

11 March 2014

Submitted electronically to kensiong@ethicsboard.org

Mr K Siong
IESBA Technical Director
International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017, USA

Dear Ken,

Comments on the Consultation Paper: Proposed Strategy and Work Plan, 2014-2018

The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard setter in South Africa. Its statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct of registered auditors. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the Code), prescribed as the *Code of Professional Conduct for Registered Auditors* (the IRBA Code), in South Africa in 2010 with certain additional national requirements. The IRBA Code together with its *Rules Regarding Improper Conduct* provides the basis for disciplinary action against registered auditors. Consequently, the IESBA's Consultation Paper, *Proposed Strategy and Work Plan for 2014-2018*, that might result in possible amendments to Parts A and B, or the structure of the IESBA Code, to enhance the quality of audits performed by registered auditors and contribute to the integrity of international markets, in the public interest, is of particular interest to the IRBA.

We appreciate this opportunity to comment on the IESBA Consultation Paper *Proposed Strategy and Work Plan, 2014-2018*. Please accept my apologies for our late submission. I hope you will still be able to take account of our comments given the importance of determining the future strategy and work plan the proposals being considered.

Our comments are presented in the following sections:

- General comments
- Specific comments and responses

If you have any questions or would like to discuss any specific comments, please contact Sandy van Esch on: +27 87 940 8871 or at svanesch@irba.co.za.

Yours sincerely,



Sandy van Esch
Director Standards

General comments

1. We generally support the strategic themes set out in the consultation paper,¹ since the quality of the ethical standards, their effective implementation, their relevance in a changing global environment and consideration of the key stakeholders' needs are necessary to foster the use of the IESBA Code of Ethics worldwide.
2. Although our focus as both audit regulator and the national standard setter standard is on the ethical conduct of registered auditors, including audit firms, more than 90% of our registered auditors are also Chartered Accountants (South Africa) and thus members of the South African Institute of Chartered Accountants (SAICA) which has also adopted the IESBA Code (2009), including Part C applicable to professional accountants (PAs).
3. Amongst other considerations, the global nature of the auditing profession, informed the IRBA's adoption of Parts A and B and Definitions of the IESBA 2009 Code in 2010, and we support the IESBA adoption initiatives.
4. Many entities audited may well have CFOs and possibly CEOs who are professional accountants, whose conduct, if unethical, may directly or indirectly affect public interest, and hence impact on audit quality, and consequently, it is appropriate that all professional accountants be held accountable, to maintain high ethical standards as a profession.
5. We are not however, directly interested in any revisions to Part C of the IESBA Code for professional accountants in business, that are not registered as statutory auditors and hence not directly interested in the IESBA work streams that will not have a direct effect the implementation of Parts A and B of the Code on the behaviour of auditors.
6. Furthermore, we are of the view that the first two key factors identified in paragraph 23 of the Consultation Paper, pertaining to the '*potential benefit to the public interest*' and '*ensuring the particular action will further enhance public trust and confidence in the profession*' in the global context, are the most important in decisions taken by the Board to prioritize its work streams. We believe that the acceptance of the Code, internationally, should primarily be driven by the quality of its content and its ability to contribute to the public interest.

¹ The strategic themes for 2014–2018 identified by the IESBA Board are:

- (i) *Maintaining a high-quality Code of Ethics for application by PAs globally;*
- (ii) *Promoting and facilitating the adoption and effective implementation of the Code;*
- (iii) *Evolving the Code for continued relevance in a changing global environment; and*
- (iv) *Increasing engagement and cooperation with key stakeholders.*

Request for Specific Comments

The Board, in particular would welcome respondents' views on the following:

(a) *Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.*

7. We support the work streams, however, are not directly interested in the Review of Part C of the Code, as indicated above.

8. Regard should be had to developments globally, including the proposed audit reform initiatives in Europe (EU), to ensure as far as possible consistency between jurisdictions, given the global nature of the auditing profession and large global audit clients in the following two proposed work streams:

8.1. A review of the provisions in the Code that deal with long association of senior personnel (including partner rotation) with an audit client (Long Association);

8.2. A review of the non-assurance services provisions in the Code to ensure that they continue to support a rigorous approach to independence for assurance services (Non-Assurance Services); and

8.3. The provisions on fee dependency and related to that the threat to independence of auditors where long overdue fees remain unpaid by audit clients.

9. In addition, we believe the following issue should be included in the strategy and work streams of the IESBA:

9.1. Ethical considerations for joint auditors acting together on an audit engagement in the absence of specific guidance in the ISAs on requirements where joint audits are performed.

(b) *Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.*

10. We support the focus of the four strategic themes identified for the 2014-2018 period. As the audit regulator we have a special interest in promoting and facilitating the adoption and consistent implementation of a High-Quality Code which affects audit quality and the reputation of the auditors.

Maintaining a High Quality Code of Ethics for application by Pas (paragraphs 8-11)

11. We support the proposal to take account of the particular perspectives of SMPs and SMEs in the Code.

Promoting and facilitating the adoption and effective implementation of the Code (paragraphs 12-14)

12. We support efforts of adoption and implementation to allow for the maintenance of a high-quality Ethics Code with consistent implementation thereof by auditors globally, regard being had to the complexities of the environment in which auditors provide audit and assurance services.

13. The IRBA adopted Parts A and B and the Definitions in the IESBA Code in June 2010, with effect from January 2011, and following further exposure in South Africa has just adopted the IESBA's 2013 amendments to the Code. The IRBA has further regulatory requirements: *Rules Regarding Improper Conduct* (the Rules) as the basis for investigation and disciplinary action against an auditor (enforceability provisions). The Rules inter alia, require compliance with the IRBA Code and auditing pronouncements issued by the IRBA, and provide the basis for enforcement by way of investigation of a complaint against an auditor and disciplinary action.
14. The regulatory inspections function of the IRBA monitors compliance with the Code and auditing pronouncements which requires implementation of the Code by the auditors.

Evolving the Code for continued relevance in a changing global environment (paragraphs 15-16)

15. We share the concerns noted in paragraph 50 with the proposal in paragraph 15(b) with respect to the proposed focus on the application of 'related entity' in Collective Investment Vehicles (CIV) given the complexity of the possible relationships. Consequently, we support the pre-requisites outlined in paragraph 51 prior to adoption of this project.
16. It is unclear why only one of the significant aspects of entities within the financial services sector has been selected, while other aspects that appear to have contributed to the global financial crisis have been ignored, for example, considering exposures to private equity entities; retirement funds; processing of transactions by service organisations in countries other than where the entities are located and Ponzi schemes etc. Broader application guidance may be necessary, but may require further research to scope the project.

Increasing engagement and co-operation with key stakeholders (paragraphs 17-19 and 55-56)

17. We support the proposed approach and suggest the IESBA could consider seeking engagement through the IFAC committee structures and member bodies, with relevant legislators regarding regulatory developments that might have implications for the nature and extent of services audit firms may provide to their audit clients and any differentiation between services provided to public interest clients and work provided by SMPs often to meet the needs of non-public interest entities (paragraph 15).
18. In the course of its standard setting activities in developing local audit pronouncements, the IRBA also works closely with the technical staff of the Auditor-General South Africa (AGSA) in the development of joint guidance for private sector auditors performing audits of the public sector. In our experience The AGSA holds different views regarding independence requirements and rotation requirements for auditors auditing in the public sector and has additional requirements. We have found our engagements with the AGSA very useful in contributing to audit quality. The IESBA may find it useful to include the INTOSAI as one of its key stakeholders.

(c) *Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.*

19. The Structure of the Code has a bearing on its enforceability of the ethical provisions that apply to auditors and more so the fact that the Code allows for consistent application by different auditors, is an area of concern for regulators. Accordingly, we would expect the project dealing with structure of the code (paragraphs 29-30), insofar as it could increase the clarity and usability of the Code, to be an opportunity to enhance its value.
20. We support the prioritization of this topic (paragraphs 40-41). We note and concur with the caution sounded that the amount of work involved should not be underestimated, but are aware that some auditing standard setters in the EU already have projects in their jurisdictions to address the structure of their Code.
21. We also support the statement on the importance of flexibility in the future strategy and work plan (paragraphs 32 and 20) to enable the Board to accommodate urgent emerging ethical issues brought to its attention before the end of the strategic period 2014-2018.
22. Emerging ethical issues may be specific to particular circumstances in individual jurisdictions, so care should be taken to determine whether the emerging issue is a global matter before proposing amendments to the IESBA Code, where local guidance in implementation of principles in the IESBA Code may be more appropriate.

(d) *Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e. deferred or eliminated).*

23. As indicated above, we believe the following issue should be included in the strategy and work streams of the IESBA:
 - 23.1. The ethical considerations for auditors acting together jointly on an audit engagement, in the absence of specific guidance in the ISAs on requirements where joint audits are performed.
24. We believe our comments provide sufficient information for consideration of the Board to conclude on whether or not any actions in the proposed SWP should be displaced.

(e) *The Board invites comments on any other matters you believe would be important for it to consider in developing its SWP for 2014-2018.*

25. In addition to the key factors in paragraph 23 to determine potential actions and their priorities and timing for possible '*potential benefit to the public interest*' and '*ensuring the particular action will further enhance public trust and confidence in the profession*' in developing the IESBAs SWP for 2014-2018, consideration should also be given to the implications arising from the recent IAASB Framework for Audit Quality issued in February 2014.