audit matters illustrated (illustration 2 of proposed ISA 700) contain too many detailed audit procedures that will not be understood by users in the context of the financial statements as a whole. As a consequence the proposed auditor's report is perceived as too long and may not result in the benefits intended by the proposed new and revised ISAs.
11. Feedback from the field testing undertaken, indicated that a great deal of management and audit time, effort and additional work and expense will be required in determining those potential key audit matters on an annual basis which are not considered exceptional. Doubt was expressed regarding the benefit of a description of key audit matters that could become recurring and boilerplate year on year. For example, provisioning by financial institutions and fair value measurements of environmental rehabilitation reserves by mining entities are significant recurring key audit matters and there seems little point in repeating the same key audit matters year on year. Preparers expressed the view that since extensive IFRS disclosure requirements are already included in their financial statements, they saw no added benefit of further comment by way of key audit matters in the auditor's report.
12. In field testing at one company, management advised that while the auditors had included 60 significant matters in their management report to those charged with governance, only four of those were determined by the auditor to be key audit matters. The determination of these four matters was based on the auditor's professional judgement which in this case, coincided with those determined separately by management. They indicated that there was doubt whether the evaluation of key audit matters as a result of professional judgement would result in consistent reporting by auditors and expressed concern that they might be interpreted by users to indicate a deficiency in the financial statements, when in fact

there is no deficiency. Our consultations indicated that even though proposed ISA 701 requires the auditor to communicate in the auditor's report that the auditor's procedures relating to these matters were designed in the context of the audit of the financial statements as a whole, and that the auditor's opinion on the financial statements is not modified with respect to any of the key audit matters³, the key audit matters raised may be misinterpreted and taken out of context by the users of the auditor's report. Misinterpretations may include that:

- 12.1. Key audit matters relate to modifications of the opinion on the financial statements; or
 - 12.2. Key audit matters are separate opinions on certain components of the financial statements and may not reflect the context of the overall opinion of the financial statements.
13. Representative from the banking industry expressed reservations regarding key audit matters being dealt with in the auditor's report. Key audit matters reported by the auditor which whilst factually correct, may be misinterpreted. For example, key audit matters regarding liquidity issues may result in a "run" on the banks. Concerns were expressed that it will be a challenge for the auditor to word key audit matters in an appropriate and balanced manner that does not result in unintended consequences. Further several financial institutions in South Africa are required by law to appoint joint auditors which will necessitate agreement between the engagement audit partners responsible, regarding key audit matters to be reported.
14. Other views expressed included:
- 14.1. Auditors may be placed under pressure by those charged with governance or an audit committee, where disagreements arise regarding to key audit matters to be disclosed in the auditor's report, that they not want disclosed. This will necessitate robust engagement between the auditor and audit client and may compromise the independence of the auditor.
 - 14.2. Concern was expressed that if there is a change in auditor, what the effect would be if users became aware that the predecessor auditor did not report a key audit matter in the prior year that is however, reported by a successor auditor in the subsequent year.
 - 14.3. The requirements of proposed ISA 701 and the application of professional judgement by the auditor may enable audit firms to differentiate themselves from each other and used as justification for higher fees to be charged.
 - 14.4. More positively, preparers believe the reporting of key audit matters may improve the focus and active participation of audit committees in the entities and understanding of internal processes to ensure full disclosures and fair presentation of the financial statements.

³ Proposed ISA 701, paragraph 9(c) and (d)

2. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgement in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgements about what matters are determined to be the key audit matters? If not, why?

Response

15. We do not believe that the requirements and related application material in the proposed ISA 701, in all cases, provides an appropriate framework to guide the auditor's judgement in determining the key audit matters. We refer to the following paragraphs in proposed ISA 701:

Paragraph 9	<p>We do not agree that key audit matters <u>communicated</u> should include:</p> <ul style="list-style-type: none"> • Areas where the auditor encountered significant difficulties during the audit, including with respect to obtaining sufficient appropriate audit evidence (paragraph 8(b)); and • Circumstances that required significant modification of the auditor's planned audit approach, including as a result of identification of a significant deficiency in internal control (paragraph 8(c))⁴. • We see little benefit for a user, for the auditor to explain significant difficulties encountered during the audit and modification to the auditor's planned approach, especially when the difficulty relates to obtaining sufficient appropriate audit evidence, and the deficiencies were in relation to internal controls, as that may be misinterpreted and suggests that the auditor's unmodified opinion expressed may be inappropriate. • We doubt that references to difficulties and deficiencies that are resolved during the audit are relevant to the auditor's unmodified opinion on the financial statements.
Paragraph A3 of proposed ISA 701	<p>While we agree that the users of the auditor's report are considered to be the same as the users of the financial statements, we point out that users are likely to have a greater level of knowledge of the basis of the preparation of the financial statements (e.g. International Financial Reporting Standards), but less likely to have a commensurate level of knowledge of the basis of the audit (International Standards on Auditing).</p>

⁴ Proposed ISA 701, paragraph 8(a) to (c)

	As a consequence, it should not be assumed that the user will understand the significance of audit procedures described.
Paragraph A12 of proposed ISA 701	<p>The paragraph states that matters of significant auditor attention affects the allocation of resources or the extent of audit effort in relation to such matters, and suggests that matters that require significant hours by the engagement partner or an auditor’s expert may be key audit matters.</p> <p>We believe that significant hours spent by the engagement partner, or an auditor’s expert, will not necessarily result in a key audit matter to be included in the auditor’s report. As a consequence we point out that paragraph A12 should state that a matter that requires significant hours by the engagement partner or an auditor’s expert may not necessarily be a key audit matter. Our view is supported by feedback from field testing conducted.</p>
Paragraph A16 of proposed ISA 701	<p>The paragraph states that in determining whether significant risks are key audit matters, it is likely that the auditor will give greater consideration to significant risks that have been specifically identified in the context of the entity rather than to those that have been so identified because they are a rebuttable assumption in the ISAs, as significant risks.</p> <p>We suggest that that the paragraph clarify that the auditor only consider reporting a key audit matter on those significant risks that have been specifically identified in the context of the entity.</p>
Paragraph A20	Refer to comments on paragraph 9.
Paragraph A22	Refer to comments on paragraph 9.
Paragraph A24	The paragraph introduces other considerations in addition to the factors included in paragraph 8 of proposed ISA 701 that may be indicative of an area of significant auditor attention and as a result is not linked to a <i>requirement</i> in proposed ISA 701. This paragraph “hangs” as it is not related to a requirement. We suggest that paragraph A24 be linked to a requirement in proposed ISA 701.

16. While we agree that “areas of significant auditor attention in performing the audit” in paragraph 8 is relevant to drive the necessary consistency in judgements, we do not believe that sufficient guidance is provided in order to do so. We suggest paragraph 8 be made more explicit and linked to relevant application and explanatory material to assist an auditor in objectively determining the key audit matters to be included in the auditor’s report in specific circumstances.

17. As an auditor regulator it appears to us that enforcement of proposed ISA 701 may be difficult and may limit the ability of our inspectors and investigators to determine whether the requirements in the proposed standard have been complied with. Auditors will be expected to maintain adequate documentation to support their determination of key audit matters.

Other stakeholder views

<p>Paragraph A4 of proposed ISA 701</p>	<p>While we agree that a focus on matters of most significance in an audit may be of interest to the users, we point out that users of the auditor’s report are less likely to understand the audit process relating thereto.</p> <p>Users indicated that an identification of a key audit matter in the normal course of the audit, however significant, did not require a description of standard audit procedures applied, as these were considered of little value to the user. It may be that a description of those audit procedures in response to unusual circumstances may be of more relevance to the user, i.e. not a description of standards and recurring audit procedures.</p>
<p>Paragraph A11 of proposed ISA 701</p>	<p>Dissenting views were expressed on whether or not key audit matters should be reported when a disclaimer of an opinion⁵ is expressed on the financial statements as a whole.</p> <p>Those who believe that key audit matters should not be reported when a disclaimer of an opinion is expressed, as required by proposed ISA 701 and proposed ISA 705 (Revised) Modifications to the Opinion in the Independent Auditor’s Report, cited paragraph A28 of proposed ISA 705 (Revised) as the reason therefore (that a key audit matter may overshadow the disclaimer of opinion).</p> <p>Investors expressed support for the reporting of key audit matters when a disclaimer of an opinion is expressed, and explained that it would be helpful for their understanding, in such circumstances to report areas of significant auditor attention that resulted in the auditor being unable to complete the audit⁶.</p>

⁵ Proposed ISA 701, paragraph A11 and proposed ISA 705 (Revised), paragraph 29

⁶ Proposed ISA 701, paragraph 8

18. Users conceded that the auditor’s report is remains the responsibility of the auditor and the appropriateness of its content determined by the auditor. It is not to be “negotiated” with those charged with governance or the audit committee. Auditors acknowledged that whilst they would need to communicate those matters that they intend to report as key audit matters to those charged with governance or the audit committee, key audit matters remain the auditor’s decision as reflected in the auditor’s report and they would have to ensure that their independence is not compromised.

3. *Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor’s report? If not, why?*

Response

19. We do not believe that the proposed requirements and related application material in proposed ISA 701 in all respects provides sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor’s report. This is evidenced by the following:

Paragraph A30 of proposed ISA 701	We query the meaning of “highly technical auditing terms” as opposed to “auditing terms”. We doubt that most users will understand the audit process and, as indicated in our response to paragraph A3, most users will have little understanding of the significance of the related audit procedures described in key audit matters.
Paragraph A37 of proposed ISA 701	The paragraph states that it is appropriate for the auditor to seek to avoid the description of key audit matters inappropriately providing original information about the entity that is the responsibility of the entity’s management. We question whether the auditor, under any circumstance, should provide “original information” about the entity, not disclosed in the financial statements, since that is the primary responsibility of the entity’s management, unless the auditor is required by law or regulation to do so. In such instances this may be contained in an “Other Matters” paragraph or a paragraph on “ <i>Other Legal and Regulatory Requirements</i> ” rather than in a key audit matters paragraph.

Other stakeholder views

20. Preparers and users indicated that the wording of key audit matters of sensitive matters is expected to lead to robust discussion and debate between auditors and management, those charged with governance, audit committees and their respective legal advisors, to avoid possible unintended consequences. This might arise even where key audit matters reported by the auditor are factually correct but the description of the key audit matters could be misinterpreted. It is expected that in such circumstances, finalising the auditor's report, could add substantially to the cost of the audit.

4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

Response

21. Having regard to our experience of illustrative reports, we expect the illustrative key audit matters, although intended to be illustrative to become "boilerplate" because the auditor is under pressure by all parties to use consistent layout and wording that is understood by users. This might be an unintended consequence.

22. We believe that none of the illustrative examples of key audit matters are considered useful or informative. Our reasons are best illustrated with regard to illustration 2 of proposed ISA 700 which contains all the illustrative key audit matters:

22.1. Three out of the four illustrative key audit matters included in proposed ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* (proposed ISA 700 (Revised)) illustrations of independent auditor's reports on financial statements contained a brief overview of procedures performed; the auditor's approach to the matter; and / or the outcome of the auditor's procedures (the "audit procedures").

22.2. While there may be merit in identifying key audit matters, little benefit is seen in describing audit procedures (as suggested by paragraph A38 of the proposed ISA 701) and providing information about the procedures. Concerns have been raised about the ability to summarise the auditor's procedures in a complex area in a clear and succinct manner. Not enough information would be provided for a user to determine the level of work that was performed.

- 22.3. Users, preparers and investors all expressed the view that auditors are expected to do sufficient work to express their audit opinion, and users of the auditor's report are not in a position to evaluate the effectiveness of the audit procedures described. Feedback from the field testing performed indicated that the quality of an audit may be called into question if the auditor lists procedures performed for key audit matters described, and different audit firms might describe their audit procedures for similar key audit matters in different levels of detail giving rise to the potential inconsistencies being perceived to differentiate audit firms, which we have referred to elsewhere.
- 22.4. Three out of the four illustrative key audit matters related to recurring matters that year on year, may be sensitive and significant. Users of the financial statements should be aware, for example, that under IFRS an entity is required to annually test the amount of goodwill for impairment and that it would be a highly judgemental area based on underlying assumptions and that there is significant measurement uncertainty involved in valuations. Accordingly certain narrative contained in the illustrative examples may be considered obvious to the users of the financial statements. Our consultations indicated that such narratives were not considered useful and lack informational value.
- 22.5. The four illustrative key audit matters deal with areas identified as *significant risks* (see paragraph 8(a) of proposed ISA 701). There are no examples of areas in which the auditor encountered *significant difficulty* during the audit, for example, with respect to obtaining sufficient audit evidence (paragraph 8(b)) or circumstances that required significant modification of the auditors planned approach to the audit, such as the identification of significant deficiencies in internal control (paragraph 8(c)). It would be helpful to have illustrative examples to deal with key audit matters relating to the areas identified in paragraphs 8(b) and 8(c).

Other stakeholder views

23. Users also indicated that none of the illustrative examples of key audit matters were considered useful or informative. Our reasons are best illustrated with regard to Illustration 2 of proposed ISA 700 which contains all the illustrative key audit matters:

- 23.1. Views expressed indicated that auditors were expected to do sufficient work and the users of the auditor's report were not in a position to evaluate the effectiveness of the audit procedures described. Field testing indicated that the quality of an audit may be called into question if the auditor lists procedures performed and different audit firms describe their audit procedures in different levels of detail.

23.2. Preparers and users queried whether it was appropriate to state the outcome of the auditor's procedures in a key audit matter reported, where this related to a significant audit matter in a component of the financial statements that may be interpreted by a user, as an opinion on the component rather than being addressed by the auditors opinion on the group financial statements as a whole.

5. Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?

Response

24. We agree in principle with the approach the IAASB has taken in relation to key audit matters for entities that may be communicated on a voluntary basis.

25. However, where voluntary adoption of proposed ISA 701 is permitted, consistent reporting year on year is important. We suggest that the IAASB build safeguards into the proposed standard to guard against entities voluntarily reporting key audit matters only in the "good" years. Unrestricted flexibility to opt in and out of proposed ISA 701 is not desirable and may lead to misleading key audit matters in an auditor's reports over time for that entity.

26. We believe that there may be practical difficulties to always requiring a statement to be included in the audit engagement letter regarding the intention of the auditor to disclose key audit matters in situations where the auditor voluntarily chooses to do so under proposed ISA 701⁷. There may be situations where the auditor is not requested, and therefore does not intend at the outset of an audit engagement to identify and communicate key audit matters, but during the course of the audit circumstances change and the auditor is requested or chooses to include key audit matters in the auditor's report where this has not been provided for in the engagement letter.

⁷ ISA 210 *Agreeing the Terms of Audit Engagements*, paragraph 10(e) and the related application material in paragraph A23a

Other stakeholder views

27. Views expressed indicated that key audit matters, if compulsory, should only apply to listed entities. All other applications should be on a voluntary basis. It was expected that regulators and the Auditor-General (the auditor of government entities) may require key audit matters in an auditor's report on financial statements.
28. Feedback from field testing indicated that, in the context of consolidated financial statements, the IAASB considers providing additional guidance on the inclusion of key audit matters of matters that relate to unlisted subsidiary entities, or other components – for example, whether the auditor's report on the group financial statements should indicate that a key audit matter relates to a subsidiary, although the key audit matter is still key to the group financial statements.

6. Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate? (a) If so, do respondents agree with the proposed requirements addressing such circumstances? (b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgement, that there are no key audit matters to communicate?

Response

29. We believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate. However, we query whether reference to "rare circumstances" is appropriate.

7. Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addresses?

Response

30. We agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in order to avoid the practical challenges reflected in paragraph 65 of the *Explanatory Memorandum*. The prior auditor's report is always available and

repetition of information purely because it refers to a comparative period would be meaningless to a reasonable investor who would have been expected to have understood the prior financial statements and all information related to them at the point in time of making an initial investment or choosing to retain the investment. Repeating information already in the public domain in the current year is superfluous and provides no added value.

8. *Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?*

Response

31. We agree that with the IAASB's decision to retain the concepts of *Emphasis of Matter* paragraphs and *Other Matter* paragraphs in the auditor's report because they serve a different purpose.

32. We believe, however, that certain of the *application and other explanatory material* contained in proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* should be moved forward to the requirements section of the proposed ISA 706 (Revised) standard, as follows:

- 32.1. The last two sentences of paragraph A2 should be moved from *Application and Other Explanatory Material* contained in proposed ISA 706 (Revised) to *new paragraph 8A under the Requirements section* of the proposed ISA 706 (Revised), "...When key audit matters are communicated in the auditor's report, the purpose of an *Emphasis of Matter* paragraph is to draw users' attention in specific circumstances to other financial statement matters that are not key audit matters in accordance with proposed ISA 701. Accordingly, when a *Key Audit Matter* section is included in the auditor's report, *Emphasis of Matter* paragraphs are expected to be rare, except when otherwise required by other ISAs or by law or regulation."

9. *Do respondents agree with the statements included in the illustrative auditor's report relating to: (a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements? (b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))? In this regard, the IAASB is particularly interested in views as to whether such reporting, and the*

potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

Response:

33. We do not agree with the statements made in the auditor's report (paragraph A22 of proposed ISA 570 Going Concern). It seems to us that any assertion relating to the going concern basis of accounting should be by management (in the financial statements) and not the auditor (in the auditor's report). We think it is sufficient for the auditor to simply report that the auditor concurs with management's assessment (as disclosed in the financial statements). This, of course, means that financial statement disclosure would be more comprehensive than previously, which appears to us the real issue. If the paragraphs are to remain, we are concerned that these paragraphs may become boilerplate and their usefulness diminished and perhaps, only become relevant in circumstances when the auditor's report is under investigation.
34. Furthermore, we believe that the auditor's report should specifically indicate the period over which the assessment of the going concern is made.
35. While the paragraphs on the going concern may be in accordance with proposed ISA 570, Illustration 3 – *Adverse opinion when a material uncertainty has been identified but is not disclosed in the financial statements*, contained in proposed ISA 570 *Going Concern* (Revised), we doubt that the user will necessarily understand the expression of an adverse opinion that relates to a "*material uncertainty not disclosed in the financial statements*" and the observation by the auditor that "*the material uncertainty, nevertheless, does not indicate that the going concern basis of accounting is inappropriate*". Perhaps this aspect should be reconsidered in the context of the users understanding, rather than the correct technical disclosure.

Other stakeholder views

36. Views expressed indicated that management may identify uncertainties regarding going concern on a daily basis but that they manage these risks and so the proposed statement that "*management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern...*" to be included in the auditor's report, may be factually incorrect.

10. What are the respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

Response

37. While we understand the necessity for this statement, in the context of the going concern paragraph A22 of proposed ISA 570 (Revised), we think it is confusing and comes across as nullifying the preceding statements on going concern which, will not be understood by the users. If the going concern paragraphs were in the financial statements, as suggested in our comments to question 9, any such explicit statement would be made by management and not the auditor.

11. What are the respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

Response

38. We agree with the IAASB's proposed requirement to disclose the source(s) of independence and other ethical requirements as part of the Basis for Opinion paragraph in the auditor's report.

39. However, we agree with the view expressed by the IAASB that public disclosure is not appropriate for the reasons given in paragraph 96 of the *Explanatory Memorandum*.

Other stakeholder views

40. Discussion arose as to whether the auditor should report any breaches of independence requirements in the auditor's report. Preparers of financial statements expressed their support for this disclosure in the auditor's report believing that transparent reporting by the auditor is most important.

12. *What are the respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?*

Response

41. We agree with the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities.
42. This has been the signing convention applied in application of the Auditing Profession Act requirement to identify the registered auditor responsible for the engagement, and included in the IRBA *Code of professional conduct for registered auditors* in South Africa since 2005. Consequently, the "harm's way exemption clause" is not applied in our jurisdiction. No fundamental difficulties were encountered in implementing this.

13. *What are the respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?*

Response

43. We agree with the changes to the proposed ISA 700 (Revised) described in paragraph 102 to the *Explanatory Memorandum* and the way in which the proposed *requirements and application and other explanatory material* are articulated in the proposed standard.

14. *What are the respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standard do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraph 20-45 and the circumstances addressed in paragraphs 46-48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?*

Response:

44. We believe that in order to preserve consistency, the ordering of the sections of the auditor's report should be mandated when law, regulations or national standard setters do not require a specific order.

45. South Africa has adopted International Standards on Auditing since 2005 and as a result there is no need to evaluate proposed ISA 700 (Revised) for flexibility to accommodate national reporting requirements.

Other stakeholder views

46. There were differing views on whether the ordering of sections in the auditor's report should be mandated. Some expressed the view that the ordering of sections in the auditor's report should not be mandated, in order to avoid the current practice of only the first and last paragraph of the auditor's report being read. Others believed that the format of the illustrative auditor's report should be standardised and the ordering mandated in order to preserve consistency and comparability.
