

4 February 2015

Submitted electronically to kensiong@ethicsboard.org

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

Dear Ken,

Comments on the Consultation Paper Relating to Improving the Structure of the Code of Ethics for Professional Accountants

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 (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct of registered auditors. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the Code). It was prescribed in 2010 as the *Code of Professional Conduct for Registered Auditors* (the IRBA Code), in South Africa with certain additional national requirements. The IRBA Code together with its *Rules Regarding Improper Conduct* provides the basis for disciplinary action against registered auditors. Consequently, the IESBA's Consultation Paper relating to improving the structure of the Code of Ethics for Professional Accountants might result in possible amendments to Parts A and B, therefore it is of particular interest to the IRBA.

We appreciate this opportunity to comment on the IESBA Consultation Paper relating to Improving the Structure of Code of Ethics for Professional Accountants.

Our comments are presented in the following sections:

- General comments;
- Request for specific comments and responses; and

If you have any questions or would like to discuss any specific comments, please contact Imran Vanker/ Saadiya Adam on: +27 87 940 8838/ +27 87 940 8870 or at ivanker@irba.co.za / sadam@irba.co.za .

Yours faithfully

Signed electronically

Imran Vanker
Director: Standards

Saadiya Adam
Professional Manager: Ethics

1. General comments

- 1.1. The IRBA supports the initiatives of the IESBA to improve the clarity and usability of the Code, thereby facilitating its adoption, effective implementation and consistent application.
- 1.2. As a regulator of registered auditors we are concerned about enforceability as well as awareness raising initiatives to create an enabling environment for the registered auditors. We believe that the Code is imperative in protecting the public interest, thus support the initiatives that consider the ease of understanding of the Code.
- 1.3. While the consultation paper on the IESBA Code of Ethics for Professional Accountants has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits, reviews and provide other assurance services.

2. Request for Specific Comments and Responses

Question 1

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA's objective of making the Code more understandable? If not, why not and what other approaches might be taken?

Preface

- 2.1. We welcome the introduction of the preface that allows users to understand how to use the Code. It is an efficient way that allows the user to proceed in the correct direction.
- 2.2. Users of the Code are not necessarily registered auditors but may include members of the public, thus, the preface may be required to provide clarity to first time users who have limited knowledge of the Code.
- 2.3. We suggest the use of visual representation in the Code. This will help the user understand the relationships clearer. The following is an example of how the various sections of the Code of Professional Conduct can be represented visually:
 - 2.3.1. The various sections of the Code can be represented in a flow diagram similar to Appendix 1 in the International Standard on Assurance Engagement 3000 (revised) Assurance engagements other than Audits or Reviews of Historical Financial Information.
- 2.4. The relationship between the fundamental principles, threats and safeguard should be explained in more detail. This is the foundation for understanding of the Code especially in respect of independence.

Distinguishing the Requirements from the Application and Other Explanatory Material

- 2.5. We welcome the proposal to distinguish requirements from application and other explanatory material. Providing clear and understandable requirements in the Code is likely to improve the usability of the Code and provide clarification on areas where there has been room for inconsistent application.
- 2.6. The IESBA may wish to consider cross referencing the requirements to the relevant application and other explanatory material. This will be in keeping with the

International Standards of Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB).

- 2.7. When drafting the proposed Exposure Draft, the IESBA should be cautious not to lose the link between the requirements and the fundamental principles and conceptual framework. It is important that the reader still considers these principles through the Code. At the same time, we must caution against making the Code long-winded. A long Code may be seen as being verbose and readers may not appreciate the repetitiveness.
- 2.8. This will also help clarify which paragraphs have clear prohibitions in the Code. Readers have in the past been confused when appropriate safeguards can be applied.

Safeguards

- 2.9. We do not believe that this project alone will achieve the desired outcome. We look forward to the Safeguards Project approved on the IESBA Strategy as we believe that it will play a key role in the understanding and enforceability of the Code.

Question 2

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?

Laws and regulations

- 2.10. We do not foresee a problem with the illustrative version being adopted into laws and regulations.
- 2.11. In South Africa, we would be required to publish a paper or pdf version of the Code in line with our legal requirements. Thus we would require that the electronic version of the Code and the paper version be the same.
- 2.12. The IRBA Code uses underlined and italic text to indicate local amendments/additions to the Code. With the introduction of further underlined wordings, we will have to consider a new way to ease the readers understanding as to which sections are as a result of local amendments/additions.
- 2.13. While the introduction of colour may be helpful with the usability of the Code, it will be lost in the printed version of the Code as we do not usually print the IRBA Code in colour.

Effectively implemented:

- 2.14. This approach is similar to auditing standards, thus would be considered familiar to registered auditors.
- 2.15. We do believe that the proposed version will increase the length of the Code. Though the intention is to ease the use, we caution that increasing the length of the Code may have the opposite effect.

Consistent Application

- 2.16. Distinguishing between requirements and application and explanatory material will help eliminate areas that lead to different interpretations.
- 2.17. We look forward to the safeguard projects as there is a concern that safeguards used may be inadequate or inappropriate relating to the threat or risk.
- 2.18. Although improving the structure of the Code is a step in the right direction, there are certain areas in the Code where consistent application will remain a concern.

Question 3

Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?

- 2.19. We do not foresee a problem with the proposed reordering. We appreciate that the independence section forms a large portion of the Code and the IESBA preference to include it at the end.
- 2.20. We find the new paragraph numbering confusing. We would prefer to have the paragraph numbered as 100.1 as opposed to 100.001. This would be in keeping with the past numbering convention.
- 2.21. The IESBA may want to consider adding a prefix "A" to the application and explanatory material paragraph numbers. This would be consistent with the International Standards on Auditing (ISAs) issued by the IAASB.

Question 4

Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?

- 2.22. We believe that issuing separate International Standards on Ethics will have little impact on improving the visibility or enforceability. Rather, the distinguishing of requirements and application and explanatory material will be an important step to enhance enforceability. The IESBA proposed project on safeguards will also help the understanding of the Code.
- 2.23. We believe that it is important that the Code is seen as one document. Separating the Code into discrete standards may result in the link between the fundamental principles and the relevant sections being lost. Readers will have difficulty in seeing how the Code fits together and therefore in applying it.

Question 5

Do you believe that the suggestions as to the use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?

- 2.24. We welcome a revision to the language used in the Code. The use of shorter sentences and simplifying grammar will enable understanding and facilitate consistent application.
- 2.25. We also encourage the IESBA to align terminology used with the IAASB. We appreciate that the IESBA has already aligned the Code wording in respect of ISA 610 (revised) Use of Internal Audit and ISA 260 (revised) Communication with Those Charged with Governance.
- 2.26. We should be mindful that users of the Code are not always people that are familiar with the International Standards of Auditing (ISAs) but may include members of the public. Thus phrases that are commonly understood in the auditing field may not be understood by all readers.
- 2.27. We agree that certain terms are not clearly defined and need to be read with their relevant paragraphs. We agree that a clear link is included under definitions to improve the understanding of the definition. Examples of these definitions include Network Firms and Public Interest Entities.
- 2.28. We caution that improvements to language in the Code may inadvertently change the intentions or requirements of the Code. Thus changes to the Code should not result in changes to the underlining meaning.

Question 6

Do you consider it necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?

- 2.29. We support the clarification of responsibilities. The assignment of monitoring powers to a specific individual in the firm who will ultimately take responsibility will improve and facilitate the enforceability of the Code.
- 2.30. We agree that the requirements relating to ethics presented in International Standards on Quality Control 1 (ISQC1) should be built into the Code and not left to a cross reference. Alignment of ISQC1 and the Code should not be limited to the illustration above. Paragraph 20 -25 of ISQC1 contains items relating to the Code which should be reiterated in the Code.

Question 7

Do you find the examples of responsible individuals illustrated in paragraph 33 useful?

- 2.31. The proposed paragraph is helpful.
- 2.32. On reading the proposed amendment, it must be clear to the engagement partner that only certain responsibilities are shared with the responsible person. The engagement partner will still be required to make an affirmative statement in the

auditor report that s/he has complied with the Code in accordance with ISA 700 (revised) Forming an Opinion and Reporting on Financial Statements.

Question 8

Do you have any comments on the suggestion for an electronic version of the Code, including which aspects might be particularly helpful in practice?

- 2.33. We welcome the introduction of a web-based Code as was recently introduced by IESBA. We agree that digital is the preferred medium of communication.
- 2.34. This will allow the Code to be widely accessible which will ensure the accessibility of it. The navigation of the web-based Code will improve subject to the proposed changes envisioned in the Consultation Paper.
- 2.35. We appreciate the usefulness of the search function, being able to view the definition side by side with the relevant section, an interactive table of contents which allows ease of navigation and the helpful comparison with previous versions of the Code.
- 2.36. In the future, we look forward to seeing additional tools that will help the user's understanding of how the various sections fit together. This may include the use of a tagged words search, a series of questions that allows the user to be directed to the correct section, an interactive navigation toolbar that allows the user an overview of the sections within the code before reading the relevant section, etc.
- 2.37. While the introduction of the web-based Code is a step in the right direction, we believe that more can be done to enhance on-line resources. The inclusion of presentations, webinars and a how-to video may be a quick way to enhance the usability of the Code. This method will be able to cater for different levels of users.
- 2.38. We do not believe that the web-based Code should be different from the official version. The additional tools that allow for navigation and clarification should not necessarily change the layout or content of the Code.

Question 9

Do you have any comments on the indicative timelines described in Section VIII of this paper?

- 2.39. We agree with the timeline proposed in section VIII. It would be crucial that the timing of various projects is aligned for enforcement purposes. This would make the process of commenting and amendments to the IRBA Code more efficient.
- 2.40. As mentioned earlier, we believe that the safeguards project in addition to the restructure of the Code would help with enforceability and usability of the Code. Thus we would appreciate if these projects would be linked and be able to follow a joint exposure draft covering both projects.
- 2.41. For enforcement purposed, we require earlier PDF versions of the Code to be easily available on the IESBA website. We are often required to go back to previous versions of the Code depending on the investigation/ inspection period.

Question 10

Do you have any other comments on the matters set out in the Consultation Paper?

2.42. No. We have no further comments.