

Ref #479848

18 August 2014

International Ethics Standards Board for Accountants (IESBA)

Email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Sir

**SAICA SUBMISSION ON THE IESBA'S EXPOSURE DRAFT, PROPOSED CHANGES TO CERTAIN PROVISIONS OF THE CODE ADDRESSING NON-ASSURANCE SERVICES FOR AUDIT CLIENTS**

In response to your request for comments on the *IESBA's Exposure Draft, Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

**Juanita Steenekamp (CA(SA))**  
**Project Director – Governance and Non-IFRS Reporting**

## RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

### *Emergency Provisions*

1. Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

#### **Response:**

SAICA is of the view that the chances of an emergency ever arising are remote. Our Code needs to enforce independence of mind. In practice non-assurance services like bookkeeping and tax are responsibilities of the company, when done by the same firm doing the audits it results in increasing the firms fees through alternative profit opportunities, this by implication creates greater dependency on the company they audit leading to self-interest as well as self-review threats. There are enough alternative providers and firms in the market who are skilled to cater for most emergencies. Further to the aforementioned to the best of our knowledge most large firms in South Africa no longer carry out dual tax, bookkeeping services and also carry out audits for their clients. The Code is just aligning to our accepted practice in South Africa. There is also the default exception in Paragraph 100.11 of the code. Agree to remove exception clauses as proposed.

### *Management Responsibilities*

2. Does the change from "significant decisions" to "decisions" when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

#### **Response:**

SAICA agrees to the removal of the word "significant" as it creates a subjective measure of what is of significance.

3. Are the examples of management responsibilities in paragraph 290.163 appropriate?

#### **Response:**

Yes, the additional examples are acceptable. The first example dealing with strategic direction should be removed as strategic direction is not set by management, but is a board responsibility.

In the last bullet point the word "and" should be retained. Using the conjunction "or" makes the sentence seem to indicate that there is a choice. All three activities (designing, implementing, maintaining) can occur simultaneously and all are management's responsibility. The sentence could possibly be interpreted to mean that, if management chooses design as a management responsibility, then the professional accountant, when providing services to the entity, could perform implementation and maintaining. When using "and" as the conjunction such interpretation is no longer possible.

4. Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?

#### **Response:**

SAICA agrees with the changes. The only issue which might be a challenge is in the application of the section to small and potentially medium sized clients. These clients do not have sufficient staff with sufficient knowledge and skill to be able to implement this section. In practice, the audit

partner or audit manager would have to explain to the client what the requirements are in terms of the framework used and any applicable laws and regulations that need to be complied with. In practice, the client would "sign off" on the services provided without really understanding the technicalities of the services.

5. Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?

**Response:**

We are concerned that that the proposed guidance may not, in all situations, assist engagement teams to meet the requirement of not assuming a management responsibility. In order to illustrate our concerns, we offer the following example from our jurisdiction for consideration.

South African universities are public interest entities as defined in terms of the Code. In addition to publishing audited IFRS-compliant annual financial statements, our universities are required to submit audited schedules of student numbers and research publication outputs. These numbers constitute major inputs into the formula that determines the level of state funding allocated to each university.

These numbers are only determinable using professional judgement. For example, the student numbers are not simplistic census headcounts, and are based on fairly complex interpretations of what constitutes a full-time equivalent enrolment number. Similarly, research publications may be attributable to multiple scholars across institutional boundaries, and are only allowable if published in pre-determined accredited journals, in lists that change every year.

There is a highly competitive environment amongst South African universities for the limited quantum of state funding for higher education in this country. Effectively, a zero-sum game is involved: any increase in one institution's state allocation will manifest itself as a decrease to be borne by the other institutions. In our opinion, therefore, there are significant concerns about separation of managerial responsibility and the audit function in this particular context.

The specific point we wish to make is as follows. The proposed wording of Sections 290.166 to 290.168 does not, in our opinion, disallow the provision of an auditor's services for the preparation and audit of student number and research output schedules, when such schedules are subsequently to be audited by the same auditor. In our opinion, exactly the same "self-review threat" referred to in 290.168 for accounting and bookkeeping services applies under these circumstances.

6. Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

**Response:**

SAICA agrees that the changes describes these services aptly, a general comment we believe the code should discourage audit firms from taking on any administrative functions.

*Routine or Mechanical*

7. Does the proposed guidance on "routine or mechanical" clarify the term, or is additional guidance needed?

**Response:**

SAICA agrees with the proposed guidance.

With reference section 290.166 we would like to suggest the following amendment to clarify the provision of the services: "Administrative service, provided by the firm or the engagement team, involve..."

8. Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?

**Response:**

SAICA agrees with the suggestions.

*Section 291*

9. Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?

**Response:**

Yes, we believe it enhances the clarity. The only issue which might be a challenge is in the application of the section to small and potentially medium sized clients. These clients do not have sufficient staff with sufficient knowledge and skill to be able to implement this section. In practice, the audit partner or audit manager would have to explain to the client what the requirements are in terms of the framework used and any applicable laws and regulations that need to be complied with. In practice, the client would "sign off" on the services provided without really understanding the technicalities of the services.

We would like to add the following additional comment, as we note that the word significant has not been removed in paragraph 291.143. We question whether this should agree with the changes in paragraph 290.162.

10. Are the examples of management responsibilities in paragraph 291.144 appropriate?

**Response:**

Yes, the additional examples are acceptable. The first example dealing with strategic direction should be removed as strategic direction is not set by management, but is a board responsibility.

11. Does the relocation of the guidance pertaining to administrative services provide greater clarity?

**Response:**

Yes, we believe it provides greater clarity.

**12. Request for General Comments**

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- a) *SMPs*—The IESBA invites comments regarding the impact of the proposed changes for SMPs, especially the changes regarding management responsibilities.

**Response:**

This section will be difficult to implement for small and potentially medium-sized clients. These clients do not have sufficient staff with sufficient knowledge and skill to be able to implement this section. In practice, the audit partner or audit manager would have to explain to the client what the requirements are in terms of the framework used and any applicable laws and regulations that need to be complied with. In practice, the client would “sign off” on the services provided without really understanding the technicalities of the services.

- b) (b) *Preparers (including SMEs), and users (including regulators)*—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.

No further comments.

- c) (c) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.

No further comments.

- d) (d) *Translations*—Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.

No further comments.

- e) (e) *Effective Date*—The IESBA proposes that the effective date for the changes will not be less than 12 months after issuance of the final changes. Earlier application would be permitted. The IESBA welcomes comment on whether this minimum period would be sufficient to support effective implementation of the changes.

**Response:**

SAICA is of the view that the minimum period is sufficient to support effective implementation of the changes.