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Per email: taniaw@jse.co.za

20 July 2017

Dear Tania Wimberley

SAICA COMMENTS – AMENDMENTS TO THE JSE LISTINGS REQUIREMENTS: AUDITOR ACCREDITATION

We welcome the opportunity to comment on the amendments to the JSE Listings Requirements (LRs) relating to auditor accreditation.

Overall we are supportive of the amendments made to the existing LRs where the individual auditor is no longer accredited but rather the audit firm. We are further supportive of the additional responsibilities placed on the audit committee considering that the role of the audit committee in King IV has been enhanced.

Our detailed comments, outlined in the Annexure to this letter, focus on the requirements that relate to the audit firm; the individual auditor; and the audit committee.

We trust that these comments will be of assistance in finalising and issuing the amended LRs. The timely finalisation and issuing of the LRs are, in SAICA's view, important to resolve the interim challenges that are currently being faced by audit firms and the JSE to accredit individual auditors.

Please feel free to contact us should you have any queries relating to this letter.

Yours sincerely,

Willie Botha
Senior Executive: Assurance and Practice

ANNEXURE: DETAILED COMMENTS

Comments relating to audit firm requirements

We have the following comments relating to section 22.4 which sets out the criteria that must be met by an audit firm in order to be accredited by the JSE:

1. Please note the numbering of the sub-paragraphs after (h) do not follow in alphabetical order. We recommend that sub-paragraphs (g) – (ix) be renumbered to (i) – (k).
2. Sub-paragraph (c) states that the IRBA must have completed a firm-wide independent quality control (ISQC 1) inspection on the audit firm in its current or previous inspection cycle.

This requirement should not pose a challenge for audit firms who are currently accredited as these inspections would ordinarily occur at least once in every three-year IRBA inspection cycle for such audit firms.

It could however be a challenge for audit firms who want to apply for accreditation for the first time, as non-JSE accredited audit firms are currently selected for ISQC 1 inspections on a risk basis. It could therefore happen that an audit firm has not been selected for an ISQC 1 inspection in the IRBA's current or previous inspection cycle. In terms of the declaration in the appendix to section 22, it is the audit firm's responsibility to obtain such an inspection, but intervention may be required by the JSE to request the IRBA to perform such an inspection for new audit firm applicants.

3. Sub-paragraph (d) requires the audit firm to make both the ISQC 1 inspection decision letter and the findings report available to the JSE.

To make the findings report available in addition to the decision letter is a new requirement (the previous listings requirements only mentioned "decision letter" and did not include "detailed findings report"). We have assumed that it was the JSE's intention to consider the detailed findings report regardless of whether the IRBA inspection result was satisfactory or unsatisfactory.

The requirement does not permit a redacted version of the ISQC 1 inspection findings report. It is suggested that a redacted version as described in section 22.15(h)(i)(3) be permitted, as the IRBA may include findings in this report that relate to engagement quality control reviews and internal monitoring reviews of individual auditors within the firm. It is necessary that the confidentiality of an individual auditor and an audit client be protected. Though this situation is not common (i.e. where the ISQC 1 inspection findings report contains confidential information) it has been known to happen. Consequently the option to redact the report is necessary.

We have the following comments relating to section 22.15 which sets out the roles and responsibilities of the audit firm, IFRS adviser, reporting accountant and reporting accountant specialist:

4. We agree with the additions to the requirements in paragraphs (f)(iv) and (f)(vii), relating to consent orders and information regarding the institution by the audit firm of any legal or disciplinary process against its own individual auditor.
5. Sub-paragraph (f) requires the audit firm to provide information to the JSE within 5 working days of receiving notification thereof. This period has been too short in practice and to avoid non-compliance by the audit firm, it is suggested that the number of days be increased to at least 10 working days.
6. Similarly in sub-paragraph (g), 48 hours have been too short and it should be clarified whether the number of hours relates to business hours or calendar days.

Furthermore, it is suggested that sub-paragraph (g)(iii) be aligned to the current practice of the JSE that permits the audit firm to submit quarterly information regarding the appointment of a new individual auditor as a result of rotation of audits amongst individuals.

Comments relating to information that is required in respect of the individual auditor

We have the following comments relating to section 22.15(h) which sets out the information that should be provided to the audit committee.

7. Sub-paragraph (h)(i) makes reference to the “latest inspection” performed by the IRBA. It should be considered whether this report could be dated. This could be relevant to individual auditors who have not undergone a recent IRBA inspection due to the IRBA’s risk based approach of selecting completed engagements across the population of audit firms. In some cases the “latest inspection” could have occurred a number of years ago. It may therefore be necessary to consider the IRBA engagement inspection in conjunction with a more recent internal monitoring file review performed by the firm for the auditor concerned. Although the JSE may not wish to mandate the provision of internal monitoring file reviews, as was the case in the previous exposure, sub-paragraph (h)(i)(4) could be expanded to include the provision of necessary context setting information as may be applicable in such circumstances.
8. Sub-paragraph (h)(i)(1) makes reference to the decision letter and findings report of the audit firm. As mentioned under paragraph 3 above we suggest that a redacted version be permitted.
9. Sub-paragraph (h)(i)(3) refers to a redacted version of the detailed findings report. The footnote, describing what a ‘redacted version’ means, includes that the proposed remedial action to address the findings should be provided. It is suggested that sub-paragraph (h)(i)(2) be aligned with (h)(i)(3) to require that the proposed remedial action to address the findings relating to the audit file of the specific applicant issuer be provided.

10. Sub-paragraph (h)(i)(3) requires the audit firm to provide the decision letters and redacted detailed findings report on both the current and the new auditor. The current and the new auditor may not be from the same audit firm. It may therefore not be possible for the new audit firm/ new auditor to obtain information relating to the current auditor. It is suggested to rather request that the audit committee obtain the information from the respective audit firms (and individual auditors).

It is not clear why the audit committee, in this process, would require the information relating to both the current auditor and the new auditor (if applicable). The audit committee's consideration should be focused on the proposed individual auditor for the ensuing audit of the entity's financial statements; i.e. to ensure that the designated individual auditor for the ensuing audit (whether the current auditor or a new auditor) is suitable.

If the JSE believes that it is important for the audit committee to also consider the detailed findings report on the auditor for the past audit, although that auditor will not continue to be the designated individual auditor for the ensuing audit, in order to provide the audit committee with a more holistic view of any audit quality issues and to anticipate potential issues, it is suggested that sub-paragraph (h)(i)(2) be aligned with (h)(i)(3) to require the detailed inspection report on both the current and the new auditor if these individuals are from the same firm. Where they are from different firms the audit committee should request the information from the respective firms.

11. It is also suggested that the definition/ description of the redacted version not be included as a footnote but rather in the body of the LRs.
12. We wish to note that a participant of the SAICA task group raised a particular concern regarding the redacted version as required in sub-paragraph h(i)(3), namely whether it may constitute a breach of the auditor's confidentiality obligations in respect of a client's information and a breach of the auditor's contractual obligations of confidentiality with clients (even though it is a redacted version). The JSE should ensure that matters relating to the auditor's professional obligations and legal obligations in this regard have been duly considered.
13. Sub-paragraph (h)(ii) requires information communicated by the audit firm to its senior personnel in terms of paragraph 53 of ISQC 1 to be provided to the audit committee. It is not clear whether the words "as communicated" mean that the information that was communicated to senior personnel should be provided 'as is' to the audit committee. There is not always one communication to senior personnel; the level of detail communicated will differ depending on the level of senior personnel; and the information may not be in a format that is readily understandable or useful to an audit committee. We recommend that the JSE clarify the level of detail required. It is suggested that a summary of the communications be provided as long as it achieves the same objective or provides the same information.
14. Sub-paragraph (h)(ii) only refers to ISQC 1 paragraphs 53(a) and (c). It is suggested that paragraph 53(b) should also be included.

15. It is not clear whether sub-paragraph (h)(iii) only refers to concluded legal or disciplinary proceedings. It is suggested that the paragraph be reworded as follows to indicate that only concluded proceedings should be provided to the audit committee: “the outcome ~~and a summary~~ of any legal or disciplinary proceedings concluded within the last [12 months/insert required period] and a summary thereof, instituted in terms of any legislation...”

Comments relating to the audit committee

16. It is suggested that the JSE consider who has the authority to monitor whether the audit committee has fulfilled its new/ additional responsibilities included in the LRs. It is not clear whether the requirement in section 3.84(h) provides the JSE with a mechanism to monitor the audit committee. Sub-section (iii) requires the issuer to confirm by reporting to the shareholders in its annual report, that the audit committee has executed its responsibilities by requesting the information in section 22.15(h) to assess the suitability of the audit firm/ auditor. It should be considered whether this is sufficient.
17. The considerations of the audit committee pertaining to the suitability of the audit firm and the designated individual auditor as it is proposed to be regulated in terms of these LRs are focused on the latest inspections performed by the IRBA, the audit firm’s monitoring of its quality control system and the outcome of any legal or disciplinary proceedings (as described). We wish to note that it would be appropriate for the audit committee to consider a broader range of audit quality indicators to inform their decision making, for example, included as part of a portfolio of evidence with a representation signed by the technical or risk partner of the audit firm. However, we appreciate that the LRs may not be the place to address this.

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