

03 October 2011

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

E-Mail: comments@pcaobus.org

Dear Sir/Madam

**PCAOBs CONCEPT RELEASE ON AUDITORS REPORTING MODEL –
SEPTEMBER 2011**

In response to your request for comments on the PCAOB's Concept Release on Auditor's Reporting Model – September 2011, the Assurance Guidance Committee of the South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Ashley Vandiar
Project Director – Assurance, Ethics and Members Advice

OVERALL COMMENTS

We acknowledge that there is a need to provide more information in the auditor's report and that this should be fairly addressed to include views from various users. There are areas where an audit cannot provide assurance, such as management's projections and assumptions; however, there are some areas where additional information can be provided to add value to the auditor's report without compromising the auditor's independence or breaching confidentiality by divulging client information, for example by articulating risks in the report that may expose the auditor to undue litigation.

This concept release is based on the investors' perspective, yet investors are not using the auditor's report for their investment decisions. Investors use and rely on the MD&A and other financial information (e.g. non-GAAP information and earnings' releases) for their investing decisions, in addition to historical audited financial statements.

We believe it is important for investors to consider business risks, strategic risks and operating risks. However, we do not believe that assessment of those risks or reporting on those risks should be the responsibility of the auditor. We fear a blurring of the roles between the preparer and the assurer, and the possible impairment of independence if auditors are required to report on these additional risks, which may go beyond the audit risk model.

We need to distinguish between public interest and investor interest, and also acknowledge that users, other than investors, utilizing the auditor's report may require an understanding of matters discussed in the auditor's report and the impact thereof on the financial statements, as well as education on what an audit is and what the limitations of an audit are.

According to the concept release, "some investors indicated that one of the primary reasons that they are looking to the auditor for more information, rather than management or the audit committee, is that the auditor is an independent third party" and that "some investors believed that more relevant insight into the financial statements, through the eyes of the auditor, might better enable them to assess how changes in the economy might affect a company's future financial performance or condition". This will cause a self-interest threat for the auditor as the auditor is required to be independent and adopt a skeptical mindset when evaluating management judgments and estimates.

The resources required to support the initial representations for financial statements are management's and, therefore, those representations should come from management and not the auditor.

As noted in the concept release, "the objective of this release is to discuss several alternatives for changing the auditor's reporting model that could increase its transparency and relevance to financial statement users, while not compromising audit quality". Furthermore, on page 6 of the concept release, PCAOB states that it wishes "to obtain insight into the changes that investors and others are seeking to the auditor's report and how those changes could be incorporated into the auditor's report or the overall auditor's reporting model". Some investors, as noted throughout the concept release, continue to request all sorts of changes to the auditor's report while others, as referred to in the concept release, are not seeking changes as they believe it would be counterproductive for reasons cited in the release and otherwise. We believe that the PCAOB will take into consideration

all various views on this concept release, as well as comments submitted, and that any improvements to the auditor reporting model will be principle-based and not rules driven.

RESPONSES TO THE SPECIFIC QUESTIONS

1. *Many have suggested that the auditor's report, and in some cases, the auditor's role, should be expanded so that it is more relevant and useful to investors and other users of financial statements.*

- a. *Should the Board undertake a standard-setting initiative to consider improvements to the auditor's reporting model? Why or why not?*

Response: Yes, but it should be subject to limitations. Any improvements to the auditor reporting model should be principle-based and should not be rules driven. It should also be noted that auditors cannot provide assurance on information that is not part of the financial statements and cannot disclose information in the audit report unless it constitutes instances of non-compliance.

We also believe that no amendments should be made to the audit report per se; however, an additional assurance report, for example reporting on compliance matters and/or legislation requirements, should be provided contextualising additional information on which assurance is required by users.

- b. *In what ways, if any, could the standard auditor's report or other auditor reporting be improved to provide more relevant and useful information to investors and other users of financial statements?*

Response: By providing a separate or additional assurance report on other information required by investors and other users.

The audit report can also be modified by expanding on certain terminology used in the report by providing explanations to words such as "materiality", "independence" and "reasonable assurance".

- c. *Should the Board consider expanding the auditor's role to provide assurance on matters in addition to the financial statements? If so, in what other areas of financial reporting should auditors provide assurance? If not, why not?*

Response: No, the auditor's role to provide assurance should be limited to financial reporting and any other assurance should be addressed outside of this particular scope.

Should the PCAOB decide to expand the auditor's role to provide assurance on matters in addition to the financial statements, education and training should be provided to users.

Assurance on other matters in addition to the financial statements should be provided separately as required by the investors and users; however, it should be considered whether assuring such information may require certain skills that are not possessed by the auditors.

It should be noted that, in terms of ISA 720, auditors are associated with other information in documents that include audited financial statements and as part of the audit perform procedures to satisfy themselves that this additional detail is not inconsistent with the audited financial statements. The auditor is required to read other information in documents that include audited financial statements. If the auditor finds that such information contradicts the financial statements, they must investigate and resolve the differences to ensure the statements are correct. This process improves both the audited financial information and the unaudited company information, if done properly.

2. *The standard auditor's report on the financial statements contains an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in conformity with the applicable financial reporting framework. This type of approach to the opinion is sometimes referred to as a "pass/fail model."*

- a. *Should the auditor's report retain the pass/fail model? If so, why?*

Response: Yes, this is clear and sufficient to indicate that the entity has fairly presented its financial statements.

- b. *If not, why not, and what changes are needed?*

Response: N/A with reference to our response to question 2(a).

- c. *If the pass/fail model were retained, are there changes to the report or supplemental reporting that would be beneficial? If so, describe such changes or supplemental reporting.*

Response: Yes, these supplemental reporting should be limited to what has been supplied by management, that is information already disclosed by management. The 'emphasis of matter paragraph' highlights what is already in the notes to the financial statements. The audit report does not need to highlight items already in the financial statements as there is already an index to the financial statements.

3. *Some preparers and audit committee members have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Who is most appropriate (e.g. management, the audit committee, or the auditor) to provide additional information regarding the company's financial statements to financial statement users? Provide an explanation as to why.*

Response: This remains management's responsibility so they must make these assertions and the extent of assurance that is provided is effectively done by the audit committee.

4. *Some changes to the standard auditor's report could result in the need for amendments to the report on internal control over financial reporting, as required by Auditing Standard No. 5. If amendments were made to the auditor's report on internal control over financial reporting, what should they be, and why are they necessary?*

Response: We do not believe that they should be changes to the standard audit report hence no amendments to the report on internal control over financial reporting.

5. *Should the Board consider an AD&A as an alternative for providing additional information in the auditor's report?*

Response: No, because the end result is what is important.

The AD&A could require auditors to disclose information which should be left for internal communication between the auditor and the client as well as disclosing confidential information which may be contrary to the normal auditor-client relationship.

This concept tends to confuse the role of management and the role of the auditor. Management is responsible for the business and the auditor is responsible for expressing an opinion on the financial statements.

This response applies to question 5 until question 12.

- a. *If you support an AD&A as an alternative, provide an explanation as to why.*

Response: Refer to the response under question 5 above.

- b. *Do you think an AD&A should comment on the audit, the company's financial statements or both? Provide an explanation as to why. Should the AD&A comment about any other information?*

Response: Refer to the response under question 5.

- c. *Which types of information in an AD&A would be most relevant and useful in making investment decisions? How would such information be used?*

Response: Refer to the response under question 5.

- d. *If you do not support an AD&A as an alternative, explain why.*

Response: Refer to the response under question 5.

- e. *Are there alternatives other than an AD&A where the auditor could comment on the audit, the company's financial statements, or both? What are they?*

Response: Refer to the response under question 5.

6. *What types of information should an AD&A include about the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., audit risk, audit procedures and results, and auditor independence)?*

Response: Refer to the response under question 5.

7. *What types of information should an AD&A include about the auditor's views on the company's financial statements based on the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls")?*

Response: Refer to the response under question 5.

8. *Should a standard format be required for an AD&A? Why or why not?*

Response: Refer to the response under question 5.

9. *Some investors suggested that, in addition to audit risk, an AD&A should include a discussion of other risks, such as business risks, strategic risks, or operational risks. Discussion of risks other than audit risk would require an expansion of the auditor's current responsibilities. What are the potential benefits and shortcomings of including such risks in an AD&A?*

Response: Refer to the response under question 5.

10. *How can boilerplate language be avoided in an AD&A while providing consistency among such reports?*

Response: Refer to the response under question 5.

11. *What are the potential benefits and shortcomings of implementing an AD&A?*

Response: Refer to the response under question 5.

12. *What are your views regarding the potential for an AD&A to present inconsistent or competing information between the auditor and management? What effect will this have on management's financial statement presentation?*

Response: Refer to the response under question 5.

13. *Would the types of matters described in the illustrative emphasis paragraphs be relevant and useful in making investment decisions? If so, how would they be used?*

Response: We believe in a principle based approach therefore we don't agree with this as it is tailored rules.

Management is required to disclose all major estimates and judgements because they are presenting the financial information. The emphasis of matter paragraph tends to highlight or repeat what has already been presented by management in the financial statements, hence it is not used judiciously to achieve the desired emphasis and this may also be seen as auditors taking the responsibility of management.

We believe that the emphasis of matter paragraph would be used effectively only to highlight disagreements that warrant the attention of users but that does affect the fair presentation of the financial statements.

14. *Should the Board consider a requirement to include areas of emphasis in each audit report, together with related key audit procedures?*

- a. *If you support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.*

Response: Refer to response to question 13

- b. *If you do not support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.*

Response: Refer to response to question 13

15. *What specific information should required and expanded emphasis paragraphs include regarding the audit or the company's financial statements? What other matters should be required to be included in emphasis paragraphs?*

Response: Refer to response to question 13

16. *What is the appropriate content and level of detail regarding the matters presented in required emphasis paragraphs?*

Response: Refer to response to question 13

17. *How can boilerplate language be avoided in required emphasis paragraphs while providing consistency among such audit reports?*

Response: Refer to response to question 13

18. *What are the potential benefits and shortcomings of implementing required and expanded emphasis paragraphs?*

Response: refer to response to question 13

19. *Should the Board consider auditor assurance on other information outside the financial statements as an alternative for enhancing the auditor's reporting model?*

Response: Yes, as per users' needs and have a separate report for those needs. Identify users' needs and provide a relevant assurance service for that domain and develop a separate related assurance report. This will be on a case by case basis, where the auditor and management engage and agree on the type of assurance to be provided as well as the type of report required.

- a. *If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why.*

Response: Refer to the response above.

- b. *On what information should the auditor provide assurance (e.g., MD&A, earnings releases, non-GAAP information, or other matters)? Provide an explanation as to why.*

Response: This should be limited to financial information. There should not be a requirement for auditor to provide assurance on other information, however this will be on a case by case basis, where the auditor and management should engage and agree on the type of assurance to be provided as well as the type of report required, for example the reporting on financial information as required by the JSE Securities Exchange Listing Requirements.

- c. *What level of assurance would be most appropriate for the auditor to provide on information outside the financial statements?*

Response: The level of assurance would generally be negative assurance that is "nothing has come to our attention.....", however the most appropriate level of assurance will be guided by the needs of the user.

- d. *If the auditor were to provide assurance on a portion or portions of the MD&A, what portion or portions would be most appropriate and why?*

Response: No comment as we are not MD&A specialists.

- e. *Would auditor reporting on a portion or portions of the MD&A affect the nature of MD&A disclosures? If so, how?*

Response: No comment as we are not MD&A specialists.

- f. *Are the requirements in the Board's attestation standard, AT sec. 701, sufficient to provide the appropriate level of auditor assurance on other information outside the financial statements? If not, what other requirements should be considered?*

Response: No comment as we are not MD&A specialists.

- g. *If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.*

Response: N/A, based on our responses above.

20. *What are the potential benefits and shortcomings of implementing auditor assurance on other information outside the financial statements?*

Response: There are potential benefits as there will be more reliance on this information however assurance on other information in addition to the financial statements should be a separate engagement and a separate report should be issued.

The shortcomings of implementing auditor assurance on other information outside the financial statements include:

- The possibility of reports not addressing all stakeholders' needs depending on varying stakeholders.
- The cost implications of assuring this information.
- The expertise required should auditors not have specific skills, associated with assuring such information.

21. *The concept release presents suggestions on how to clarify the auditor's report in the following areas:*

- *Reasonable assurance*
- *Auditor's responsibility for fraud*
- *Auditor's responsibility for financial statement disclosures*
- *Management's responsibility for the preparation of the financial statements*
- *Auditor's responsibility for information outside the financial statements*
- *Auditor independence*

- a. *Do you believe some or all of these clarifications are appropriate? If so, explain which of these clarifications is appropriate? How should the auditor's report be clarified?*

Response: Yes, we believe that these clarifications are appropriate and would help delineate roles and responsibilities of the audit. These clarifications should be principle-based and should be clarified by way of footnotes or an appendix.

- b. *Would these potential clarifications serve to enhance the auditor's report and help readers understand the auditor's report and the auditor's responsibilities? Provide an explanation as to why or why not.*

Response: Yes, these clarifications will provide users with better understanding.

- c. *What other clarifications or improvements to the auditor's reporting model can be made to better communicate the nature of an audit and the auditor's responsibilities?*

Response: None.

- d. *What are the implications to the scope of the audit, or the auditor's responsibilities, resulting from the foregoing clarifications?*

Response: There will be no implications to the scope of the audit if the definitions in the auditing standards are used for this purpose.

22. *What are the potential benefits and shortcomings of providing clarifications of the language in the standard auditor's report?*

Response: This will provide users with a better understanding of the language in the standard audit report; however these clarifications should be from the auditing standards and not individual definitions.

23. *This concept release presents several alternatives intended to improve auditor communication to the users of financial statements through the auditor's reporting model. Which alternative is most appropriate and why?*

Response: We believe that the most appropriate alternative is the clarification of the language in the standard audit report because it will provide users with better understanding.

24. *Would a combination of the alternatives, or certain elements of the alternatives, be more effective in improving auditor communication than any one of the alternatives alone? What are those combinations of alternatives or elements?*

Response: There could be combinations of these alternatives however, this should also depend on the needs of the users and separate assurance reports should be issued.

25. *What alternatives not mentioned in this concept release should the Board consider?*

Response: None.

26. *Each of the alternatives presented might require the development of an auditor reporting framework and criteria. What recommendations should the Board consider in developing such auditor reporting framework and related criteria for each of the alternatives?*

Response: For each of the alternatives, the Board should consider the needs of the users and the ability to provide assurance for those needs. There will be a need for the

Board to provide guidance on criteria to be used and what type of assurance would be provided as well as additional disclosures that may be required in the financial statements to facilitate this and the clarification of the auditor's responsibilities and management's responsibilities.

27. *Would financial statement users perceive any of these alternatives as providing a qualified or piecemeal opinion? If so, what steps could the Board take to mitigate the risk of this perception?*

Response: There will be a definite risk of misunderstanding. There will be a need for user education. However, if you have separate assurance reports for all different areas, it will be self-explanatory and will not create different perceptions as it will indicate clearly the scope, objective, work performed and on what information the auditor is expressing an opinion on, hence alternative 3 in the concept release is favorable.

28. *Do any of the alternatives better convey to the users of the financial statements the auditor's role in the performance of an audit? Why or why not? Are there other recommendations that could better convey this role?*

Response: Alternative 3 will better convey the auditor's role in the performance of an audit to the users of financial statements as there will be separate assurance reports explaining clearly the scope, objective, work performed and on what information the auditor is expressing an opinion on.

29. *What effect would the various alternatives have on audit quality? What is the basis for your view?*

Response: Audit quality might be compromised due to time constraints, or clients may incur high audit costs due to the resources that may need to be employed to be able to complete the work within the set timeframes.

30. *Should changes to the auditor's reporting model considered by the Board apply equally to all audit reports filed with the SEC, including those filed in connection with the financial statements of public companies, investment companies, investment advisers, brokers and dealers, and others? What would be the effects of applying the alternatives discussed in the concept release to the audit reports for such entities? If audit reports related to certain entities should be excluded from one or more of the alternatives, please explain the basis for such exclusion.*

Response: There will be no impact if audit reports are standardized, however, should the first two alternatives be implemented, then there would be a need to differentiate the audit reports for such entities.

31. *This concept release describes certain considerations related to changing the auditor's report, such as effects on audit effort, effects on the auditor's relationships, and effects on audit committee governance, liability considerations, and confidentiality.*

- a. *Are any of these considerations more important than others? If so, which ones and why?*

Response: All these considerations are important. The largest effect will be on the auditor's time and effort which will drive up costs for stakeholders, liability, relationships as well as maintaining confidentiality of company information. This will increase risk for negative impact on the profession.

- b. *If changes to the auditor's reporting model increased cost, do you believe the benefits of such changes justify the potential cost? Why or why not?*

Response: There will be increased cost in changes to the auditor's reporting model. It is unknown at this stage whether the benefit will outweigh the cost over time.

- c. *Are there any other considerations related to changing the auditor's report that this concept release has not addressed? If so, what are these considerations?*

Response: The recognition that it is management's responsibility to identify who the users/stakeholders are.

- d. *What requirements and other measures could the PCAOB or others put into place to address the potential effects of these considerations?*

Response: no comment.

32. *The concept release discusses the potential effects that providing additional information in the auditor's report could have on relationships among the auditor, management, and the audit committee. If the auditor were to include in the auditor's report information regarding the company's financial statements, what potential effects could that have on the interaction among the auditor, management, and the audit committee?*

Response: This will impact negatively on the relationships between the auditor, management and the auditor committee. It will also create confusion on the roles and responsibilities of all three parties as well as increase tension.