



04 June 2020

**BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER  
TO EXPOSURE DRAFT, *PROPOSED REVISIONS TO THE NON-ASSURANCE  
SERVICES PROVISIONS OF THE CODE***

**Introduction**

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The BICA mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IESBA’s Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*. We provide our comments to each specific question as per the exposure draft.

Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

*Signed electronically*

**Mosireletsi M Mogotlhwane ACA**

Manager –

Technical and Public Sector

Accounting Services

*Signed electronically*

**Edmund Bayen**

Director -

Technical and Public Sector

Accounting Services

## **GENERAL COMMENTARY**

The profession continues to develop in line with varying needs of the clients. Technology is also evolving more rapidly than expected. The regulators and standard setters have to keep themselves up to date with these changes to ensure clear guidance is provided to professional accountants in light of new technologies and services provided.

Any enhancements to the Code of Ethics regarding provision of non-assurance services to audit clients should endeavour to provide clear requirements leaving little room for judgments. Where judgment is afforded, it allows for audit practitioners to bypass guidance and expose risk to public interest.

As in other jurisdictions, majority of assurance firms in Botswana have established non-assurance firms for provision of non-assurance services to clients. Despite that, the assurance partners still provide oversight over both assurance and non-assurance services solely because the practices have few partners. With this set-up, there is need for explicit requirements to clearly segregate assurance services from non-assurance services.

## RESPONSES TO SPECIFIC QUESTIONS

### Prohibition on NAS that Will Create a Self-review Threat for PIEs

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

Response:

We support prohibition of NAS to PIEs in principle. We note, however, that paragraph R600.14 applies only *if* a self-review threat is created. This proviso leaves judgment to the audit firm. Independence in appearance is critical for all entities but even more for PIEs. Allowing judgement would therefore leave auditors' independence to be questioned where they provide any form of NAS to their audit clients.

From a practical point of view, whilst an audit firm may have different engagement partners responsible for NAS and audit engagements, there is diminished level of independence (either in mind or in appearance) and scepticism. This is because the overall processes applied are of the same firm and partners are of the same firm.

We propose that the provision be amended to explicitly prohibit NAS to audit clients of PIEs.

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?*

Response:

Paragraph 600.11 A2 does provide clear thought process to be applied in evaluating whether a NAS would result in a self-review threat.

### Providing Advice and Recommendations

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?*

Response:

Application material in paragraph 600.12 A1 and 604.12 A2 are sufficiently clear and appropriate.

## **Project on Definitions of Listed Entity and PIE**

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.*

Response:

Botswana is one of the jurisdictions that have defined a Public Interest Entity in their legislation. The definition is provided for in the Financial Reporting Act, 2010 and considers; listed entities, financial institutions, insurance entities, pensions and provident funds, collective investment undertaking annual revenue, total assets, total liabilities, number of employees.

Using this definition, entities in Botswana are able to clearly identify where they belong in the Code of Ethics in relation to PIEs and non-PIES.

There are however, entities which do not qualify as PIEs per legislation but have significant public interest e.g. public officers union with over 100 000 members and millions of subscription fees. Strictly applying the definition as provided in the Act and in the Code would recognize these entities as non-PIE yet on substance they hold significant public interest.

In the project, the Board should establish a common ground of identifying entities that are PIE and the ones that have significant public interest and ensure that aspects of the Code applicable to PIE are also applied to those with significant public interest.

While IAASB uses Entities with Significant Public Interest in place of PIE, the project should consider having both terms in the Code and in ISAs and defined as proposed above for consistency.

The Code should be revised to consolidate some aspects to apply to all auditors as opposed to differentiating non-PIE auditors and PIE auditors because the variances do not have much of value addition.

## **Materiality**

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”)?*

Response:

We agree with the Board’s proposal to withdraw materiality on certain NAS prohibitions to eliminate judgement by the audit practitioner.

That notwithstanding, the materiality concept continues to be applied in other paragraphs which perpetuates discretion. In evaluating whether a service will result in self-review threat, paragraph 600.11 A2 should be applied in all sections of IIS. NAS provisions to audit client should not be applied quantitatively but qualitatively as presented in 600.11 A2.

Results of a service provided can take any number – below or above materiality depending on factors leading to their computation. Self-review threat should therefore not be concerned by this value but be based on principle as provided by the definition of self- review threat in the conceptual framework.

We therefore, propose that materiality as applied in the following paragraphs be withdrawn:

- Paragraph 600.9 A2 bullet point 7
- Paragraph 603.3 A2 bullet point 6
- Paragraph R603.4 (b)
- Paragraph 604.9 A1
- Paragraph R604.25 (b)

6. *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)?*
- *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)?*

Response:

We support the proposal to prohibit provision of NAS as indicated above irrespective of materiality.

### **Communication with TCWG**

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)?*

Response:

We support proposals for improved firm communication with TCWG.

## **Other Proposed Revisions to General NAS Provisions**

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?*

Response:

We support the proposal as it provides easy flow and consistency.

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?*

Response:

We support the proposal to make the application material a requirement.

## **Proposed Revisions to Subsections**

10. *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?*
- *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?*
- *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)?*
- *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?*

Response:

The following are our comments on subsections 601 to 610:

- Paragraph 601.2 A1 bullet point 3 should include “approving journal entries” which is the responsibility of the management to take responsibility of all journal entries.
- We do not agree with the proposed paragraph R601.4 (a) together with R601.5 in the existing code. Routine and mechanical accounting and bookkeeping services qualify to pose a risk of self-review as outlined in paragraph 600.11

A2. In performing an audit, the practitioner considers, among other things, classification of transactions and balances, accuracy of recorded transactions and balances.

In carrying out these activities, the audit practitioner will, at the time of audit, be evaluating activities performed by themselves which is a clear self-review threat. Despite requirements of paragraph R400.14, practically, management will be placing reliance on the work provided by the firm as *routine and mechanical*. Stakeholders such as financiers expect an independent assurance firm to perform an assurance engagement and by allowing assurance firm to provide *routine and mechanical services* to their audit clients does not protect public interest.

The argument that this is allowed for non-PIE clients does not hold as the Board should be looking at the principle rather than materiality of the entity.

We proposed that paragraphs R601.4 (a) and 601.4 A1 should be withdrawn.

- We support withdrawal of paragraph R601.7 in the extant code. The withdrawal enhances independence in appearance.
- Paragraph 603.3 A2 bullet point 2 indicates that consideration should be made whether the valuation report will be made public. Independence ought not to be concerned with whether the report is made public or not. Whether the report is made public or not, self-review threat arises if the report is used in arriving at any amounts in the financial reporting process.

We proposed that this factor be withdrawn.

- Paragraph 604.2 A2 is not conclusive. We propose that the following concluding sentence be added:

‘Firms should assess the nature and scope of these services and apply paragraphs in the code applicable to the categories considered relevant to them.’

- We agree with prohibition of tax services as provided for in paragraph R604.4.
- Paragraph 604.14 A1 bullet point 3 and 604.15 A1 bullet point 2 give obtaining pre-clearance from tax authorities as a measure to mitigate self-review or advocacy threat. We do not agree with this factor given that the tax authority is just one of the stakeholders to entities and does not represent the public. The definitions of these two threats as provided in the conceptual framework are focused on the ability of the professional accountant to comply with fundamental principles of ethics in circumstances. The tax authority would not have any additional relevant information about the entity and the firm to be able to make an informed decision to provide a pre-clearance.

We propose that these factors be withdrawn.

- Paragraph 604.22 A1 bullet point 5 provide conduct of proceedings in public as one of the factors to be considered in identifying self-review and advocacy threats.

Risk of these two threats is based on principle as provided by the conceptual framework. Firms should only apply facts in the circumstances which will affect their objectivity and audience of the proceedings should not be a factor. Whether the firm is evaluating its own work or not has no relation to the audience.

We propose that these factor be withdrawn.

- We agree with the new provisions relating to acting as a witness including the new prohibition relating to acting as an expert witness. These are clear and easy to comprehend.

### **Proposed Consequential Amendments**

*11. Do you support the proposed consequential amendments to Section 950?*

Response:

We agree with proposed amendment to section 950.

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

Response:

None identified

### **Other Comments**

- a) Paragraph 600.11 A1 and 600.11 A2 (c) make reference to 'audit team'. ISQC 1 paragraph 22 tasks the engagement partner with responsibility for providing the firm with relevant information about client engagements, including scope of services to enable the firm to evaluate overall impact, if any, on independence requirements.

In addition, ISA 220 paragraph 8 indicates that the engagement partner shall take responsibility for the overall quality on each audit engagement to which the partner is assigned.

These two references combined place responsibility of the audit engagement on the engagement partner. Paragraph 600.11 A1 and 600.11 A2 (c) should be amended to make reference to audit engagement partner as opposed to audit team which is too broad.

- b) Paragraph R600.20 (a) refers to provisions relating to audit clients that are **not** public interest entities.

The 'not' should be deleted because the requirements relates to non-PIE becoming PIEs. The implication of R600.20 (a) should therefore be that if the NAS provided already comply with requirements for a PIE audit then there is no compromise to the firm's independence.