

Home » IRBA heeds stakeholder calls and opens consultation on Enhancing Disclosures in Audit Reports

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Johannesburg, Monday, July 19, 2021 – The Independent Regulatory Board for Auditors (IRBA) has heard the concern of various stakeholders, including investors in South Africa and published a consultation paper titled *Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements*. IRBA is inviting those concerned with the protection of public interest to comment on its proposals for enhancing disclosures in the auditor's report.

In South Africa, there is already a precedent for additional disclosures in the audit report. For example, an IRBA Rule requires the disclosure of Audit Tenure in the audit reports of public companies as a means to assess independence based on length of tenure. Further, the Auditor General through its powers and relevant directives requires an audit report with a number of disclosures not typically found in other jurisdiction's private sector audit reports.

Says Imre Nagy, Acting CEO: "Given the number of corporate failures and scandals in South Africa and around the world, confidence in the auditing profession has been negatively impacted. Questions are asked about whether auditors are doing enough when they audit financial statements; and more particularly whether the auditor's report goes far enough to meet the needs of the users. These include questions about the transparency of the auditors in relation to their independence and objectivity, as well as their conclusions on matters such as fraud and going concern."

Projects to pursue audit reform in the public interest began as part of IRBA's Restoring Confidence initiatives as early as 2018, with this project commencing in early February 2021 in terms of the IRBA's refocussed strategy. Significant research and preliminary consultation were undertaken, including reviewing developments in other jurisdictions and proposed reforms around the world. This was in response to various stakeholders such as investors, regulators and other users of financial statements calling for more information to be disclosed in the auditor's report.

Says Nagy: "Investors and users request these additional disclosures as they believe, among other reasons, that these will provide additional transparency about the audit process and also be an indicator of the auditor's independence, therefore, impacting audit quality positively."

Continues Nagy: "We aim to gather perspectives from a wide variety of stakeholders - but specifically those who use audit reports to inform investment decisions - regarding their views of our proposed additional disclosures and how this might help them in making wise investment decisions. The information gathered in this process will assist the IRBA to consider possible outcomes or reforms that will enhance audit quality and ultimately provide useful information to users of financial statements that will restore confidence in the auditor and the audit report."

The IRBA Consultation Paper discusses how an audit report can be enhanced and it seeks to explore the usefulness, benefits and drawbacks of the additional disclosures, which include:

- What was covered in the scope of the audit and what materiality was applied;
- What was the audit effort related to irregularities, including fraud;
- Audit effort in relation to going concern procedures and conclusions;
- Scope and disclosure of reporting on Key Audit Matters;
- Disclosure of fees for the audit and non-audit services;
- Whether the Entity is classified as a Public Interest Entity (PIE);
- Disclosures arising from prior year misstatements; and
- Disclosures regarding unadjusted misstatements.

Much of this relates to what is referred to as the "expectation gap" and what users of financial statements would prefer to see disclosed in the audit report in order to make it more meaningful for them. Furthermore, IRBA recently highlighted in its recently approved refocussed five-year strategy that two of its strategic focus areas for the coming

period are audit quality and restoring confidence.

Says Nagy: "Our refocused five-year strategy proposes initiatives that are now budget backed and resourced as part of our audit reform regulatory strategy."

The audit report is a key communication tool between the auditor and stakeholders, and for many shareholders, an auditor's report may be the only communication with the auditor. Therefore, enhancing the value of the audit report could increase confidence in audits, and contribute to enhancing audit quality.

Concludes Nagy: "We would really like to hear from investors, shareholder representatives, directors, preparers, members of audit committees and oversight structures, academics, researchers as well as practitioners and their firms. We would also welcome inputs from professional bodies and other regulators from within South Africa and around the world."

The consultation paper was prepared by a Committee for Auditing Standards (CFAS) Task Group, comprising technical representatives from firms, the South African Institute of Chartered Accountants (SAICA), the IRBA and other South African regulators. At this stage, the IRBA is canvassing ideas on how to enhance transparency in auditor reporting and address the needs of stakeholders and is not committing to what the outcomes of the consultation might produce.

Ends

Note to Editors:

The full consultation paper can be found here <https://bit.ly/3dwgbBI>

The IRBA is inviting stakeholders to provide feedback to the Consultation Paper, using the easy to complete online form, which can be accessed by clicking this [link](#).

If using the online form is not convenient, comments will be accepted in writing pertaining to the 22 key questions asked in the paper and submitted to standards@irba.co.za

More about the IRBA:

The IRBA is a public protection statutory body established to protect the financial interests of the public by ensuring registered auditors and their firms deliver services of the highest quality. It upholds audit firm independence to ensure that audit quality is such that it enhances the accuracy and credibility of financial performance reporting. In this way, the IRBA has an important role to play in building the reputation of South Africa as an investment market for both local and global investors and driving economic growth for the country.

The IRBA also registers suitably qualified accountants as auditors, who must adhere to the highest ethics standards, and promotes the auditing profession through the effective regulation of assurance conducted in accordance with internationally recognised standards and processes.

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General News

Press Releases

