



South African Reserve Bank  
From the Office of  
the Registrar of Banks

Ref: 15/8/3

D2/2017

2017-07-20

**To: Banks, controlling companies, and auditors of banks or controlling companies**

**Directive issued in terms of section 6(6) of the Banks Act 94 of 1990**

**Matters related to the communication of key audit matters in the independent auditor's report**

### **Executive summary**

The International Auditing and Assurance Standards Board (IAASB) issued International Standard on Auditing (ISA) 701 - *Communicating Key Audit Matters in the Independent Auditor's Report*, effective for audits of financial statements for periods ending on or after 15 December 2016. This directive serves to inform banks, controlling companies, branches of foreign institutions (hereinafter collectively referred to as 'banks') and auditors of banks of further considerations and requirements pertaining to the communication of key audit matters (KAM) as far as audit reports relating to the audits of financial statements of banks and controlling companies are concerned.

#### **1. Introduction**

ISA 701 was issued with the intention to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication, in order to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.

In terms of paragraph 5 of ISA 701, the ISA is applicable to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate KAM in the auditor's report. The ISA also applies when the auditor is required by law or regulation to communicate KAM in the auditor's report.

The Office of the Registrar of Banks (this Office) would like to inform all relevant interested persons that it is not aware of any amendment to the scope of application of the ISA, insofar as the audit of banks or controlling companies is concerned, by any law or regulation and shall therefore apply to audits of listed entities as stated in the ISA. Auditors of unlisted banks and controlling companies may, as provided for in the ISA, decide to report KAM

under such circumstances as the auditors deem it fit to do so. Auditors' attention, however, is drawn to paragraph 14 of the ISA which provides that under circumstances where public disclosure is precluded by law or regulation, the auditor may not communicate a KAM in the auditor's report.

## **2. Directive**

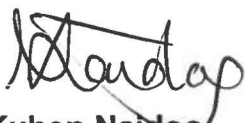
Auditors of banks or controlling companies are hereby directed, effective for audits of financial statements for periods ending on or after 15 July 2017, where the auditor has to report KAM, to share the KAM reflected in the auditor's report with this Office prior to the finalisation of the audit opinion. This would enable this Office to assess whether, in this Office's opinion, as per paragraph 14(b) read with paragraph A55 of the ISA, the possible adverse consequences of communicating the KAM could reasonably be expected to outweigh the public interest benefit of such communication and as such advise the auditor of said adverse consequences and that the auditor should consider this advisement in deciding on whether or not to communicate the KAM.

The ultimate responsibility for reporting a KAM remains with the auditor.

This Office will during its annual bi-lateral prudential engagements with the auditor agree on the actual submission arrangements of such KAM, acknowledging the requirements for auditors to communicate a report of proposed KAM also with those charged with governance at the banks.

## **3. Acknowledgement of receipt**

Two additional copies of this directive are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the said institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.



**Kuben Naidoo**  
**Deputy Governor and Registrar of Banks**

Date: 24/07/2017

The previous directive issued was Directive 1/2017 dated 3 February 2017.