

THE NEW AUDITOR'S REPORT



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THE EARLY
ADOPTERS IN
SOUTH AFRICA



15/16



INTRODUCTION

FROM 15 DECEMBER 2016, THE FORMAT AND CONTENT OF THE AUDITOR'S REPORT AS WE KNEW IT CHANGED FOR ALL AUDITS OF FINANCIAL STATEMENTS. EVERY AUDITOR'S REPORT ON THE AUDIT OF FINANCIAL STATEMENTS OF ANY ENTITY ISSUED IN SOUTH AFRICA, WHETHER IT IS A MANDATORY AUDIT OR A VOLUNTARY AUDIT, SHALL COMPLY WITH THE NEW AND REVISED AUDITOR REPORTING STANDARDS.

Early adoption of the new and revised auditor reporting standards was permitted and in this SAICA Report we provide an overview and analysis of the auditor reports of the early adopters for listed entity audit clients in South Africa. The focus is only on entities listed on the Johannesburg Stock Exchange (JSE).

The auditor's report is the key deliverable that addresses the output of the audit process; it is what the users of financial statements see and read and what enhances the credibility of the financial statements for the users. In response to research and outreach, and various calls that the auditor's report should be more informative about the audit that has been performed, including providing more entity-specific and audit-specific information, the International Auditing and Assurance Standards Board (IAASB) issued its new and revised auditor reporting standards in January 2015, with an effective date for audits of financial statements for periods ending on or after 15 December 2016. At the time this was referred to as the most significant development in auditing in recent history.

It is expected that when investors and analysts (and other users of financial statements) are provided with more entity-specific and audit-specific information, it would provide a better context for understanding the overall message of the audited financial statements and the auditor's report thereon, an increase in users' perception of audit quality and enhancing the confidence in the audit and the audited financial statements. This

is also important for the continued relevance and value of the external audit.

The new and revised auditor reporting standards, inclusive of ISA 700 (Revised), ISA 701, ISA 705 (Revised), ISA 706 (Revised), ISA 260 (Revised) and ISA 570 (Revised)¹, as well as ISA 720 (Revised)², were adopted by the Independent Regulatory Board for Auditors (IRBA) for use by registered auditors in South Africa in June 2015 and September 2015, respectively (with the same effective date as indicated by the IAASB). The IRBA issued a revised version of SAAPS 3³ in March 2016 ([access here](#)), aimed at providing practical guidance to registered auditors who report on financial statements, both for compliance with the ISAs and the legal and regulatory requirements applicable to auditors and auditor reporting in South Africa, as related to the content and format of the auditor's report. Registered auditors who decided to early adopt the new and revised auditor reporting and related auditing standards, were also required to early adopt SAAPS 3.

REFERENCES

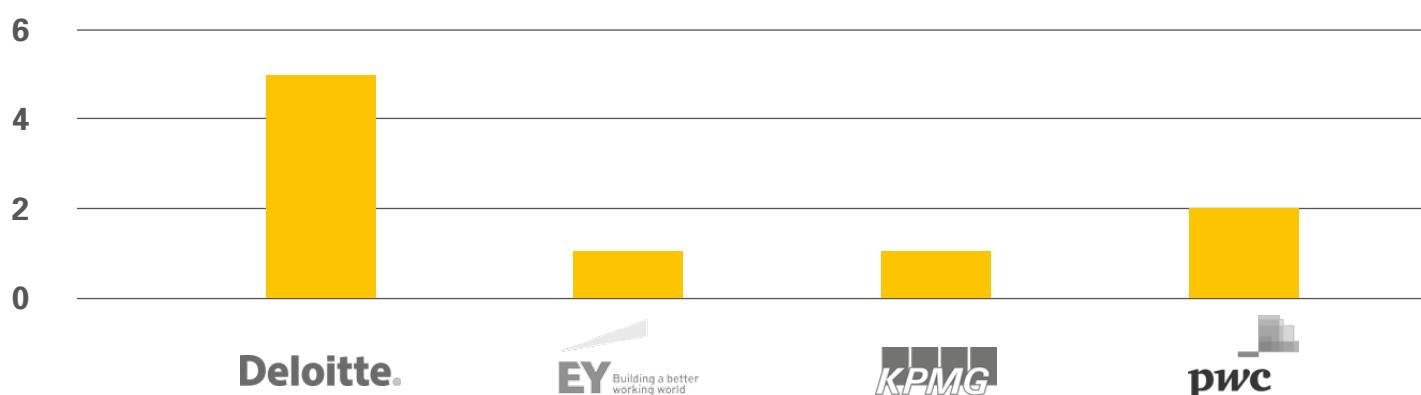
- 1 ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report
ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report
ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
ISA 260 (Revised), Communication with Those Charged with Governance
ISA 570 (Revised), Going Concern
- 2 ISA 720 (Revised), The Auditor's Responsibilities relating to other information
- 3 SAAPS 3 (Revised November 2015), Illustrative Reports

INTRODUCTION

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REFERRING ONLY TO ENTITIES LISTED ON THE JSE, NINE EARLY ADOPTER AUDITOR REPORTS WERE ISSUED IN SOUTH AFRICA. THESE REPORTS HAVE BEEN ISSUED BY FOUR DIFFERENT AUDIT FIRMS, AS INDICATED BELOW.

NUMBER OF AUDITOR REPORTS PER FIRM



THE NEW AUDITOR REPORTS RELATED TO THE AUDITS OF THE FINANCIAL STATEMENTS OF THE FOLLOWING LISTED ENTITIES (PRESENTED IN DATE SEQUENCE):

ENTITY	FINANCIAL YEAR-END	DATE OF AUDITOR'S REPORT	AUDIT FIRM
Imperial Holdings Limited	30/06/15	24/08/15	Deloitte
Attacq Limited	30/06/15	18/09/15	Deloitte
Mondi Limited	31/12/15	24/02/16	Deloitte
Royal Bafokeng Platinum Limited	31/12/15	24/02/16	PwC
JSE Limited	31/12/15	25/02/16	KPMG
Metair Limited	31/12/15	16/03/16	PwC
Massmart Holdings Limited	31/12/15	01/04/16	EY
Datatec Limited	29/02/16	11/05/16	Deloitte
Metrofile Holdings Limited	30/06/16	29/08/16	Deloitte

OVERVIEW OF THE REVISED REQUIREMENTS

ALL AUDITOR REPORTS ON THE AUDITS OF FINANCIAL STATEMENTS ARE AFFECTED BY THE NEW AND REVISED AUDITOR REPORTING REQUIREMENTS, ALTHOUGH THERE ARE CERTAIN REQUIREMENTS THAT ONLY APPLY TO LISTED ENTITIES. THE KEY CHANGES CAN BE SUMMARISED AS FOLLOWS:

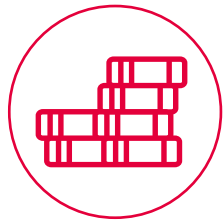
THOSE CHANGES APPLICABLE TO ALL AUDITOR REPORTS:



The report has a new form and layout, including that the auditor's opinion section is required to be presented first and the basis for opinion section second, followed by the other elements of the report.



An affirmative statement about the auditor's independence and compliance with other ethical requirements are included in the Basis for Opinion section of the report.



Enhanced auditor reporting on going concern is required under a separate heading, *Material uncertainties related to going concern*, when applicable.



A new section on *Other information* is required, unless the information was not available at the date of the auditor's report (see additional requirement for listed entities stated below).



The description of the auditor's responsibilities has been enhanced.



OVERVIEW OF THE REVISED REQUIREMENTS

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THOSE CHANGES THAT ARE MANDATORY FOR AUDITOR REPORTS OF LISTED ENTITIES:



The inclusion of a new section to communicate key audit matters (KAM); i.e. those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with those charged with governance.



In addition to the requirements for all entities, the other information, if any, that is expected to be obtained after the date of the auditor's report must be identified.



Disclosure of the name of the engagement partner (although the Code of Professional Conduct for Registered Auditors in South Africa stipulates a signing convention that already requires the disclosure of the engagement partner's name).

The most prominent change with respect to increased transparency about the audit and enhancing the information value of the auditor's report is the communication of KAM.

The description of each KAM in the auditor's report is required to include a reference to the related disclosure about the matter in the financial statements (if any); why the matter was considered to be one of those of most significance in the

audit; and how the matter was addressed during the audit. A total of 30 KAM were communicated in the nine early adopter auditor reports concerned (further detail is provided under separate headings below).

The sections that follow provide an overview of the findings and trends identified based on an analysis of the nine early adopter auditor reports of the identified listed entities in South Africa.



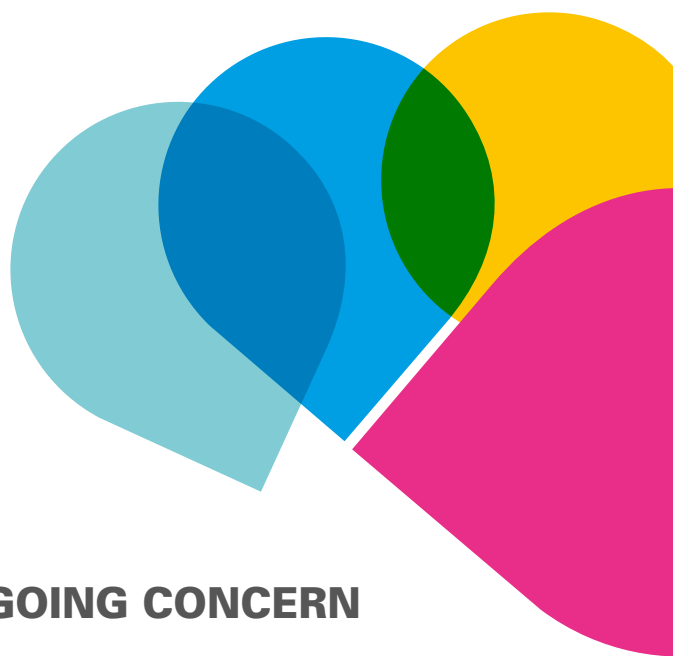
OPINION AND BASIS FOR OPINION

ALL THE AUDIT OPINIONS WERE PRESENTED AS THE FIRST SECTION IN THE AUDITOR'S REPORT, AS REQUIRED BY ISA 700 (REVISED), AND IN THIS INSTANCE ALL OF THE OPINIONS WERE UNMODIFIED.

All the Basis for Opinions were presented as the second section of the auditor's report, as required, and included statements that the audits were performed in accordance with International Standards on Auditing (ISAs). These sections further included statements regarding the auditor's independence from the audited entity and that the auditor's other responsibilities relating to ethical requirements have been fulfilled.

In South Africa, SAAPS 3 requires that the reference to independence and other ethical responsibilities be formulated in a manner that affirms that the auditor is independent from the audited entity / group "in accordance with the IRBA *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in

South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B)."



MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

NONE OF THE AUDITOR REPORTS ANALYSED CONTAINED A SECTION ON MATERIAL UNCERTAINTY RELATED TO GOING CONCERN.

This section was not applicable to the entities concerned in that the auditors had applied ISA 570 (Revised) and had concluded that the going concern assumption is appropriate and that no material uncertainties exist in this regard.

ISA 570 (Revised) only requires the auditor to include this section in the auditor's report when a material uncertainty related to going concern exists and adequate disclosure has been made, by management, in the financial statements.

KAM

ISA 701 REQUIRES THE AUDITOR TO DESCRIBE KAM IN A SEPARATE SECTION OF THE AUDITOR'S REPORT. THIS APPLIES TO THE AUDITS OF COMPLETE SETS OF GENERAL PURPOSE FINANCIAL STATEMENTS OF LISTED ENTITIES, AS WELL AS WHEN THE AUDITOR IS REQUIRED BY LAW OR REGULATION TO COMMUNICATE KAM IN THE AUDITOR'S REPORT AND WHEN THE AUDITOR OTHERWISE DECIDES TO COMMUNICATE KAM (I.E. VOLUNTARY APPLICATION).

There was one instance among the early adopter auditor reports where the auditors determined that there were no KAM to communicate. As required by ISA 701, the KAM section was still included in the auditor's report and the auditors stated the following: "Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group and Company financial statements of the current period. We have determined that there are no key audit matters to communicate in our report."

Although ISA 701 requires that the description of each KAM includes a reference to the related disclosure in the financial statements (if any), why it is considered to be a KAM, and how the matter was addressed during the audit, the standard does not specify the format in which KAM should be presented.

Seven of the remaining eight auditor reports presented KAM in a table format (see below). In the other report the information was presented in paragraphs, using a sub-heading for each KAM.

The subject of the KAM reported varied and were specific to each entity. Common KAM related to the valuation/impairment assessment of goodwill, the valuation of property plant and equipment, and deferred tax and income tax calculations.

With respect to common KAM topics the descriptions were still specific to each of the entities concerned, even where common KAM were reported by different engagement partners in the same firm.

This is an important observation, since the application material in ISA 701 states, among other matters to be considered in relation to the language used, that the description of a KAM should relate the matter directly to the specific circumstances of the entity, while avoiding generic or standardised language.

KEY AUDIT
MATTER

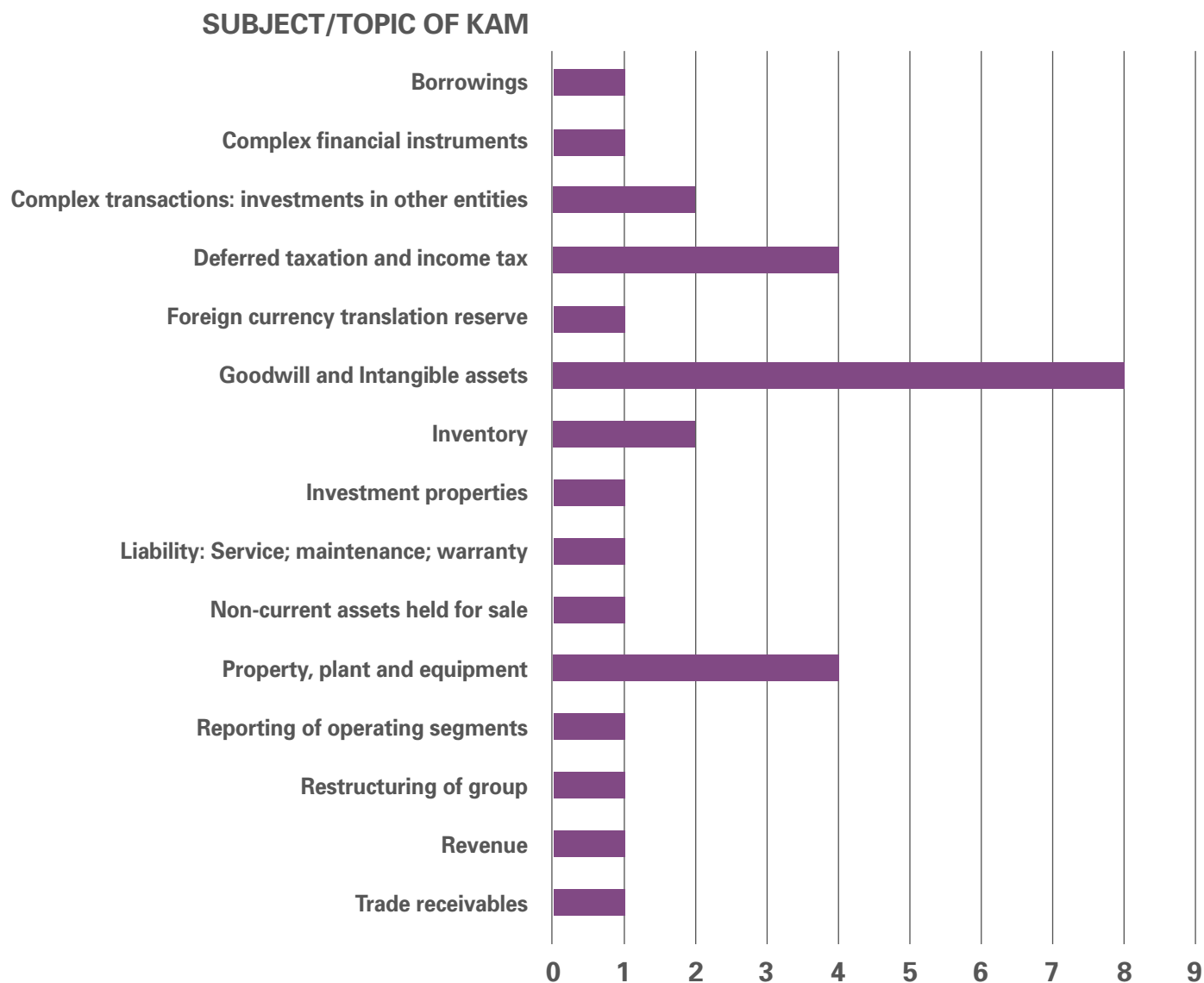
HOW THE
MATTER WAS
ADDRESSED IN
THE AUDIT



KAM

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THE GRAPH BELOW PROVIDES A SUMMARY OF THE DIFFERENT KAM COMMUNICATED (TOTAL = 30):





KAM

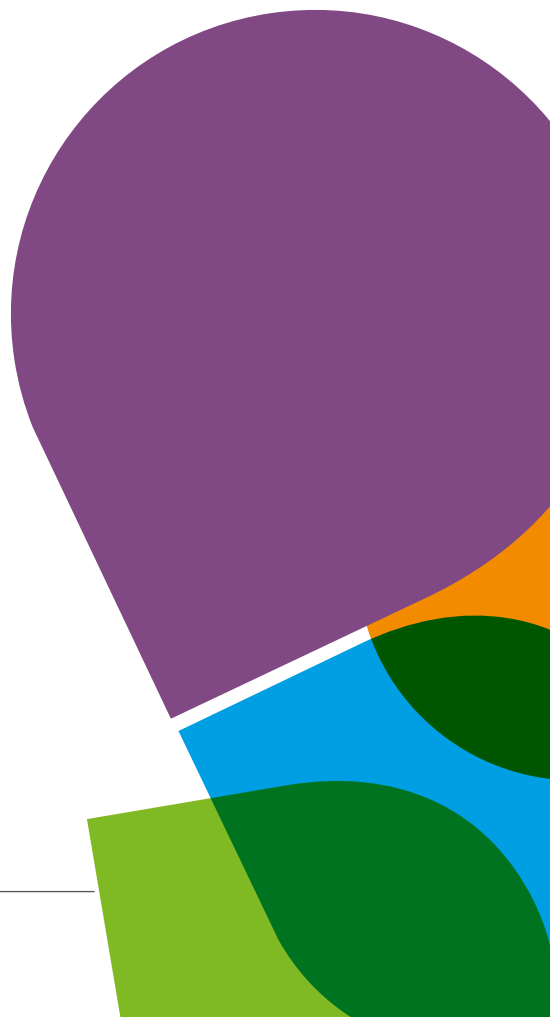
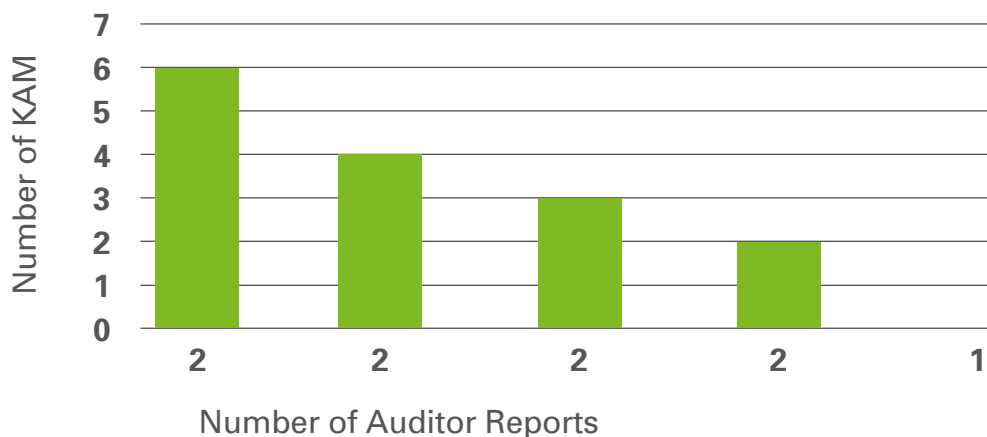
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The ISAs do not specify how many KAM should be reported. This would be a matter of professional judgement; the number of KAM to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In the early adopter auditor reports that were analysed, the number of KAM reported ranged between none and six per report.

The number of KAM will vary between entities, including for those entities in the same industry and the same entity year on year.

A final aspect that was observed in relation to the communication of KAM relates to ISA 701, par. A46 that provides application material regarding the description of how a KAM was addressed in the audit, including that the auditor's description may, among other information, provide an indication of the outcome of the auditor's procedures. This was observed in seven of the eight auditor reports that included KAM.

NUMBER OF KAM PER AUDITOR REPORT



OTHER INFORMATION

ISA 700 (REVISED) REQUIRES THE AUDITOR TO REPORT ON OTHER INFORMATION, WHERE APPLICABLE, IN ACCORDANCE WITH ISA 720 (REVISED).

In terms of ISA 720 (Revised) “Other information” means financial or non-financial information (other than the financial statements and the auditor’s report thereon) included in an entity’s annual report; and “annual report” refers to a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters.

ISA 720 (Revised) reconfirms the auditor’s responsibility to read the other information and consider, in the context of the auditor’s knowledge obtained in the audit, whether there are any material inconsistencies between the other information and the audited financial statements, and whether the other information otherwise contains material misstatements. In addition, the auditor is required to report on the auditor’s work effort and findings relating to other information in a separate section of the auditor’s report.

All nine of the early adopter auditor reports contained the required section on Other Information which included a statement that

the auditors concerned had no matters to report in respect of other information. The other information that was mostly identified in these auditor reports were the Directors’ Report, the Audit Committee’s Report and the Company Secretary’s Certificate as required by the Companies Act of South Africa, as well as the company’s Integrated Report / Integrated Annual Report, which in certain instances were indicated as having been obtained prior to the date of the auditor’s report, and in other instances that it was expected to be made available to the auditors after that date.

The IRBA issued a Staff Audit Practice Alert in April 2017, *Determining other information as defined in ISA 720 (Revised) in the South African context* ([access here](#)). This is a non-authoritative pronouncement of the IRBA that serves to provide registered auditors of private sector entities in South Africa with examples of reports, documents and information that entities in South Africa often prepare, with a view on whether those reports, documents or information would constitute other information.



ADDITIONAL INFORMATION COMMUNICATED THAT IS NOT REQUIRED BY THE STANDARDS

TWO OF THE AUDITOR REPORTS INCLUDED ADDITIONAL INFORMATION ABOUT THE AUDIT THAT HAS BEEN PERFORMED, WHICH IS NOT SPECIFICALLY REQUIRED BY THE NEW AND REVISED AUDITOR REPORTING STANDARDS.

The auditors included an additional section, “Our audit approach”, between the “Basis for opinion” and “Key audit matters” sections in the auditor’s report.

The following information was provided in this section:

- The overall group materiality figure and the basis used to determine the materiality figure;

- A summary of KAM (discussed in more detail in the separate KAM section); and
- Descriptive information with respect to the group audit scope.

MANAGEMENT AND AUDITOR’S RESPONSIBILITIES

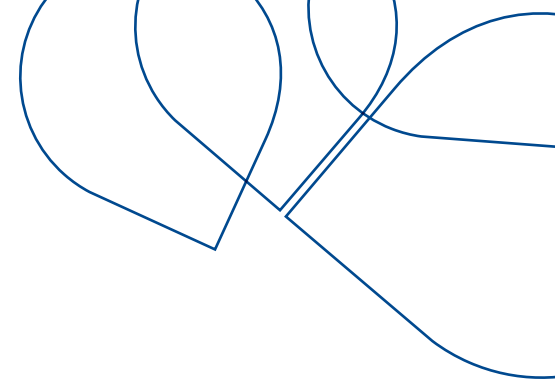
ALL NINE THE AUDITOR REPORTS ANALYSED INCLUDED THE SECTIONS WITH RESPECT TO “RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS” AND “AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS” AS REQUIRED BY ISA 700 (REVISED).

The responsibilities of management and the auditor regarding the audit of the financial statements have not changed, but the descriptions of these responsibilities have been enhanced to provide greater transparency.

ISA 700 (Revised) provides three options for the location of the description of the auditor’s responsibilities, namely within the body of

the auditor’s report; within an appendix to the auditor’s report; or by specific reference within the auditor’s report to a website of an appropriate authority (if expressly permitted by legislation or national auditing standards). The latter is not permitted in South Africa.

All the auditor reports presented the auditor’s responsibilities section in the body of the auditor’s report.



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

EARLY ADOPTER AUDITOR REPORTS

Seven of the nine early adopter auditor reports included a section on Report on Other Legal and Regulatory Requirements, which included information regarding audit firm tenure in terms of the IRBA rule issued

in Government Gazette No. 39475 of 4 December 2015. The other two reports that did not contain such information were issued before 31 December 2015, the effective date of the rule.

AUDITOR'S SIGNATURE

THE SIGNING CONVENTION FOR AUDITOR'S REPORTS IN SOUTH AFRICA IS SET OUT IN SECTION 150.6 OF THE IRBA CODE

Section 150.6 of the IRBA Code requires the following in addition to the auditor's signature and date of the report:

- The individual registered auditor's full name;
- If not a sole practitioner, the capacity in which the auditor is signing, namely as a 'partner' or 'director';
- The designation 'Registered Auditor' underneath their name; and
- If not set out on the firm's letterhead, the name and address of the registered auditor's firm.

In South Africa, the requirements of the IRBA Code take precedence over the requirements set out in ISA 700 (Revised).

However, registered auditors are not precluded from including the illustrative wording suggested in the illustrative reports contained

in the appendix to ISA 700 (Revised) in their auditor's reports, in addition to the signing convention required by the IRBA Code, namely "The engagement partner on the audit resulting in this independent auditor's report is [Name]".

All nine of the auditor reports concerned contained the auditor's signature in the manner prescribed by the IRBA and four reports also included the additional sentence as per the illustrative examples in ISA 700 (Revised).





IN CONCLUSION

THE AUDITOR'S REPORT IS THE MEANS BY WHICH THE AUDITOR COMMUNICATES THE OUTPUTS OF THE AUDIT PROCESS TO THE USERS OF THE FINANCIAL STATEMENTS AND OTHER STAKEHOLDERS. THE NEW AND REVISED AUDITOR REPORTING STANDARDS IS THE IAASB'S RESPONSE TO CALLS FROM VARIOUS STAKEHOLDERS FOR INCREASED TRANSPARENCY AROUND THE AUDIT THAT WAS PERFORMED AND THE COMMUNICATION OF MORE RELEVANT INFORMATION THAT IS ENTITY-SPECIFIC AND AUDIT-SPECIFIC.

With the effective date of the new and revised auditor reporting and related standards being 15 December 2016, the implementation of the new requirements is still in its infancy, but based on the analysis of the auditor reports issued by the early adopters, the objectives of the IAASB in undertaking this project are well on their way to being achieved.

The IAASB is planning a post-implementation review of the standards two years after the effective date (commencing in early 2019) and SAICA will ensure participation from a South African perspective.

The early adopter auditor reports that are the subject of this report can be **accessed** via the SAICA auditor reporting webpage.

Readers are also able to access additional information and resources on the SAICA auditor reporting **webpage**.





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