22 November 2013

Mr A Schilder
International Auditing and Assurance Standards Board
525 9th Avenue
6th Floor
New York New York
10017
United States of America

Submitted electronically through the IAASB website (www.ifac.org)

Dear Mr Schilder

EXPOSURE DRAFT – REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING (ISAS)

The CFO Forum of South Africa (the "CFO Forum") was established in July 2011 to engage on matters common to the South Africa's finance directors of the large listed companies and State-owned Enterprises. The purpose statement of the CFO Forum is, '*To contribute positively to the development of South Africa's policy and practice on financial matters that affects business, for example in the areas of: government regulatory issues and initiatives, taxation, financial reporting, corporate law and governance, capital market regulation and stakeholder communications'*.

The CFO Forum would like to thank the International Auditing and Assurance Standards Board (IAASB) for the opportunity to provide comments on its exposure draft on amendments to the reporting on audited financial statements.

As noted above, the CFO Forum's membership consists of the finance directors of South Africa's largest listed companies as well as State-Owned Enterprises. Accordingly, the financial directors produce financial statements that are required to be audited. Audits of South African entities are conducted in terms of International Standards of Auditing (ISAs).

The CFO Forum supports the general principle of seeking ways to improve audit reports. However, the CFO Forum believes that the proposals could lead to material misinterpretation by users of financial statements and would definitely result in increases in costs to both the preparer and auditor which would outweigh any perceived value. We fundamentally believe that it is the responsibility of the board of a company to provide relevant information in the financial statements as opposed to the auditors. In this regard the Companies Act,71 of 2008 ("the Act") places certain legislative requirements and obligations on directors of companies as persons who are ultimately responsible for the financial statements. Section 29(2) of the Act states that the financial statements must not be false or misleading in any material respect or incomplete in any material particular.

Members of the CFO Forum have contributed comments in this regard to the Independent Regulatory Board of Auditors' (IRBA) round table discussions. This comment letter also includes comments that members of the CFO Forum raised to the JSE Limited as part of its outreach activities. The CFO Forum has grouped its feedback on the proposals under the following headings in the attached appendix:

- Key audit matters;
- Going concern; and
- Independence

Please do not hesitate to contact me should you have any questions regarding our comments as contained in the appendix.

Yours sincerely

David Hodnett
Chairman of the CFO Forum sub-committee for:
Capital market regulation

Appendix

Key Audit Matters (KAM)

Questions considered:

Question 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?*

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

Question 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?*

Question 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.*

Question 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? If so, do respondents agree with the proposed requirements addressing such circumstances? 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 judgment, that there are no key audit matters to communicate?*

The CFO Forum does not support the inclusion of the KAM in the audit report as is currently proposed by the IAASB for reasons that include the following:

- Whilst not the intention of the KAM (and as reflected in the examples in the example audit report), the KAM reproduces much of the information that is already contained in the financial statements, be it in the key management assumptions which are required to be disclosed in accordance with International Financial Reporting Standards (IFRS), the supporting notes to the financial statements and/or the group/company’s accounting policies. The preparation of the financial statements is the responsibility of management and not the auditor. A member of the CFO Forum noted that during their field testing exercises of the proposals it was determined that, had a user read the financial statements; the integrated report; and sustainability report, there was no need for the inclusion of KAM in the audit report.

- The inclusion of the KAM in the audit report may well be misunderstood or misinterpreted by users, in particular those that are less sophisticated. Such users could misconstrue such disclosures as being adverse audit findings which is not the case and could create uncertainty in financial markets where there is none.

- The CFO Forum considered that the KAM could be further misinterpreted by users as follows:
  - the KAM could degenerate in time into emphasis of matter items which could ultimately undermine the auditor's opinion;
  - users could equally believe that the audit opinion excludes the KAM since the example in the exposure draft states that *'... we do not express an opinion on these individual items.';* and
  - users could be misled into assuming that additional assurance has been provided on the KAM which is not the case.

- The CFO Forum believes that the inclusion of the KAM creates a tension between the IAASB which is seeking to include such additional information in the audit report and the International Accounting Standards Board (IASB) which is seeking to reduce clutter in terms of disclosures provided in the financial statements. For reasons noted above, the inclusion of KAM could contribute unnecessarily to clutter in the financial statements.

- The inclusion of KAM would result in an increase in the audit fee for the company concerned and, given the CFO Forum's concerns noted herein, the CFO Forum considers that the cost to provide such disclosures would outweigh the perceived benefits.

- The CFO Forum believes that there is a risk that the KAM will degenerate into boilerplate disclosures over time and that the same KAM will be reported each year with no, or insubstantial, changes thereto (e.g. the goodwill example will repeat itself in the audit report for many years as goodwill by its nature is a long-term asset, as is the case for the example on the valuation of unquoted instruments for a financial institution where such instruments would routinely form part of a financial institution's asset base).

- There is risk that the users of financial statements could interpret the KAM to be complete in so far as all significant items/matters pertaining to that company, which would in practice not be impossible to accomplish given different user's perspectives of what may be significant. The KAM will be developed based on the auditor's judgment at a point in time - there is hence a risk that the KAM could later be challenged for being incomplete based on hindsight information. The auditor will undoubtedly outline how they have arrived at their judgment for each particular KAM which cannot easily be captured without producing a lengthy report.

- An auditor may have relied on third parties for advice and opinions. In formulating the KAM, it is questionable whether the auditor would be able to, for legal reasons, refer to the use of such third parties. An unintended consequence of the KAM, in this instance, is that those third parties provide disclaimers on advice and opinions provided.

South African entities that are listed on the JSE Limited are required to comply with King III, a corporate governance code issued by the King Committee on Corporate Governance. King III has been cited as *'the most effective summary of the best international practices in corporate governance'*. One of King III's principles is that the audit committee should ensure there is a combined assurance approach for assurance activities to address all significant risks.

Taking the above into consideration the CFO Forum believes that the intention of KAM could best be accommodated as an extension to the audit committee report. In this manner the KAM would be discussed from the company's perspective in terms of the KAM that have been identified, the key audit focus areas that have been agreed between the audit committee and the auditor's further explanations as to how it has dealt with such matters as part of their report to the users of the financial statements. The CFO Forum also believes that the KAM could alternatively be included in an appendix or separate report to that of the auditor's report.

Should the IAASB however elect to proceed with requiring the KAM to be included in the audit report we would recommend that the KAM only be required to be reported on entity specific issues. In this manner the KAM would focus on material issues that pertain to that entity and would go some way in reducing the extent to which there are boilerplate type disclosures. We furthermore recommend that the audit report cross refer to the audit committee report where such matters are discussed by the audit committee so as to ensure that the user of the financial statements has a balanced understanding of the issue and how management and the auditors have approached and attended to the particular issue. In terms of this approach reported KAM should be limited to those that are most material to a user's understanding of the financial statements and will also be entirely acceptable for no KAM to be reported in a particular financial period.

Going Concern

Questions considered:

Question 9: *Do respondents agree with the statements included in the illustrative auditor's reports relating to: (1) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements? (2) 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)?*

Question 10: *What are 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?*

The CFO Forum does not believe that including a statement of the basis of compliance with going concern is appropriate. This is because there is an implicit assumption that the basis of preparation of the financial statements is on a going concern basis. Where this is not the case then that basis of preparation would be required to be disclosed. Were the auditors to identify a material uncertainty that casts significant doubt on the entity's ability to continue as a going concern then such uncertainty should be required to be disclosed in the auditor's report. Furthermore, IFRS requires management to disclose the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and therefore such disclosure in the auditor's report is considered to be redundant.

The CFO Forum believes that including a statement regarding the basis of compliance with the going concern principle is entirely undermined by the statement that *'... neither management nor the auditor can guarantee the Group's ability to continue as a going concern.'* The CFO Forum is concerned that less knowledgeable users of financial statements may misconstrue this statement to be a qualification regarding the entity's going concern ability. It is also important to note that the going concern principle is determined at a point in time based on information available at that point in time and thus further embellishing the statement regarding going concern does little to add comfort to such a statement.

The CFO Forum notes that the example in the exposure draft states that: *'Management has not identified a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and accordingly none is disclosed in the consolidated financial statements of the group.'* The CFO Forum believes that it is inappropriate to include such a statement in the auditor's report since in many industries there are material uncertainties that exist and which have been identified by management. Further, management discloses how such risks are managed, e.g. a financial institution will identify liquidity risk as one of its significant risks and will provide disclosure on how that risk is managed and measured.

Independence
Questions considered:

Question 11: *What are 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?*

The CFO Forum:

- supports disclosure of the independence and other ethical requirements that are required to be followed by the auditors in the preparation of the audit opinion;
- believes that the audit report's value is enhanced when an auditor is able to expressly confirm their independence in the audit of the financial statements; and
- does not support the disclosure of breaches to auditor independence in the audit report where such independence violations have been remedied by the date of signature of the auditor's report. The reporting of such breaches (where remedied) will cause user's to doubt the audit report, raise more questions in users minds, and may be misinterpreted by less knowledgeable users of the financial statements.