

8 June 2020

Mr K Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017, USA

Submitted electronically to [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Mr Siong

**Comments on the Exposure Draft: *Proposed Revisions to the Non-Assurance Services Provisions of the Code***

The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard-setter in South Africa. Its statutory Committee for Auditor Ethics is responsible for prescribing standards of professional competence, ethics and conduct for registered auditors. One of the IRBA's statutory objectives is to protect the public by regulating audits performed by registered auditors, thereby promoting investment and employment in South Africa.

The IRBA adopted Parts 1, 3, 4A and 4B of the *International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*. This was prescribed in November 2018 as the Code of Professional Conduct for Registered Auditors (the IRBA Code) in South Africa, with certain additional national requirements. The IRBA Code, with its Rules Regarding Improper Conduct, provides the basis for disciplinary action against registered auditors.

We appreciate this opportunity to comment on the IESBA's Exposure Draft: *Proposed Revisions to the Non-Assurance Services Provisions of the Code* (Exposure Draft). Our comments are presented under the following sections:

- A. General Comments; and
- B. Request for Specific Comments.

We have also noted the proposed amendments and have initiated due process procedures in South Africa for the possible adoption of these amendments when finalised by the IESBA.

Kindly e-mail us at [ivanker@irba.co.za](mailto:ivanker@irba.co.za), if further clarity is required on any of our comments.

Yours faithfully,

***Signed electronically***

**Imran Vanker**

**Director: Standards**

## A. GENERAL COMMENTS

1. We welcome this IESBA project to develop robust requirements relating to non-assurance services, thereby increasing user confidence and enhancing auditor independence when providing non-assurance services. The enhancement of the provisions relating to non-assurance services to audit clients has been a strategic priority for the IRBA and other regulators' agendas for several years, and we expect that it will continue to be an area to receive our scrutiny.
2. We appreciate the extension of the comment deadline. In the midst of the disruptions caused by the COVID-19 pandemic, the extension has provided us with time for consultation and reflection.
3. The IRBA supports a scalable approach that considers the different circumstances of large and small practitioners, and the nature of their clients. The principle-based approach as well as the distinction between requirements that apply to all entities and those that apply only to public interest entities (PIEs) accommodate these different circumstances. We note that the IESBA's work on the definition of a PIE will have a bearing on the non-assurance services provisions of the IESBA Code, and IRBA Code.
4. We acknowledge the coordination between the IESBA Non-Assurance Services (NAS) Project and the current IESBA Fees Project. Such coordination is necessary to retain the quality and consistency that is a hallmark of the restructured and revised IESBA Code. However, we have noted a significant difference in approach between the two projects that may require reconsideration. The IESBA NAS Project distinguishes between assurance and non-assurance services, while the IESBA Fees Project refers to audit and non-audit services. While we understand the reason for the differences in approach, we question the value and utility of these distinctions, and highlight the potential for confusion in practice.
5. We support the efforts of the IESBA to consider technology-related revisions and look forward to these updates. A principle-based approach to these updates will allow for the IESBA Code to be useful, as the related technology and non-assurances services grow and evolve.
6. The proposed amendments deal with decision-making at the engagement level. However, in practice this decision-making would take place at a firm level. The proposed amendments should consider the decision-making at both the firm and engagement levels.
7. We note that the exposure draft does not include the anticipated effective date of the proposed amendments. We encourage the IESBA to consider an effective date as soon as reasonably possible.
8. The issue of non-assurance services provided in the previous year to an audit client that is a PIE is a regulatory concern, and in our view relevant to the scope of this project. We appreciate the requirements in proposed paragraphs **R400.32** and **R600.20**. However, these requirements should recognise that in some cases, certain services (such as internal audit) provided in previous years may impair the audit firm's ability to be appointed as an auditor or to continue as an auditor. The Code appears to only refer to the current/forward-looking period and not what occurred in the previous year/s. We encourage the Board to address this concern.
9. In considering whether the provision of non-assurance services in previous periods may conflict with and impair the firm's independence as auditor, the firm should consider the requirements of the IESBA Code with regard to independence of mind and independence in appearance. These requirements should be considered from the time that the decision is taken to approach an entity as a potential external audit client, where non-assurance services are currently or recently provided. An example is that firms commonly use tender proposals for external audit

services to demonstrate the synergies that may be derived from the non-assurance services work the firm is presently busy with or has recently concluded. These synergies include the knowledge and understanding of the entity’s business acquired through providing non-assurance services; familiarity and experience of senior and other personnel who delivered the non-assurance service at the future audit client and who would be included or available to be accessed as part of the engagement team to perform external audit services; and current relationships with management. These synergies could be touted as commercially relevant, but when viewed through the lens of a reasonable and informed third party, and by others, could be considered to be a significant threat to the firm’s assessment of its independence. Of great practical concern, is that firms tout these synergies as being beneficial to the audit, and therefore may not recognise at all, or may understate the threat that these synergies pose to the audit engagement.

10. In such an example, questions still remain regarding whether, first, the audit firm would be able to meet the requirements of the IESBA Code to be independent of mind and independent in appearance; and second, to demonstrate that the threat to independence was eliminated or reduced to an acceptable level. Furthermore, the limited documentation requirements in the IESBA Code (paragraph 600.40 A1 and **R600.40**) may place the burden of proof on inspectors or investigators to demonstrate that the requirements have not been met, by furnishing evidence that contradicts the auditors claims of independence. It is our view that the current proposals still leave too much room for auditors to accept external audit engagements without demonstrating how the threats to independence were eliminated or reduced to an acceptable level.
11. We invite the IESBA to further reinforce the proposed requirements by taking into consideration certain rules already in place in some territories, such as a mandatory cooling-off period on the audit of a PIE where internal audit services were provided in prior years. This would help improve the consistency of the IESBA Code’s independence requirements across jurisdictions. In most circumstances, the provision of non-assurance services, such as internal audit services, would create a self-review threat.
12. Through this exposure draft, certain paragraphs have been updated for “*engagement quality review*” and “*engagement quality reviewer*”, in line with the new terminology used in the IAASB Quality Management Standards. However, the remainder of the IESBA Code has not been amended for consequential amendments. The use of the different terms within the IESBA Code will be confusing, especially since the definition contained in the Glossary is still that of an “*engagement quality control review*”.

## **B. REQUEST FOR SPECIFIC COMMENTS**

Please note that the suggested alternative wording is provided with underlined “insertions” and ~~struck-through~~ “deletions”.

### **Question 1**

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

13. Yes. We support the prohibition of non-assurance services that give rise to a self-review threat. This has been written in a clear and concise manner. We appreciate that this prohibition is not conditional, and support this approach. We would not support the introduction of any conditions related to the nature of the self-review threat, materiality, category of NAS or nature and circumstances of the firm or the client, that will serve to reduce the effectiveness of this necessary prohibition.
14. We agree with the proposed prohibition being applied to PIE audit clients only. Also, we agree with the reasons for the focus on PIE audit clients, as detailed in paragraph 600.13 A1 and 600.13 A2. However, as this distinction could apply to all areas of the IESBA Code that use the concept of a PIE, it may need to be repositioned under Section 400.
15. From consultations in our jurisdiction, many parties seemed to have assumed that this prohibition was already in place. This may be a clear indication of the public expectation on audit firms, and provides compelling evidence to support the introduction of this prohibition.
16. It is easy for some users to assume that providing most non-assurance services to a client will also have some impact on the financial statements of that client. However, the guidance provided in paragraph 600.11 A1 clarifies that this is not a total prohibition on non-assurance services.
17. While we appreciate that the definition of non-assurance services has intentionally been left broad and all-encompassing, there is some concern that the prohibition will inadvertently extend to services required to be performed by an auditor in terms of legislation or regulation. In South Africa, many regulated entities require the auditor, in conjunction with the statutory audit, to also perform services for them such as agreed-upon procedure engagements.. Consequently, many users indicated that such required services should be excluded from the definition of non-assurance services because such services are performed by the auditor pursuant to fulfilling legislative requirements, as opposed to optional or discretionary contractually agreed non-assurance services with an audit client.
18. While the benefits of the proposed prohibition of providing non-assurance services on the audit have been explained in the explanatory memorandum, more attention could be given to highlight the benefits of having a non-auditor (a professional accountant) perform the non-assurance services. Some of those benefits are that the professional accountant may be better qualified and experienced, may be more objective, may be able to better focus and concentrate, may be able to provide advice that an auditor would for professional reasons not be able to provide, and as a result of being a specialist in the area, may provide better value for money.

## **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?

19. Yes, with significant reservations. This application material is imperative for the practical decision-making of the auditor and audit firm. Due to the necessity of this paragraph, we suggest that it be drafted as a requirement to elevate the importance of the considerations (similar to a “non-assurance services self-interest test”).

20. We note that 600.11 A2 (a) to (c) have been drafted using the word “will”, rather than “might”, making it less onerous for the auditor, and undermining the requirement. This proposed construct of 600.11 A2 ensures that not all non-assurance services are prohibited. However, this simultaneously places a burden from a regulatory perspective, to prove a breach of the IESBA Code.
21. In practice, some of the risks identified in 600.11 A2 (a) to (c) may only be known or become reliably known while performing the non-assurance service, and this may therefore be too late for the prohibition to have applied, thus undermining the prohibition. It is therefore necessary to clarify that a breach of these provisions will be treated as a breach of the IESBA Code, to drive a more diligent assessment of the risks, before accepting the non-assurance services engagement.
22. The proposed wording of 600.11 A2 (c) may lead to unintended consequences or possible abuse. There is a possibility that the audit engagement team, with knowledge of the nature and extent of the non-assurance service might deliberately scope out the non-assurance service from the planned audit work to ensure that this provision is not breached. Thus, we suggest that 600.11 A2 (c) should be reworded as follows:
- “When making an audit judgment, the audit team ~~will~~might evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the service.”
23. Additionally, clarification is required on the meaning of the phrase “any judgements made, or activities performed” in 600.11 A2 (c).
24. Practically, we note that 600.11 A2 (a) will probably always be met whenever non-assurance services are provided for a fee. For similar reasons, 600.11 A2 (b) will often be met in practice. Thus, in most cases we envisage that 600.11 A2 (c) as the crucial factor between those non-assurance services that create a self-review threat and those that do not, hence the need to clarify this clause.
25. We propose additions to the risks described in 600.11 A2 to include the following:
- (d) Whether the results of the service will affect any risk assessments of the audit engagements*
- (e) Whether the service will have any bearing on an increase/decrease in the fee charged for the audit*

These risks are needed to further screen those non-assurance engagements that create a self review threat, and that should be prohibited.

### **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?

26. No. It is imperative that the term “advice and recommendation” on non-assurance services be clearly defined. It might be seen to include the regular communication between an auditor and a client in highlighting control deficiencies. However, there is also the potential for some services

not to be acknowledged as non-assurance services just because they lack a specific fee or an engagement letter. Thus, a definition will have to find a middle ground between these two extremes.

27. Clarification on the auditor's responsibility to provide management with recommendations identified during an audit in terms of the IAASB International Standard on Auditing (ISA) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, needs to be considered.
28. These auditor recommendations are usually implemented in the following year by the client, which may result in the provisions of paragraph 600.11 A2 (c) being met. However, there is a concern that this paragraph may result in an audit firm's reluctance to provide the necessary communications to those charged with governance (TCWG), thus undermining the current value of the audit.
29. It is doubtful whether the phrase "nature of the advice and recommendation and how such advice and recommendation might be implemented by the audit client" provides the necessary clarity to make this provision understandable.

#### **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.

30. In South Africa, the local amendments to the definition of PIEs (paragraphs [R400.8a SA](#), [R400.8b SA](#) and [R400.8c SA](#)) assist with clarifying any possible confusion. This has been well received and applied for the past four years.
31. We appreciate that the IESBA Code will need to consider this issue at a global level; however, this may be a part where local clarification is needed for each jurisdiction.
32. A principled approach and the necessary guidance would be appreciated at a jurisdictional level. Knowing the market and understanding the use of the PIE definition will allow jurisdictions to set the correct definition or guidance accordingly.
33. Additionally, this project should include the way related entities are considered in the IESBA Code, and also take into account whether parent entities in a group situation should be considered in this definition. Further, this definition has ramifications on the provision of non-assurance services. For example, if the audit firm has provided non-assurance services to the parent entity, this provision should be considered at the audit client level, irrespective of whether the audit client is significant or material to the parent entity.
34. Paragraph 70 of the explanatory memorandum suggests that there may be a "need to consider a less stringent approach for small PIEs". We would not support this consideration. The concept of PIE vs non-PIE is a distinguishing and well understood concept in the Code. The additional distinction between large PIEs and small PIEs is strongly discouraged.

### 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")?

35. Yes. We agree with the removal or clarification, as it adds to the consistent application of the IESBA Code.
36. Furthermore, the IESBA Code still contains other terminology that is subject to interpretation, such as "long period" (paragraph 604.12 A2), "significant degree" (paragraph R603.4) and "not significant" (paragraph 603.3 A1). This may impact the consistent application of the IESBA Code.
37. The IESBA should consider whether this wording could be aligned to enhance the usability of the Code, consistent with the philosophy of the restructure project. Alternatively, if such wording was intentional, then the IESBA should consider providing the necessary clarification.

### Question 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)?

38. Yes, with conditions. We are supportive of the prohibitions relating to tax planning, tax advisory services and corporate finance services.
39. We appreciate that there may be additional amendments to these paragraphs due to the IESBA project on tax and related services, and the future project to consider the use of materiality in the IESBA Code.
40. In paragraph **R604.13 (b)**, clarification is sought on whether this condition indicates a modification to the audit report, or merely a doubt without effecting the fair presentation of the financial statements.

### 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)?

41. Yes, with significant reservations. We support both proposed requirements. The elements of transparency and accountability for both the firm and TCWG is required.
42. However, we question the inclusion of this phrase in both requirements: "... for this purpose, shall include only related entities over which the audit client has direct or indirect control". TCWG should be provided with all available information, rather than a subset of information, to enable them to make a properly informed decision (as indicated in the requirement). Emphasis should also be added that this communication might be required periodically.
43. Additionally, this provision only envisions acceptance of non-assurance services to be provided by a firm already auditing the client. The IESBA Code will also need to consider re-engagement as well as the reverse situation – i.e. an appointment as the auditor when the firm has already been providing non-assurance services.
44. The robustness of these paragraphs is dependent on the sophistication and knowledge of TCWG. As the IESBA Code, legislation and other items change, there may be a requirement for the audit firm to ensure that TCWG have the necessary information and understanding (i.e. communication should include reference to the IESBA Code provisions).
45. Paragraph **R600.18** only deals with making "an informed decision about the impact" of the provision of non-assurance services. Deciding on impact, falls short of the specific granting of permission. We are of the view that this is an unintended omission in this requirement. Such an inclusion and clarification will strengthen this requirement, without creating an additional burden.
46. While the examples in 600.18 A1 are relevant, we recommend the following additional examples, which are germane to the consideration of TCWG:
  - The value of the proposed non-assurance service/s.
  - Whether the proposed non-assurance service/s is/are once-off or repetitive.
  - How such proposed non-assurance service/s may influence the composition of the audit team/audit service.

#### **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?

47. Yes. We agree with the proposed relocation of the paragraphs relating to assuming management responsibility. We also appreciate the refining of these provisions from the IESBA project relating to safeguards.
48. However, there is a concern that these paragraphs may be lost among the numerous other revisions to the IESBA Code. We suggest the need to highlight these provisions in consequential amendments to the Guide to the IESBA Code.

### 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?

49. Yes and yes. We are supportive of the elevation of paragraph **R600.10**. This is an area that is subject to much public scrutiny and has a direct impact on the independence of the audit firm.
50. With respect to the coordination between the IESBA Non-Assurance Project and the IESBA Fee Project, we question whether the IESBA sufficiently considered a threshold in relation to the fees obtained from non-assurance services compared to audit services. An introduction of a threshold would allow for a focused consideration by the firm and network firm, and improve the robustness of the requirement.
51. A similar analysis has been included in the [IRBA Feedback Report: Audit Quality Indicators Report 2019](#). It is interesting to note the analysis on pages 7 and 8 thereof as an indication of data available for South Africa.
52. From a regulatory perspective, this paragraph is not sufficiently robust to be easily inspected or investigated. Additionally, this information is not readily available on the audit file, thus creating a burden on the inspection or investigation process.

### Question 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?

53. We are generally in support of the proposed revisions, with the suggestions indicated below in paragraphs 54-56.

54. 601.2 A1 and 601.2 A2:

The responsibilities of the auditor described in 601.2 A2 appear to exceed the description of the responsibilities of management described in 601.2 A1. It is necessary that these responsibilities be rebalanced, so that the primary responsibility rests with management.

Furthermore, it is a concern that paragraph 62 of the explanatory memorandum describes these actions (in 601.2 A2) as “permissible”. The creation of this list as a de facto “white list” that may be questioned in some circumstances, and may even constitute “black list” services under some circumstances.

55. Paragraph 601.4 A1:

We suggest a deletion of the following final point: “... preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records”. In most cases, the disclosure requirement is not readily available and it involves management responsibility. We further propose that the IESBA consider whether the preparation and filing of XBRL returns could be considered to be within the scope of this paragraph.

56. Paragraphs **R601.7**, **R604.4** and **R607.6**: We agree with these proposals. However, we think that the prohibition in **R604.4** could be stated in clearer terms.

57. Paragraph 604.12 A2 (b) and (c):

These concepts may need to be further considered as they are not clear or appropriate. The use of established practice may still require significant professional judgement and may be used differently in each jurisdiction, as it is subject to different interpretations. In particular, 604.12 A2 (c), is not clear as to whose view informs this decision, and as indicated in paragraph 41 of the explanatory memorandum, we agree that this determination is highly subjective, and favour the deletion of it.

58. We support the proposal in the exposure draft to provide examples of safeguards that could be applied to address threats to independence. However, we are not convinced that “using professionals who are not audit team members to perform the service”, which is included in most of the situations, would be a sufficient safeguard.

**Question 11**

Do you support the proposed consequential amendments to Section 950?

59. Yes. We are supportive of the proposed consequential amendments made to Section 950.

**Question 12**

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

60. Yes. In respect of paragraph 900.34 A2, it would be useful to understand how a practitioner will decide when it might or might not be appropriate to communicate with those charged with governance. The inclusion of an example may be helpful to allow for the appropriate use of this paragraph.

61. To easily understand the significant revisions envisioned to the IESBA Code, consequential amendments to the Guide to the IESBA Code should be considered.

**Other comments**

**(b) *Small and Medium Practices (SMPs)* – The IESBA invites comments regarding the impact of the proposed guidance for SMPs.**

62. We do not believe that the proposals are punitive or harsh for SMPs, as these amendments have been done on a principled basis and with more stringent requirements for PIEs.
63. However, there is a concern that these significant amendments may be overlooked by SMPs. Further, many provisions will require change management at the firms. SMPs will need to consider these provisions for their respective client base before the effective date.
64. We encourage the IESBA to develop targeted publications on these changes that can be used in workshops and discussions with the SMPs.

**(c) *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.**

65. We appreciate this level of detail to close loopholes on this important topic.
66. However, we have concerns regarding paragraph 600.11 A2. With the limited documentation requirements in the Code, the burden of proof will be placed on inspectors or investigators.
67. This might result in the robust provisions not sufficiently driving the change in auditor behaviour that was originally envisioned.

**(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 guidance, and in particular, on any foreseeable difficulties in applying it in their environment.**

68. We do not envisage that this proposal could present any foreseeable difficulties from a developing nation's perspective.