

INFORMATION FOR PROJECTS THAT ARE NOT RELATED TO INDUSTRY SPECIFIC GUIDES, REPORTS AND RELATED DOCUMENTS

NOTE: If you would like assistance with discussing/completing this form, please contact Saadiya Adam by emailing her at sadam@irba.co.za.

Name of Project	SAAPS 3, <i>Illustrative Reports</i> , scope expansion
Abbreviated Name	SAAPS 3 scope expansion
Information Completed By	SAICA Standards: Audit and Assurance
Date	6 May 2024

INFORMATION REQUIRED FOR THE PROJECT PROPOSAL

Provide an overview of the project being requested.

Background:

SAAPS 3 provides useful guidance to registered auditors on the application of the reporting ISAs and ISRE 2400. Although the SAAPS' introductory paragraphs and the Notes to the illustrative reports in Part A of the SAAPS provide guidance that may assist registered auditors in drafting an auditor's report on the financial statements of any type of entity, the illustrative reports in Part A and Part B of the SAAPS are based the assumption that the audited entity is a South African company. While the SAAPS has served registered auditors well for many years, we propose the consideration of expanding the scope of SAAPS 3 for it to include illustrative auditor's reports on the financial statements of entities other than companies.

Alternatively, these reporting examples could be collated into a new SAAPS.

Brief description of the project requested:

We propose the inclusion of a new section in SAAPS 3, for example "Section C", which is to contain illustrative auditor's reports on financial statements of entities other than companies.

The CFAS may consider developing a framework that will determine when an auditor's report would be included in Section C. **For example** by reference to the number of such entities that are required to be audited.

We propose that ONE illustrative report should be included in Section C for each of the types of entities that the CFAS deems appropriate. The illustrative reports should reflect an opinion on the financial statements that is "clean" (i.e. not modified in terms of ISA 705).

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We propose the inclusion of illustrative auditor's reports on the financial statements of the following types of entities, as a start:

- Sectional Titles
- Close Corporations
- Public Schools

In addition, Section C could also contain references to auditor's reports on the financial statements of regulated entities that are contained in other IRBA documents such as IRBA guides. We would not recommend duplicating auditor's reports in SAAPS 3 that are located in e.g. an IRBA guide – a reference to the guide (for example) from Section C in SAAPS 3 would suffice. In this manner, SAAPS 3 could become a reference point for all illustrative auditor's reports developed by the CFAS.

The public interest need for this project

These audit reports affect a significant number of entities, their stakeholders and their auditors – see point 5 below. The SMP audit firm segment is particularly involved in these audits.

	Information required	Response
1	Applicable International/South African Standard(s), Practice Statement(s), Guide(s) or Non-authoritative Pronouncement(s).	The ISAs and ISRE listed in paragraph 2 of SAAPS 3; SAAPS 3, Illustrative Reports.
2	Any supportive legislative requirements – (applicable Act, regulations or other legislation (including Listings Requirements) relating to the accounting records and financial statements or duties / responsibilities of auditors / assurance providers. Please include section numbers, if possible.	Sectional Titles Act: Paragraph 26(5) of Annexure 1 (i.e., the Management Rules) issued as part of the Sectional Titles Schemes Management Regulations. Close Corporations Act: Section 58(2A) South African Schools Act: Section 43
3.	If applicable, details of an existing auditor's/assurance provider's reporting template – who drafted it originally; what type of	SAICA issued a communication on reporting on Sectional Titles in 2022 that included an illustrative auditor's report on the financial statements. The illustrative report is in process of being updated to be aligned with the IFRS Foundation® Trade Mark Guidelines .

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	auditor's/assurance provider's report is it; and, if possible, the level of assurance being provided.	<p>The SAICA Guide on Close Corporations, issued in May 2015, contains an illustrative auditor's report on the financial statements.</p> <p>NOTE: The guide is in process of being updated. SAICA has updated the illustrative auditor's report that is currently included in the Guide, and will share this with IRBA Standards, should the project be approved.</p>
4.	Additional instructions and guidance that have been provided to auditors/assurance providers or the entity being audited/assured.	<p>SAICA Guide on Close Corporations: https://saicawebprstorage.blob.core.windows.net/uploads/resources/THE_SAICA_GUIDE_ON_CLOSE_CORP_May2015_v2.pdf</p> <p>SAICA communication on auditor reporting on Sectional Titles: https://www.saica.org.za/resources/89141</p> <p>Refer to point 3 above regarding revisions to above documents.</p>
5.	Number of affected entities being audited/assured.	<p>Sectional Titles: To our knowledge, there are approximately 56 000¹ sectional title schemes registered with the Deeds Office. Sectional title body corporates are required to be audited unless all the sections in the scheme are registered in the name of one person.</p> <p>Close Corporations: In April 2022, to our knowledge, there were approximately 2,6 million registered CCs of which approximately 300,000 had the status of being "in business". Section 30(2)(b) and (3) to (6) of the Companies Act, read with the changes required by the context, apply to a close corporation that is required by the Companies Regulations to have its annual financial statements audited.</p>

¹ <https://www.phinc.co.za/OurInsights/ArticleDetail.aspx?Title=Things-to-know-before-you-undertake-a-sectional-title-development#:~:text=With%20approximately%2056%20000%20sectional,in%20South%20Africa%20in%202021.>

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		Public schools: Approximately 23 000 ² public schools. The Schools Act requires an audit of the financial statements or an examination of the financial statements where an audit is not reasonably practicable.
6.	Number of auditors/assurance providers involved (and profile in terms of big audit firms, or small and medium-sized audit firms); and, if possible, the names of some of the audit firms/registered auditors that perform these engagements.	Registered auditors in small and medium-sized firms and in big firms are affected.
7.	Other relevant information relating to the extent and impact of auditor's/assurance provider's engagements (including public interest concerns).	Public schools receive funding from government and are funded by parents / caregivers of learners (with the exception of no-fee schools). Sectional titles are funded by their members. Public funds are thus involved regarding these types of entities.
8.	Description (with examples, where possible) of audit/assurance related issues being experienced.	Public schools: Uncertainty regarding the financial reporting framework to be applied in the preparation of the financial statements, in certain provinces. Sectional Titles: See matters addressed in the following documents: https://saicawebprstorage.blob.core.windows.net/uploads/resources/SectionalTitlesFAQsMarch.pdf https://saicawebprstorage.blob.core.windows.net/uploads/resources/Chief_Ombuds_Circular_No._1_of_2017_on_the_Implementation_of_the_Sectional_Titles_Schemes_Management_Act_and_Regulations.pdf

² <https://www.statista.com/statistics/1262874/number-of-schools-in-south-africa-by-province-and-sector/#:~:text=As%20of%202022%2C%20the%20total,with%205%2C801%20and%205%2C046%2C%20respectively.>

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9.	Description (with examples, where possible) of legislative issues that impact the performance of the audit/assurance engagement.	See point eight.
10.	Details of any complaints against auditors lodged with the IRBA (and, if possible, the outcome of such complaints).	To our knowledge, complaints have been lodged about “fake auditors” auditing Public Schools. To our knowledge, complaints have been lodged about lowballing regarding the audit of sectional titles.
11.	Recent developments necessitating a new pronouncement or a revision of an existing pronouncement. Include an explanation of why the need for the project has arisen now, e.g. new standard issued, new legislation, amendments to existing legislation, etc.	The IRBA communication regarding the CFAS call for new projects 2024 asked for new projects that are targeted at SMP audit firms. This proposal is targeted at that segment of the auditing profession.