

Ref #763967

9 June 2020

International Ethics Standards Board for Accountants (IESBA)

Email: kensiong@ethicsboard.org

Dear Sir

SAICA SUBMISSION ON THE IESBA'S EXPOSURE DRAFT, *PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF THE CODE*

In response to your request for comments on the IESBA's Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code* (the Exposure Draft), 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

GENERAL COMMENTS

We support the Exposure Draft and the work of the IESBA in this regard as in South Africa the provision of non-assurance services (NAS) by auditors has been of concern. The issue has partly been dealt with in the South African Companies Act (2008), which includes a section that identifies certain services which are not allowed to be performed by the auditor (refer to Annexure1).

We have a concern that in terms of paragraph R600.14 firms with audit clients that are public interest entities will not be able to perform any NAS and this would lead to “audit-only” firms. We question whether this was the intention of the IESBA. In our discussions we could not identify many NAS that would not in some way affect the financial statements. We also discussed paragraph 600.1A1 in detail as the paragraph starts with the section that providing advice and recommendations might create a self-review threat, and although we agree with that statement, the fact that a client might be implementing advice provided in the following year as part of the previous year’s audit would now seem to be creating a self-review threat.

We also discussed the provision of “agreed- upon procedures” and whether that would be classified as a NAS. The fact that there is no definition of a NAS does lead to various different interpretations of what would be classified as a NAS. We believe that “agreed upon procedures” engagements do not provide assurance.

RESPONSE TO 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?*

Response:

SAICA agrees with the proposals to establish a self-review threat prohibition, however there is a concern that it is difficult to determine if there is self-review threat. We support the suggestion that the auditor needs to resign when a self-review threat is identified. In addition, there is a need for clarity on how to determine if a self-review threat exists when there are separate engagements where various people in a firm provide different services to a client. This requirement states that the provision of a NAS to an audit client who is a public interest entity creates a self-review threat. As NAS are not defined we would like to request more guidance, including a definition of what is included in the provision of a NAS.

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:

SAICA agrees with the concept of undertaking a thought process when considering whether the provision of a NAS to an audit client will create a self-review threat. SAICA requests that the IESBA consider how this thought process would be documented, as evidence that this was considered. During an inspections process by a regulator, it is possible that the inspector would request such evidence.

The working group discussed the application material to evaluate whether certain services will provide a self-review threat. The working group raised concerns with regards to 600.11 A2(a) which refers to the fact that a service will provide a self-review threat if the results of the service affects the accounting records or the financial statements on which the firm will provide an opinion or affect the internal controls over financial reporting. In our view it is not clear what services would not impact the accounting records / financial statements and it seems as if there are not many NAS that can still be performed for clients. We would also request more guidance on what would be a self-review threat in these instances.

We also note that para 500.11. A2(a), (b) and (c) is connected using “and”. Normally when the word “and” is used then it would mean that all three paragraphs would apply for it to be a self-review threat and we would like confirmation if that is the correct interpretation.

We would like to request a definition of “audit procedures”.

The working group also discussed the fact of whether an “agreed upon procedure” would be included in what would be viewed as a NAS. We don’t believe there is enough clarity on what would be included as a NAS and we would like to request additional information. We believe that “agreed upon procedures” engagements do not provide assurance.

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:

During our working group discussion, we came to the conclusion that using the wording “providing advice and recommendations” is not clear. The paragraph states that providing advice and recommendation might create a self-review threat depending on the application of paragraph 600.11 A2. We are not clear on what “providing advice and recommendations” would include. Discussions also included whether the fact that the client applies recommendations from the previous year’s audit would create a self-

review threat as it might be viewed as advice and recommendations in the current year audit being provided.

SAICA cannot determine if the proposed application material relating to providing advice and recommendations with respect to tax advisory and tax planning is sufficiently clear and appropriate. SAICA seeks that the IESBA provide the meaning of factual advice and where the dividing line is. SAICA further seeks clarity on whether paragraph 600.11 A2 refers to providing advice and recommendations outside the audit work. A suggestion made is that paragraph 604.12 A2(c) states that “Have a basis in tax law that is likely to prevail” might not be helpful.

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:

SAICA notes that the definitions of “Listed Entity” and “PIE” varies within each country and such consideration should be taken into account when making the changes to the Code of Professional Conduct. The IESBA needs to consider the various definitions of public interest and take into account the general concept of public interest, but allow various countries to include or add their own country-specific requirements.

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:

SAICA agrees with the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs. Materiality is subjective therefore using it as a qualifier might result in inconsistencies across different entities.

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:

SAICA has reservations with regards to the two specific prohibitions.

Both of the prohibitions state that tax planning and tax advisory services, and corporate finance, respectively, provided to an audit client are prohibited if the audit team has doubt over the appropriateness. The audit team would not necessarily be involved in the NAS provision and by the time that the auditor reviews the treatment in the annual financial statements, the services would have been performed and completed. The timing does not seem to be logical.

SAICA also questions why only these two types of services are prohibited and what the bases were to select only these two types of services.

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:

SAICA agrees with the proposals for improved firm communication with TCWG including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE, because it ensures that matters are brought to the attention of the people responsible for the governance, accounting and financial reporting function of the entity.

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:

SAICA agrees with the proposals to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900, since this is intended to assist in grouping the same information together.

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:

SAICA agrees with the proposal. SAICA seeks clarity on whether this is applicable to one year or if this is applicable to a multi-year engagement. In addition, guidance is required to determine at what stage the auditor becomes uncomfortable with respect to the combined effect of providing multiple non-assurance services, possibly creating too much of a threat to independence.

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:

SAICA agrees with the proposed revisions to subsections 601 to 610. We do not support tax avoidance. SAICA suggests that there is a need to include forensic services as well.

Proposed Consequential Amendments

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

Response:

SAICA supports the proposed consequential amendments 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:

SAICA suggests that there is a need for a definition of “non-assurance services”. There might be a need to relook at NAS proposed changes when the IESBA completes other projects that they are working on that may have an impact on NAS.

GENERAL COMMENTS

- *Those Charged with Governance, including Audit Committee Members – The IESBA invites comments regarding any aspect of the proposals from individuals with responsibilities for governance and financial reporting oversight. This includes small businesses where a single owner manages the entity and also has a governance role.*

Response:

No comments.

- *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.*

Response:

The self-review threat is common within SMEs however it is difficult to determine if it exists in some circumstances.

In addition, from the SMPs’ perspective, they have a concern that it is difficult to determine if some of the services that they will be providing are audit services or NAS. This should be carefully and appropriately considered so that SMPs can draw a line between services provided.

- *Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.*

Response:

No comments.

- *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 proposals, and in particular on any foreseeable difficulties in applying them in their environment.*

Response:

No comments.

- *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 proposals.*

Response:

No comments.

Annexure 1 – Extract from South African Companies Act, 2008

90. Appointment of auditor

- (2) To be appointed as an auditor of a company, whether as required by subsection 34(1) or as contemplated in section 34(2), a person or firm-
- (a) must be a registered auditor;
 - (b) in addition to the prohibition contemplated in section 84(5), must not be-
 - (i) a director or prescribed officer of the company;
 - (ii) an employee or consultant of the company who was or has been engaged for more than one year in the maintenance of any of the company's financial records or the preparation of any of its financial statements;
 - (iii) a director, officer or employee of a person appointed as company secretary in terms of Part B of this Chapter;
 - (iv) a person who, alone or with a partner or employees, habitually or regularly performs the duties of accountant or bookkeeper, or performs related secretarial work, for the company;
 - (v) a person who, at any time during the five financial years immediately preceding the date of appointment, was a person contemplated in any of subparagraphs (i) to (iv); or
 - (vi) a person related to a person contemplated in subparagraphs (i) to (v); and
 - (c) must be acceptable to the company's audit committee as being independent of the company, having regard to the matters enumerated in section 94(8), in the case of a company that has appointed an audit committee, whether as required by section 94, or voluntarily as contemplated in section 34(2).
- (3) If a company appoints a firm as an auditor, the individual determined by that firm, in terms of section 44(1) of the Auditing Profession Act, to be responsible for performing the functions of auditor must satisfy the requirements of subsection (2).