

25 July 2017

Mr K Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants (IESBA)  
529 Fifth Avenue, 6th Floor  
New York, NY 10017, USA  
Submitted electronically to [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Ken

**Comments on the Exposure Draft: Proposed Application Material Relating to:  
(a) Professional Skepticism – Linkage with the Fundamental Principles; and  
(b) Professional Judgment – Emphasis on Understanding Facts and Circumstances**

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 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. In preparing this comment letter, the IRBA consulted internally with inspectors and investigators; and externally with registered auditors.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the Code). This 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, with its *Rules Regarding Improper Conduct*, provides the basis for disciplinary action against registered auditors. As the IESBA's exposure draft on the proposed revisions relating to Professional Skepticism and Professional Judgment could result in possible amendments to Part A, the IRBA has particular interest in the process.

We appreciate this opportunity to comment on the exposure draft and our comments are presented under the following sections:

- A. Opening Comments;
- B. Request for Specific Comments and Responses; and
- C. Request for General Comments.

If you have any questions or would like to discuss any specific comments, please contact:

- Imran Vanker on +27 87 940 8838 or at [ivanker@irba.co.za](mailto:ivanker@irba.co.za).
- Saadiya Adam on +27 87 940 8870 or at [sadam@irba.co.za](mailto:sadam@irba.co.za).

Yours faithfully,

***Signed electronically***

**Imran Vanker**  
**Director: Standards**

**Saadiya Adam**  
**Professional Manager: Ethics**

## A. Opening Comments

1.1. The IRBA supports the initiatives of the IESBA to:

- Describe how compliance with the fundamental principles in the Code supports the exercise of professional skepticism in the context of audit and other assurance engagements; and
- Emphasize the importance of obtaining a sufficient understanding of the facts and circumstances when exercising professional judgment in applying the conceptual framework.

1.2. While this exposure draft on the Code has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits, reviews and other assurance services.

1.3. Like the International Forum of Independent Audit Regulators (IFIAR), the 2015 and 2016 IRBA Public Inspections Reports noted the lack of professional skepticism as a possible root cause of certain inspection findings. The reports are available at <https://www.irba.co.za/guidance-to-ras/inspections/reports>.

1.4. Unfortunately, the proposed application material is limited and may not have an impact on the behaviour of registered auditors as envisioned by the Board, i.e. contribute to improving audit quality. We hoped that this project would have stronger proposals, especially given the high public interest in the project.

1.5. Professional skepticism is an important and a complex area, thus we encourage the IESBA as well as the tripartite Professional Skepticism Working Group to continue working on strengthen the application of professional skepticism. Additionally, we encourage that the scope of the longer term professional skepticism project not be limited to applicability of professional skepticism by professional accountants, but rather consider the original reason for including professional skepticism in the IAASB ITC.

1.6. The IRBA looks forward to the IESBA undertaking project that are

- (a) More closely aligned to the central public interest issues,
- (b) In touch with rapidly changing auditor independence developments across the world, in order to remain relevant and fit for purpose. To this end the focus given to these limited amendments to application material, is not fully understood, versus the other pressing priority issues such as Fee related matters, non-assurance services, etc.

## **B. Request for Specific Comments and Responses**

### *Proposed Application Material Relating to Professional Skepticism (paragraph 120.13 A1)*

#### **1. Do respondents agree that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code?**

- 1.1. We agree that the proposed amendments clarify the relationship between the fundamental principles and professional skepticism. It does seem, though, that this explanation was previously missing from the extant Code.
- 1.2. This additional information would be helpful to first-time users of the Code. However, it may not enhance the understanding of registered auditors who are already familiar with professional skepticism.
- 1.3. One of the unintended consequences could be that fundamental principles are only seen via the lense of professional skepticism.

#### **2. Do the examples in the proposed application material clearly describe how compliance with the fundamental principles of integrity, objectivity, and professional competence and due care support the exercise of professional skepticism in the context of an audit of financial statements? If not, why not?**

- 2.1. We agree that the proposed application material helps clarify how compliance with the fundamental principles supports the exercise of professional skepticism.

### *Proposed Application Material Relating to Professional Judgment (paragraph 120.5 A1)*

#### **3. Do respondents agree that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code?**

- 3.1. We agree that the proposed application material enhances the understandability of the conceptual framework.

#### **4. Do respondents agree that the proposed application material appropriately emphasizes the importance of professional accountants obtaining a sufficient understanding of the facts and circumstances known to them when exercising professional judgment in applying the conceptual framework? If not, why not?**

- 4.1. We agree that the proposed amendments emphasize the importance of registered auditors obtaining sufficient understanding of facts and circumstances known to them when exercising professional judgment.
- 4.2. Additionally, we note that the definition proposed for professional judgment is slightly different from that used by the IAASB. In an effort to coordinate common terms used between the three standard-setting boards, the IEBSA may want to consider whether the IAESB has a similar definition of professional judgment before finalisation.

## **C. Request for General Comments**

### **5. (a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.**

5.1. The proposed application material affects all registered auditors. Thus, the clarification will be helpful.

### **6. (b) 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.**

6.1. In environments where the IAASB pronouncements and the Code have been adopted relatively recently, the proposed amendments will bring some clarification to this important topic.

### **7. (c) Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.**

7.1. No comment.