



04 June 2020

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Dear Ken

Comments on the IESBA's Proposed Revision to the Code Addressing Non-Assurance Services Provisions

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

We appreciate this opportunity to comment on the Proposed Revision to the Code Addressing the Non-Assurance Services Provisions

Our response has been prepared by the Audit Research and Development Business Unit of the Auditor General of South Africa's office. Our comments are presented under the following section:

1. Request for specific comments and responses

If further clarity is required on any of our comments, kindly e-mail us at ardsupport@agsa.co.za. Alternatively, phone us directly on +27 12 426 8000.

Yours faithfully

Nhlanhla Ngaka

Deputy Business Executive: Audit Research and Development

Request for specific comments and responses

Prohibition on NAS that Will Create a Self-Review Threat for PIEs:

Question 1

Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?

Yes, given the heightened concerns about the independence of auditors of public interest entities, we concur with the view that there are no safeguards to remedy any self-review threat created by the NAS. The AGSA is already prohibited in terms of s5(a)(i) of the PAA from providing NAS in respect of any matter that may subsequently have to be audited by AGSA.

Question 2

Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

Yes, the thought process is clearly set out and unambiguous.

Providing Advice and Recommendations:

Question 3

Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?

No, it is not clear whether the advice and recommendations referred to in proposed paragraph 600.12A1 refers only to advice and recommendations that is a result of NAS or also includes recommendations made to remedy the root causes of audit findings during the normal annual audit process. It is practice for value adding recommendations to be made and they could well have an impact on e.g. the controls of the auditee where a control deficiency was identified and the auditor recommends controls to be put in place.

A recommendation has no results, only the implementation of a recommendation will yield results. If an auditor recommends the implementation of certain controls, it still remains the responsibility of management to implement the controls. It will therefore be difficult to make a determination in terms of paragraph 600.11 A2 as to whether a self-review threat is created.

It should be considered whether the level of the threat could be at an acceptable level when the advice or recommendation is merely provided by the auditor but not also implemented by them.

Project on Definitions of Listed Entity and PIE:

Question 4

Having regard to the material in section I, D, “Project on Definitions of Listed Entity and PIE,” and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

The IESBA should consider how the revised definition could accommodate the various jurisdictions’ approaches to the concept of a PIE.

The IESBA should also consider the public sector environment and what would lead to a public sector entity being identified as a PIE. There are heightened expectations regarding the firm’s independence in the public sector for all audit firms that provide both NAS and audit service to a public sector entity that is owned by the government.

Materiality:

Question 5

Do you support the IESBA’s proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B “Materiality”)?

Yes, a more prudent approach is welcomed.

Question 6.1

Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:

-Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?

Yes, the dependence of the advice (NAS) on a particular accounting treatment or presentation and the audit team’s doubt about the appropriateness of that treatment or presentation goes against core principle of objectivity that must prevail in any audit.

Question 6.2

Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:

-Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?

Yes, the dependence of the advice (NAS) on a particular accounting treatment or presentation and the audit team's doubt about the appropriateness of that treatment or presentation goes against core principle of objectivity that must prevail in any audit.

Communication with TCWG:

Question 7

Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

Yes, however, in terms of proposed 600.19 A1, the process by which the firm obtains the concurrence for the provision of a non-assurance service to the audit client may be a general policy. We propose that it should be prescribed how often those charged with governance should review the policy.

Other Proposed Revisions to General NAS Provisions:

Question 8

Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?

Yes, the proposal is supported.

Question 9

Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

Yes, the proposal is supported and the application material is helpful.

Proposed Revisions to Subsections:

Question 10.1

Do you support the proposed revisions to subsections 601 to 610, including:

- the concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?

Yes, the proposed revision of par 601.4A1 is supported.

Question 10.2

Do you support the proposed revisions to subsections 601 to 610, including:

- the withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?

Supported, this is aligned with the prohibition on NAS that will create a self-review threat for PIEs.

Question 10.3

Do you support the proposed revisions to subsections 601 to 610, including:

- the prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?

Yes, this is supported. It should however be clarified what is meant with tax avoidance.

Question 10.3

Do you support the proposed revisions to subsections 601 to 610, including:

- the new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?

Yes, this is supported

Proposed Consequential Amendments:

Question 11

Do you support the proposed consequential amendments to Section 950?

Yes, the proposed consequential amendments ensure alignment of all the sections to the changes within the Code.

Question 12

Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

No further sections of the code were identified that warrant a conforming change.