

IRBA publishes consultation paper on enhancing disclosures in audit reports

There is already a precedent in South Africa for additional disclosures in an audit report, but the Independent Regulatory Board for Auditors (IRBA) has heeded the call of various stakeholders, including investors, and published a [consultation paper](#) aimed at enhancing this.



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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.

Transparency

"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," says Imre Nagy, acting CEO, IRBA.

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 body's refocused 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.

"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," he said.

"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."

Additional disclosures

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:

1. What was covered in the scope of the audit and what materiality was applied;
2. What was the audit effort related to irregularities, including fraud;
3. Audit effort in relation to going concern procedures and conclusions;
4. Scope and disclosure of reporting on key audit matters;
5. Disclosure of fees for the audit and non-audit services;
6. Whether the entity is classified as a public interest entity (PIE);
7. Disclosures arising from prior year misstatements; and
8. 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 refocused five-year strategy that two of its strategic focus areas for the coming period are audit quality and restoring confidence.

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.