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To whom it may concern

Re: IESBA Exposure Draft: *Proposed Revisions to the Non-Assurance Services Provisions of the Code*

On behalf of the South African Institute of Professional Accountants (SAIPA) we would like to comment on Exposure Draft ***Proposed Revisions to the Non-Assurance Services Provisions of the Code*** published by the International Ethics Standards Board for Accountants for comments submitted by 04 June 2020. We appreciate the opportunity to comment on this Exposure Draft.

The International Ethics Standards Board for Accountants® (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code).

The NAS project is a prioritized commitment in the IESBA's Strategy and Work Plan, 2019-2023 and is responsive to regulatory stakeholders' and the Public Interest Oversight Board's (PIOB) broad concerns about auditor independence when a NAS is provided to an audit client. The objective of the project is to ensure that all the NAS provisions in the IIS are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms.

Request for specific comments

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?

Final Mapping Table Page 9 - R600.14 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion.

SAIPA agrees with the inclusion of the proposal to establish a self-review threat prohibition, we agree that a firm or a network of firm shall not provide a non-assurance service to an audit client that is a public interest entity if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion and we do not believe that adequate safeguards can be incorporated to mitigate such a threat.

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?

Final Mapping Table Page 8 – 600.11 A2 - Identifying whether the provision of a non-assurance service to an audit client will create a self-review threat involves determining whether there is a risk that:

- (a) The results of the service will affect the accounting records, internal controls over financial reporting, or the financial statements on which the firm will express an opinion.*
- (b) In the course of the audit of those financial statements, the results of the service will be subject to audit procedures; and*
- (c) When making an audit judgment, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the service.*

SAIPA agrees with the inclusion of 600.11 A2 the proposal to determine whether an identified threat relates to self-review and that this paragraph inclusion is applicable to all audit clients. The auditor should consider if the non-assurance services will create a self-review threat that will impact the records and or controls and or financial statements on which the auditor express an audit opinion on. Further factors to be considered should be the engagement team of the non-assurance services' involvement with the audit engagement team.

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?

Final Mapping Table Page 6 - 600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in 600.11 A2. This includes considering the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit client. If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity. If the audit client is a public interest entity, paragraph R600.14 applies.

Final Mapping Table page 39 - 604.12 A2 Providing tax advisory and tax planning services that include advice and recommendations, will not create a self-review threat if such services:

- (a) Are supported by a tax authority or other precedent;*
- (b) Are based on an established practice (being a practice that has been commonly used over a long period and has not been challenged by the relevant tax authority); or*
- (c) Have a basis in tax law that is likely to prevail.*

SAIPA agrees with the inclusion of 600.12 A1 and 604.12 A2 with respect to tax advisory and tax planning. The paragraphs and consideration are sufficiently clear and appropriate in determining if a self-review threat exist. SAIPA agree with the inclusion of 604.12 A2 and that under these circumstances no self-review threat will exist.

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.

Project Approach

24. Key matters that the project will address include, but are not limited to, the following:

With respect to the term “listed entity”

- (a) Gather an understanding of publicly traded markets in the G20, the general conditions entities must fulfil to be admitted and remain listed, and the nature and extent of the regulation that applies.*
- (b) Gather an understanding of the various ways through which entities raise capital nowadays beyond the traditional capital markets, and the nature and extent of any regulation that applies.*
- (c) Clarify the meaning of the concept of a “recognized market” in the extant definition and whether there is any distinction with the concept of a “regulated market.”*
- (d) Taking into account the above, obtain agreement between the IESBA and IAASB on the criteria that should qualify some entities as listed and not others.*
- (e) Establish whether any revised definition would fulfil the objectives of the IESBA and IAASB in the relevant standards.*

With respect to the terms “PIE” and “ESPI”

- (f) Obtain agreement on the objectives of the IESBA and IAASB in classifying certain entities as PIEs or ESPIs respectively, recognizing that the public interest focus is on independence and audit quality.*
- (g) Gather an understanding of which categories of entity in the G20 are required to have an audit by law or regulation, and within this population, the subsets that have been designated as PIEs.*
- (h) Gather an understanding of the policies or criteria large networks that perform transnational audits have established to support determinations of entities they would consider to be PIEs or*

ESPIs for independence, audit or quality management purposes, following the applicable guidance or requirements in the IIS and IAASB standards.17

(i) Taking into account the above as well as the need for a principles-based approach and for proportionality, obtain agreement between the IESBA and IAASB on the criteria that should dictate whether or not an entity is classified as a PIE. As part of this, consider:

- *Whether to establish specific categories of entity to facilitate consistent application.*
- *The need for any de minimis thresholds or preclusions.*

(j) Obtain agreement between the IESBA and IAASB on whether a single term should be used for the revised concept in their standards if convergence is achieved, and whether that term should be PIE, ESPI or some other term.

(k) Establish whether any revised definition would fulfil the objectives of the IESBA and IAASB in the relevant standards in a proportionate manner.

(l) Consider whether there is a need to strengthen the Code beyond the current encouragement for firms to determine whether to treat additional entities, or certain categories of entities, as PIEs based on the revised criteria.

(m) Consider whether there would be merit in promoting the notion that some entities that are not PIEs might themselves wish to be treated as PIEs if they wish to inspire a greater degree of public trust and confidence in their audited financial statements.

(n) In circumstances where firms have made determinations that certain audited entities (other than listed entities) should be deemed PIEs, consider whether there would be a need for public transparency as to the basis for such determination.

(o) Where audited entities that are not PIEs by definition are treated as PIEs for audit purposes, whether it would be desirable for public transparency about that fact.

25. In addressing these matters, it is not the intent of the IESBA and IAASB to override jurisdictions' determination of which entities should be classified as PIEs for their national purposes, or to take away their prerogative to do so. However, in developing any revised definitions, the IESBA in coordination with the IAASB will give careful regard to the interactions of the revised definitions with national definitions.

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, SAIPA agrees with the project plan, the cope and the approach of the project plan. SAIPA however want to emphasise the consideration and inclusion of local jurisdictions and Acts and the consideration of such definitions in local governance.

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")?

Final Mapping Table Page 31 R603.5 the materiality qualifier is dropped.

Final Mapping Table Page 36 R604.10 the materiality qualifier is dropped.

Final Mapping Table Page 40 R604.13 For PIE's the materiality qualifier is dropped

Final Mapping Table Page 47 R604.25 For PIE's the materiality qualifier is dropped

Final Mapping Table Page 54 R605.6 the materiality qualifier is dropped

Final Mapping Table page 59 R606.6 the materiality qualifier is dropped

*Final Mapping Table Page 67 R608.8 For non-PIE's the materiality qualifier is **retained** and for PIE the materiality qualifier is dropped.*

Final Mapping Table Page 75 R610.6 for PIE's the materiality qualifier is dropped.

Final Mapping Table Page 76 R608.8 and R608.9, For non-PIUEs the materiality qualifier is dropped.

Final Mapping Page 75 R610.6 For PIE's the materiality qualifier is dropped

SAIPA supports 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. We do not believe that the materiality qualifier on non-assurance services should be considered when a self-review threat is considered. Whether the non-assurance services have a material effect or not on the financial statements should not impact the consideration of the self-review threat and therefore we support the removal of the materiality qualifier.

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)?

Final Mapping Table Page 40 R604.13 - A firm or a network firm shall not provide tax advisory and tax planning services to an audit client when:

(a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and

(b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Final Mapping Table Page 75 R610.6 - A firm or a network firm shall not provide advice in relation to corporate finance service to an audit client where:

(a) The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and

(b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

SAIPA supports the IESBA's proposals to prohibit the non-assurance services stipulated in R604.3 and R610.6 irrespective of the materiality. Such services will create a self-review threat regardless of the 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)?

Final Mapping Table Page 15 R600.18 - Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, the firm shall provide those charged with governance with sufficient information to enable them to make an informed decision about the impact of the provision of such a non-assurance service on the firm's independence.

Final Mapping Table Page 15 600.18 A1 - Examples of information that might be provided to those charged with governance include:

- The nature and scope of the service to be provided.
- Any threats to independence identified by the firm from the provision of such a service.
- Whether such threats are at an acceptable level.
- Actions that the firm or network firm intends to take to address any threats that are not at an acceptable level.
- How such actions will eliminate or reduce the threats to an acceptable level.

Final Mapping Table Page 16 R600.19 - A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, unless those charged with governance of the public interest entity concur with:

- (a) The provision of that service; and
- (b) The firm's conclusion that any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level.

Final Mapping Table Page 16 600.19 A1 - The process by which the firm obtains the concurrence of those charged with governance for the provision of a non-assurance service to the audit client might be for example, on an individual engagement basis, under a general policy, or via other means provided that the process to be used is approved by those charged with governance.

SAIPA supports the IESBA's proposals for improved firm communication with Those Charged With Governance (TCWG). We agree with the examples of information to be provided as stipulated under 600.18 A1 and would like to emphasise and agree that those Charged With Governance should be aware of the non-assurance services, their nature and scope and the impact on self-review threat as well as the actions the firm will take to address such threats. SAIPA however does not agree with

600.19 A1 that a general policy should be communicated to Those Charged With Governance (TCWG). Each separate non assurance services provided to clients should be communicated and the proposed information should be discussed with Those charged With Governance on a case by case basis.

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?

Final Mapping Table Page 77, Page 78, and Page 79. Management responsibility, decisions, and judgement. Moved from Section 600 to Section 400.

SAIPA confirms that there have been no substantive changes in R400.13 and R400.13 A1 and R400.13 A2 and R400.13 A3 and R400.13 A4 and R400.14. The sections are just repositioned from Section 600 to Section 400. We have no comment regarding the repositioning of the sections.

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.

Final Mapping Table Page 7 R600.10 - When a firm or a network firm provides multiple non-assurance services to an audit client, the firm shall consider, in addition to the threats created by each service individually, whether the combined effect of such services creates or impacts threats to independence.

Final Mapping Table Page 7 600.10 A1 - In addition to paragraph 600.9 A2, factors that are relevant in evaluating the level of threats created where multiple non-assurance services are provided to an audit client might include whether:

- The combined effect of providing multiple services impacts the level of threats created by each individual service.
- A proposed service impacts the effectiveness of safeguards put in place in relation to other non-assurance services.

SAIPA supports the proposal to elevate the extent application material relating to the provision of multiple NAS to the same audit client to a requirement. Individual non-assurance services provided to a client might not be considered as a threat when considering as individual services, but the combined level of non-assurance services provided might impact the threat and safeguards in place might not be sufficient to reduce the threat on the combined services.

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 favour 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?

Final Mapping Page 24 601.4 A1 - Routine and mechanical accounting and bookkeeping services require little or no professional judgment and might include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm **may** provide such services to audit clients that are **not public interest entities** provided that the firm complies with the requirements of R400.14 to ensure that it does not assume management responsibility in connection with the service and with the requirement in R601.4 (b).

Final Mapping Page 26 R601.7 - As an exception to paragraph R601.6, a firm or network firm may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:

- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or
- (b) The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.

SECTION TO BE WITHDRAWN

Final Mapping Page 33 R604.4 - A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless that treatment has a basis in applicable tax law and regulation that is likely to prevail.

Final Mapping Page 61 - R607.6 A firm or a network firm shall not provide litigation support services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

SAIPA support the proposed revisions to subsections 601 to 610. Paragraph 601.4 A1 under the extant Code is permissible for all audit clients, Non Assurance Services Proposal allow this only for Non-PIE's ad the firm may provide such services to audit clients that are NOT public interest entities provided that safeguards are in place and the firm does not assume management responsibility. SAIPA further supports the removal of R601.7 relating to the exception for divisions and related entities and believes this will improve the independence if network firms. SAIPA furthermore supports the new provision under R604.4 relating to tax services.

Proposed Consequential Amendments

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

SAIPA support the proposed changes to section 950. Limited changes were noted with changes made only relating to conformity with changes in section 400 and section 600.

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

SAIPA have not identified any other sections of the Code that requires further changes as a result of the Non-Assurance Services Project.

We are very supportive of the IESBA's projects regarding broad concerns about auditor independence when Non-Assurance Services are provided to an audit client. The objective of the project is to ensure increasing confidence in the independence of audit firms. We are generally in agreement of the proposals contained in the ED.



Should you wish to discuss the contents of this letter with us, please contact Faith Ngwenya or Leana van der Merwe or Rashied Small on +27 (0)11 207 7840

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Yours faithfully

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