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Submitted electronically to kensiong@ethicsboard.org

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Dear Ken

Comments on the Exposure Draft on the Proposed Revisions Pertaining to Safeguards in the Code – Phase 2

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 and professional accountants in business.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (Board) *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 pertaining to safeguards in the Code could result in possible amendments to Parts A and B, 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. General Comments;
- B. Request for Specific Comments and Responses;
- C. Request for General Comments; and
- D. Annexure A: Comments on Specific Paragraphs.

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

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Yours faithfully,

Signed electronically

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A. General Comments

- 1.1. The IRBA supports the initiatives of the IESBA to improve clarity and eliminate inappropriate use of safeguards, thereby facilitating adoption, effective implementation and consistent application.
- 1.2. As a regulator of registered auditors with a statutory objective to protect the public, we are concerned about the enforceability of the Code. We support initiatives that create an enabling environment for registered auditors to apply the IRBA Code and those that promote ease in understanding the IRBA Code.
- 1.3. While the 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 provide other assurance services.
- 1.4. We considered the Basis for Conclusion of Safeguards – Phase 1 and appreciate that several of our suggestions were addressed. However, a few points are worth mentioning, and these are set out below.

Reasonable and Informed Third Party:

- Under Phase 1 of the project, we found that the reasonable and informed third party test to be confusing. The revisions have made it clear this is done from the perspective of a person who has a certain level of skills, knowledge and experience.
- Additionally, the revision made it clear that the professional accountant will be performing the test (i.e. it is self-imposing), without limiting it to the lenses of a professional accountant. This wider requirement allows the Code to better serve the public interest.
- While the level of skills, knowledge and experience that is expected is still unclear, these will be guided by the context and circumstances in which the test is performed.
- From the consultation process, respondents indicated that certain sections in the Code may require a slightly different test. As such, in the future the Board may want to consider an investor perception test.

New Information

- The Board may consider redrafting paragraph 120.9 A2 as a requirement rather than application material, as a requirement is embedded therein.

Future Non-Assurance Services Project

- 1.5. While the safeguards project has made an effort to clarify and enhance the use of safeguards, we believe that a more in-depth project is needed to enhance ethical conduct. Thus, we encourage the Board, when considering its strategy, to look at an overhaul of the independence sections, especially non-assurance services.
- 1.6. We remind the IESBA that words such as “safeguards” and the wording used in the extant Code are similar to those used in various IAASB International Standards on Auditing (ISAs)¹. One of the consequences is the possibility of inconsistency arising

¹ ISQC1, ISA 200, ISA 220, ISA 240, ISA 260, ISA 315(R), ISA 402, ISA 500, ISA 501, ISA 610, ISA 620, ISA 620

between the ISAs and the revised Code. For example, the proposed amendments to the definition of safeguards will need to be reconsidered in light of:

In ISA 260: “A22(b) Safeguards created by the Profession, legislation or regulation, safeguards within the entity and safeguards with the firm’s own system and procedure.”

B. Request for Specific Comments and Responses

Section 600, Provision of Non-Assurance Services to an Audit Client

1. Do respondents support the proposals in Section 600? If not, why not?

In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.

- 1.1. The provision of non-assurance services by the firm or network firm is a topical subject. Legislation as well as company boards have set independence requirements relating to the provision of non-assurance services that are more stringent than the Code. For example, the South African Companies Act 2008, Act 71 of 2008, has more stringent requirements relating to the non-assurance services of bookkeeping and certain secretarial services than the Code.
- 1.2. We agree that an exhaustive list of non-assurance services alone will not be helpful, especially considering the growing number of additional non-assurance services that firms are providing. However, the general provisions of the Code should be adequately robust to highlight the threats created by non-assurance services provided to a client that is also an audit or review client of the firm. This will ensure that the user of the Code has sufficient direction to make an informed decision on whether to provide certain non-assurance services.
- 1.3. When an audit firm is engaged in both the audit and another non-assurance engagement, the risk does also arise that the quality of the non-assurance engagement may suffer due to the firm also being engaged in the audit. There are many reasons why this could happen. The IESBA should address this.
- 1.4. It is also necessary to address in Section 600 that this applies equally when the non-assurance services are not remunerated or not specifically procured. For example, we have found that at certain times the non-assurance services are not specifically procured but rather supplied on an ad-hoc basis or as “on the job” assistance.
- 1.5. We agree with the extension of Recruitment Services under Paragraph 25(h) to non-Public Interest Entities (PIEs). This level of the threat is too significant to consider the use of safeguards.

Enhanced general provisions for providing non-assurance services to Audit Clients

- 1.6. We welcome paragraph 600.4 A3 that anticipates evaluating the level of any threat created by providing non-assurance services. This includes some important general concepts to consider before undertaking a non-assurance service.
- 1.7. Other possible considerations to include in paragraph 600.4 A3 are as follows:
 - Whether the segregation of responsibilities between the audit or review engagement and the non-assurance engagement is possible.
 - The tenure of providing the non-assurance service.

- The possibility of scope creeps as, for example, it is likely that a non-assurance engagement could start off as one service and then have additional services added during the engagement.
 - Whether the non-assurance service is supported by laws or regulations or rules that are clearly articulated. A non-assurance engagement that is based on a recognised framework is less likely to compromise independence on the audit engagement.
 - The degree of subjectivity of the non-assurance engagement.
 - The reliability and availability of underlying data on which the non-assurance service is provided.
 - Whether the engagement is based on past or future events.
 - The operating structure of the firm or network firm.
 - The purpose and use of the non-assurance service.
- 1.8. In addition, the network firm will need to consider whether the quality of the non-assurance service will be impacted by the audit or review service.

Materiality in Relation to Audit of Financial Statements

- 1.9. The introduction of a definition of materiality is helpful as it will promote consistent application.
- 1.10. Materiality is mentioned several times in this section. However, it would be appreciated if additional application material is included to explain this concept further, especially the qualitative factors to consider when making ethical decisions. For example, the scope of the engagement, the threats to independence in appearance and reference to the reasonable informed third party test.

Multiple Non-assurance services to an Audit Client

- 1.11. We welcome the addition of paragraph 600.6 A1. However, this should be included as a requirement rather than application material.
- 1.12. Further application material is required to assist the registered auditor when dealing with multiple non-assurance services, how to assess the aggregate threat, as well as possible suggestions on implementing actions that could mitigate the aggregated threat.
- 1.13. An audit client's dependency on a firm or network firm should be considered quantitatively and qualitatively. We have found that certain audit committees consider the total fee from the non-assurance engagement compared to the total fee from the audit firm in determining whether the firm is suitable to be appointed as independent auditors. This ratio may be a useful indication that an audit client over-relies on a firm or network firm's non-assurance services. We suggest that the Board considers including the following requirement in the Code:

“Rxx A registered auditor shall consider the total of the non-assurance audit fee of an audit client.

Axx When the total non-assurance fee from an audit client represents a large proportion of the total fee from the firm expressing an audit opinion, the dependence on that client's non-assurance services and concerns about losing the client may create self-interest, self-review and intimidation threats.”

1.14. We believe that this is a good example of where the qualitative factors of materiality should be considered.

Network firms

1.15. We agree that differentiating between firm and network firm will make responsibilities clearer. The firm will be responsible for performing the audit or review engagement. The network firm’s acceptance of non-assurance services will also need to be considered by the firm for conflicts of independence.

1.16. However, certain paragraphs seem to have omitted reference to network firms. Some of the requirements refer to both firm and network firm, while other paragraphs only refer to the firm. This can be confusing.

1.17. Examples where network firms have been erroneously omitted are referred to in the table below. Proposed amendments have been reflected as underlined text.

Paragraph no	Suggested Amendment
600.7 A1	600.7 A1 Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm <u>or network firm</u> assumes a management responsibility. Assuming a management responsibility also creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management.
R600.8	R600.8 To avoid the risk of assuming management responsibility when providing non-assurance services to an audit client, the firm or a network firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client’s management: (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee the services. Such an individual, preferably within senior management, would understand: (i) The objectives, nature and results of the services; and (ii) The respective client and firm <u>or network firm</u> responsibilities.
601.3 A4	601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include: <ul style="list-style-type: none"> • Complying with group accounting policies. • Transitioning to a different financial reporting framework such as International Financial Reporting Standards. Such services do not usually create threats provided the firm <u>or network firm</u> does not assume a management responsibility for

Paragraph no	Suggested Amendment
	the client.
R601.8	<p>R601.8 As an exception to paragraph R601.6, a firm <u>or network firm</u> may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:</p> <p>(a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or</p> <p>(b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.</p>
603.3A2	<p>603.3 A2 If a firm <u>or network firm</u> is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.12 A1–604.14 A1, relating to such services apply.</p>
604.4 A2	<p>604.4 A2 Factors that are relevant in evaluating the level of any threat created by providing taxation services to audit clients include:</p> <ul style="list-style-type: none"> • The particular characteristics of the engagement. • The level of tax expertise of the client’s employees. • The system by which the tax authorities assess and administer the tax in question and the role of the firm <u>or network firm</u> in that process. • The complexity of the relevant tax regime and the degree of judgment necessary in applying
604.16 A2	<p>604.16 A2 Paragraph R604.16 does not preclude a firm <u>or network firm</u> from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:</p> <ul style="list-style-type: none"> • Responding to specific requests for information. • Providing factual accounts or testimony about the work performed. • Assisting the client in analyzing the tax issues in the matter.
605.4 A1	<p>605.4 A1 Performing a significant part of the client’s internal audit activities increases the possibility that firm <u>or network firm</u> personnel providing internal audit services will assume a management responsibility. If the firm’s <u>or network firm’s</u> personnel assume a management responsibility when providing internal audit services to an audit client, the threat created cannot be eliminated or reduced to an acceptable level by applying a safeguard.</p>

Paragraph no	Suggested Amendment
605.4A2	<p>605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:</p> <ul style="list-style-type: none"> • Setting internal audit policies or the strategic direction of internal audit activities. • Directing and taking responsibility for the actions of the entity’s internal audit employees. • Deciding which recommendations resulting from internal audit activities to implement. • Reporting the results of the internal audit activities to those charged with governance on behalf of management. • Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges. • Taking responsibility for designing, implementing, monitoring and maintaining internal control. • Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm <u>or network firm</u>: <ul style="list-style-type: none"> o Is responsible for determining the scope of the internal audit work; and
605.6 A1	<p>605.6 A1 When a firm uses the work of an internal audit function in an audit engagement; International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm <u>or network firm</u> accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:</p> <ul style="list-style-type: none"> (a) Appropriately evaluating those results; or (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm <u>or network firm</u>.

1.18. In addition, paragraph R400.51 requires a network firm to be independent of the audit client, but this requirement has been omitted under Section 600.

Avoiding Management Responsibility

1.19. This subsection is clearer than the extant Code. However, it is unlikely that the amendments will lead to a change in ethical behaviour. Therefore, the Board may consider strengthening this subsection by reinforcing that taking on management responsibility should be considered both in mind and appearance.

1.20. The second requirement in this section seems to provide an exemption that could be abused by registered auditors. Additionally, the wording suggests that these are the steps through which the registered auditor will “avoid the risk” of

management responsibility, rather than being cognisant not to take on those responsibilities.

Consideration of Certain Related Entities

1.21. A suggestion would be to consider the scope of the non-assurance engagement at the related party and whether that has any direct or indirect impact on the audit client.

Preparation of Financial Statements

1.22. The Board may have to consider relooking at this section in more detail. The preparation and fair presentation of financial statements creates self-review and self-interest threats at all audit clients. In addition, it is more likely for the registered auditor to take on management responsibility at a smaller client than at a PIE, due to possible resource limitations at the audit client. Therefore, the prohibition on the preparation of financial statements for PIEs and not all entities does not seem to be at the correct level.

1.23. For example, a factor to consider when evaluating the level of the threat is whether the appointment of the preparer of the financial statements has been approved by the shareholders, as they are an important stakeholder that may ultimately suffer some loss if the threats are not eliminated or mitigated to an acceptable level.

1.24. In addition, paragraph 601.4 A1 states:

Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgment by the professional accountant. Some examples of these services are:

- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

However, the IAASB International Standards on Related Services (ISRS) 4410, (ISRS 4410), *Compilation Engagements*, paragraph 22 and related application material requires that a practitioner exercises professional judgement when conducting a compilation engagement. Therefore, there appears to be a misalignment between the ISRS 4410 and the Code.

Tax Consulting

1.25. Preparation of a tax return is prohibited for PIEs, but a similar prohibition is not extended to tax planning. We believe that this is misaligned.

1.26. Preparation of a tax return is based on historical information, while tax planning is based on future events and estimates. Though tax planning may not affect the current financial statement, it can have a material impact on the future financial statement of the audit client and increase the self-review or advocacy threat.

Section 950, Provision of Non-Assurance Services to an Assurance Client

2. *Do respondents support the proposals in Section 950? If not, why not?*

2.1. We support the proposals contained in Section 950. However, we have the following comments:

- It appears that Section 950 has less stringent independence requirements than Section 600. We believe that independence requirements for other assurance engagements should be at a similar level to review and audit engagements.
- The general section that is included in Section 600 has not been included in Section 950. We believe it would be helpful to have such general guidance provided for other assurance engagements.
- Network firms and PIE considerations are not included in Section 950. We believe that similar requirements, as included in Section 600, would be applicable to Section 950.
- It may be helpful to include a paragraph in Section 950 that refers the registered auditor to Section 600, where applicable guidance is available.

Materiality under other assurance engagements has been defined; however, it is only used once in the section. Therefore, it may be considered unnecessary.

Examples of Safeguards

3. *Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?*
 - 3.1. Examples of safeguards are a very important part of Section 600. The section acknowledges the possible safeguards to be used by registered auditors.
 - 3.2. However, similar safeguards have been repeated. This sets a precedent that those safeguards, for example, a review of the work, can be used for all threats. We believe that this is not adequately robust and should be reconsidered.
 - 3.3. Para 300.8 A1 contains useful examples of the safeguards, however, these are not always considered in the list of safeguards under non-assurance services.
 - 3.4. We also believe that:
 - The examples need to be clear on whether the independent third party is independent of the audit client and non-assurance engagement, the firm or the network firm or independent of the audit team.
 - Transparency may be considered as a safeguard. For example, should the audit committee be asked if it is comfortable with the arrangement?
 - The reasonable and informed third party test will apply. This test has not been used in the context of Section 600.

Conforming Amendments Arising from the Safeguards Project

4. *Do respondents agree with proposed conforming amendments set out in:*

(a) Chapter 2 of this document.

- 4.1. Please see table below in Annexure A.

(b) The grey text in Chapters 2-5 of Structure ED-2

- 4.2. Please see table below in Annexure A.

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 lack of clarity on some important concepts in the proposed amendments would make it especially difficult for SMPs to implement. For example, additional time and resources would be required for SMPs to comply with the conceptual framework.

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 need for clarity within the Code is of utmost importance. In developing nations, the limited experience of practitioners, standard-setters and regulators in the application of the Code makes a clear structure and enforceability of the Code paramount. As such, we believe that further efforts can be made by the IESBA to achieve clarity and enforceability of the Code.

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

7.1. No comment.

Annexure A: Comments on Specific Paragraphs

In this Annexure we have made suggestions for possible edits to the Code, in line with some of our comments to the specific questions above. Suggestions for additions appear in italics and are underlined, while suggestions for deletion have been struck through. This, however, is not a comprehensive proposal of all edits.

This table has been divided into:

- Chapter 1: Section 600;
- Chapter 2: Conforming amendments arising from the Safeguards project not included in Structure Phase 2 exposure draft; and
- Conforming amendments included in the Structure Phase 2 exposure draft (Chapters 2- 5).

Chapter 1: Section 600

No	Chapter 1	Comment
1.	600.3 Section 600 sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material relevant to providing certain non-assurance services to audit clients and indicate the types of threats that might be created as a result. In some cases, these subsections expressly prohibit a firm or network firm from providing certain services to an audit client because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.	We suggest repeating that the conceptual framework will apply, as well as including that <u><i>“if a threat created cannot be reduced to an acceptable level by the application of safeguards, the non-assurance services shall not be provided.”</i></u>
2.	600.4 A3 Factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an audit client include: • The nature <u><i>and scope</i></u> of the service, and the degree of reliance,	We suggest that the first bullet point should read: “The nature <u><i>and scope</i></u> of the services”. 2 nd bullet point, 3 rd sub-bullet point should read: “The extent of the <u><i>firm’s or network firm’s</i></u> involvement in

No	Chapter 1	Comment
	<p>if any, that will be placed on the outcome of that service as part of the audit.</p> <ul style="list-style-type: none"> • Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so: <ul style="list-style-type: none"> o The extent to which the outcome of the service will have a material effect on the financial statements. o The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements. o The extent of the <i>firm's or network firm's</i> audit client's involvement in determining significant matters of judgment. 	<p>determining significant matters of judgment.”</p>
3.	<p>600.7 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility include:</p> <ul style="list-style-type: none"> • Setting <i>Developing and implementing</i> policies and strategic direction. • Hiring or dismissing employees. • Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity. • Authorizing transactions • Controlling or managing bank accounts or investments. • Deciding which recommendations of the firm or other third parties to implement. • Reporting to those charged with governance on behalf of management. • Taking responsibility: 	<p>We suggest that the first bullet point should read: “<i>Developing and implementing</i> policies and strategic direction”, as the word “<i>setting</i>” is vague.</p> <p>Last bullet point, 1st sub-bullet point: Consider removing “fair presentation” or replacing “and” with “or”.</p> <p>This paragraph, as currently phrased, would permit the registered auditor to prepare financial statements of an audit client provided they do not take responsibility for fair presentation. We believe that the preparation of financial statements be prohibited in its entirety, irrespective of an explicit statement of responsibility.</p>

No	Chapter 1	Comment
	<ul style="list-style-type: none"> o For the preparation and <u>or</u> fair presentation of the financial statements in accordance with the applicable financial reporting framework; o For designing, implementing, monitoring or maintaining internal control. 	
4.	<p>Audit Clients that Are Not Public Interest Entities R601.6 A firm or a network firm shall not provide to an audit client that is not a public interest entity, services related to accounting and bookkeeping services, on financial information which forms the basis of the financial statements on which the firm will express an opinion. unless:</p> <ul style="list-style-type: none"> (a) The services are of a routine or mechanical nature; and (b) The firm addresses any threats created by providing such services. 	<p>We suggest the removal of (a) and (b).</p> <p>The prohibition of accounting and bookkeeping services should be the same as for PIEs. The reason is that there is more reliance placed on registered auditors in the SME environment. The risk of self-review is limited in a PIE environment as, for example, the bigger PIEs have their own technical reporting teams. This is not true for SMEs where the risk is greater. Therefore, there should not be any exception.</p>
5.	<p>604.12 A2 A firm or a network firm might perform a valuation for tax purposes only where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.</p>	<p>We suggest rephrasing this in the positive and making it as a requirement.</p> <p>“A firm shall not perform a valuation if the valuation results in a direct effect on the financial statement.”</p>
6.	<p>R604.16 A firm or a network firm shall not provide taxation services that involve assisting in the resolution of tax disputes to an audit client if:</p> <ul style="list-style-type: none"> (a) The services involve acting as an advocate for the audit client before a public tribunal or court in the resolution of a tax matter; and <u>or</u> (b) The amounts involved are material to the financial statements on which the firm will express an opinion. 	<p>We suggest that the “and” between (a) and (b) be changed to “or”.</p>

No	Chapter 1	Comment
7.	605.4 A1 Performing a significant part of the client’s internal audit activities increases the possibility that firm personnel providing internal audit services will <u>could</u> assume a management responsibility. If the firm’s personnel assume a management responsibility when providing internal audit services to an audit client, the threat created cannot be eliminated or reduced to an acceptable level by applying a safeguard.	<p>We suggest redrafting the phrase “personnel providing internal audit services will <i>assume</i> a management responsibility”.</p> <p>This cannot be true because internal audit is by definition independent of management. We suggest that this should read “personnel providing internal audit services <u>could</u> <i>assume</i> a management responsibility”.</p> <p>Additionally, this paragraph may be rephrased as a requirement.</p>

Chapter 2: Conforming amendments arising from the Safeguards project not included in Structure Phase 2 exposure draft

Sections that are in italics, underlined and struck through are reflected as they appear in the exposure draft.

No	Chapter 2	Comment
1.	<u>Conflicts of Interest</u> 310.810 A12 In general, the more direct the connection between the professional service and the matter on which the parties’ interests conflict, the more <u>likely that significant</u> the <u>level of the threat is not at an acceptable level.</u> to objectivity and compliance with the other fundamental principles will be.	<p>This is an example of good application material language and content. We would encourage the Board to consider simpler language in the general application paragraphs under Non-assurance Services.</p> <p>We suggest the removal of the phrase “In general.” This appears to be a duplication as the words “likely that” have been added.</p>
2.	310.810 A32 <u>Examples of safeguards-Factors that are relevant in evaluating the level of any threats created by conflicts of interest include:</u> <ul style="list-style-type: none"> • Implementing <u>measures that</u> prevent unauthorized disclosure of confidential information, when performing professional services related to a particular matter for two or more clients whose interests 	We suggest that specific/dedicated training and communication be added to this list.

No	Chapter 2	Comment
	<p>with respect to that matter are in conflict, . This could including:</p> <ul style="list-style-type: none"> • Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality. • Creating The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas. • Establishing Policies and procedures to limit access to client files. • Using Confidentiality agreements signed by personnel and partners of the firm. • Separating confidential information physically and electronically. • Reviewing regularly the application of safeguards by a senior individual not involved with the client engagement or engagements. 	
3.	<p>310.8A34 Examples of actions that might be safeguards to address threats created by conflicts of interest include:</p> <ul style="list-style-type: none"> • Having <u>Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.</u> • Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate. • Consulting third parties, such as a professional body, legal counsel or another professional accountant. 	<p>It is unclear whether this example refers to the review of one engagement or both engagements; and whether the same person would review both engagements.</p> <p>Furthermore, the threat is at a firm level and not the individuals on the engagement. We suggest that an internal review may not necessarily mitigate the threat to an acceptable level.</p>
4.	<p>Professional Appointment 320.4A1 – 320.5 A3</p>	<p>Para 320.4 A1 and A2 do not include examples of safeguards, while Para 320.5 A1, A2 and A3 illustrates examples of safeguards.</p> <p>We agree that there are no safeguards to mitigate a threat to integrity, especially at engagement acceptance. However, this is not obvious when reading the Code.</p>

No	Chapter 2	Comment
5.	<p>Section 330 Fees and Other Types of Remuneration Application Material</p> <p><u>330.4 A4</u> Examples of actions that might be safeguards to address threats set out in paragraph 330.4 A2 include:</p> <ul style="list-style-type: none"> • <u>Adjusting the level of fees or the scope of the engagement.</u> • <u>Assigning a professional with appropriate time and qualified personnel expertise to review the work task performed.</u> 	<p>The threat of fees is a self-interest threat. We suggest that the inclusion of an additional review as an example of a safeguard may not adequately address the threat.</p>
6.	<p><u>330.5 A2</u> Factors that are relevant in evaluating the level of such threats created by contingent fees will depend on factors including:</p> <ul style="list-style-type: none"> • The nature of the engagement. • The range of possible fee amounts. • The basis for determining the fee. • An advance written agreement with the client on the basis of remuneration. • Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration. • Quality control policies and procedures. • <u>Whether an independent third party is to review the outcome or result of the transaction.</u> • <u>Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.</u> 	<p>In bullet point 7, is the “independent third party review” a factor when evaluating the level of the threat or a possible safeguard?</p> <p>We suggest that the inclusion of permission from the relevant tax authority be considered a reasonable safeguard when contingent fees are charged for taxation services.</p>
7.	<p><u>300.5 3A53</u> An example of an action that might be a safeguard to address threats created by contingent fees is having a Rreview by an independent third party of the work performed by the <u>professional</u> accountant.</p>	<p>The example of “independent third party” is used multiple times in the Code. We suggest that clarity be provided if this means within the firm/network firm.</p> <p>If the threat of providing non-assurance services is to the firm, it will not be reasonable to have someone within the firm performing the review.</p>

No	Chapter 2	Comment
8.	<p>PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS Section 400 Applying the Conceptual Framework to Independence for Audits and Reviews Requirements and Application Material</p> <p>400.32¹⁴ A1 <u>Examples of actions that might be safeguards to address threats to independence include:</u></p> <ul style="list-style-type: none"> • Not including individuals who provided the non-assurance service as members of the audit team. • Having a professional accountant review the audit and non-assurance work as appropriate. • Engaging another firm to evaluate the results of the non-assurance service. • Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service. 	<p>We agree with this section.</p> <p>The safeguards are provided for the self-review threats created by the non-assurance service, and not for the threat related to a self-interest threat.</p> <p>The IESBA may consider stating that a self-interest threat cannot be mitigated to an acceptable level due to the timing factor.</p>
9.	<p>400.72 A2^{403.3} A1 <u>The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat to objectivity might depend upon</u> <u>Factors that are relevant in evaluating the level of any threats created by mergers and acquisitions includesuch as:</u></p> <ul style="list-style-type: none"> • The nature and significance of the interest or relationship. • The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent). • The length of time until the interest or relationship can reasonably be ended. 	<p>Our comment is on Para 400.73 A1:</p> <p>We question if these are transitional measures or safeguards.</p>
10.	<p>Fees Requirements and Application Material</p>	<p>We suggest that the Board reconsiders the safeguards suggested as they do not adequately mitigate the threat being</p>

No	Chapter 2	Comment
	<p>410.43 A2 Examples of <u>actions that might be safeguards to address threats created by the firm's dependence on fees charged to the audit client</u> include:</p> <ul style="list-style-type: none"> • <u>Increasing the client base in the firm to r</u>Reducing dependence on the <u>audit</u> client. • External quality control reviews. • Consulting a third party, such as a professional or regulatory body or a professional accountant, on key audit judgments. <p>410.53 A34 Examples of <u>actions that might be safeguards to address threats created by fees generated from an audit client</u> include:</p> <ul style="list-style-type: none"> • <u>Increasing the client base of the partner or the office to r</u>Reduceing dependence on the audit client. • Having a professional accountant review the work or advise as necessary. • Regular independent internal or external quality reviews of the engagement 	<p>considered.</p> <p>Clarity is required on what is meant by external quality control reviews. An EQCR is usually undertaken within the firm.</p> <p>The external quality control review, as a proposed safeguard in response to a self-interest threat, may not be sufficient as the reviewer will only consider documented evidence and not undocumented decisions or decisions made during the engagement.</p> <p>Furthermore, there are limited requirements in the Code that require documentation, thus an EQCR may not uncover or address self-interest threats.</p>
11.	<p>410.3 A3410.5 A2 ...The significance of the threat will depend upon f<u>Factors that are relevant in evaluating the level of any threat created by dependence of one partner or office on fees generated from an audit client include</u>such as:</p> <ul style="list-style-type: none"> • The significance of the client qualitatively and/or quantitatively to the partner or office. • The extent to which the <u>compensation remuneration</u> of the partner, or the partners in the office, is dependent upon the fees generated from the client. 	<p>The IESBA may consider setting a threshold of fees and fee dependency at a partner level.</p>
12.	<p>R410.64 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related</p>	<p>In the extant Code the term "firm" included "network firm". In the restructured Code, the terms "firm" and "network firm" have been</p>

No	Chapter 2	Comment
	<p>entities ...the firm shall:</p> <p>(a) Disclose to ...; and</p> <p>(b) <u>Discuss which whether either of the safeguards below it will apply to reduce following actions might be a safeguard to address the threat to an acceptable level created by the total fees received by the firm from the client, and if so, apply the selected safeguard it:</u></p> <p>(i) Prior to the audit opinion ...; or</p> <p>(ii) After the audit opinion on the second year's ...</p>	<p>individually defined. We suggest that the professional accountant conducting the pre-issuance or post-issuance review be outside the firm and network firm.</p> <p>Also, is the 15% levied on the firm or the network firm? We suggest that both these thresholds be considered.</p>
13.	<p>410.9 A2 410.14 A2 The existence and significance of any threats will depend on <u>Factors that are relevant in evaluating the level of such threats include such as:</u></p> <ul style="list-style-type: none"> • The range of possible fee amounts. • Whether an appropriate authority determines the outcome on which the contingent fee depends. • The nature of the service. • The effect of the event or transaction on the financial statements. 	<p>In South Africa, we have prohibited the levying of contingent fees on the preparation or amendment of tax returns.</p> <p>Paragraph 240.4A of the IRBA Code states</p> <p><i><u>240.4A Notwithstanding paragraphs 240.3 and 240.4, a registered auditor shall not charge contingent fees for assurance services provided to clients, or for the preparation of an original or amended tax return, as these services are regarded as creating a self-interest threat to objectivity for which appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.</u></i></p>
14.	<p>410.149 A3 410.149 A3 <u>Examples of actions that might be safeguards to address threats created by a contingent fee include:</u></p> <ul style="list-style-type: none"> • Having a professional accountant review the relevant audit work or advise as necessary. • Using professionals who are not members of the audit team to perform the non-assurance service. 	<p>The threat identified in this paragraph is a self-interest threat; however, the safeguard suggests an additional review. This may not be an adequate safeguard.</p>
15.	<p>Section 430 Actual or Threatened Litigation Application Material</p> <p>430.42 A32 430.42 A32 <u>An eExamples of an action that might be a safeguard to address threats created by actual or threatened litigation is</u></p>	<p>Litigation gives rise to self-interest and intimidation threats. These may be threats at a firm level and at an individual audit team member level.</p> <p>An example of a safeguard of a professional review on the work from within the firm may not be sufficient.</p>

No	Chapter 2	Comment
	<p>include: to have a professional review the work performed. If the litigation involves an audit team member, <u>an action that might eliminate the threat is removing that individual from the audit team.</u> Having a professional review the work performed.</p>	
16.	<p>Section 510 Financial Interests Requirements and Application Material</p> <p>510.11 A1510.13 A2 The significance of any threat created depends on factors that are relevant in evaluating the level of such a threat includesuch as:</p> <ul style="list-style-type: none"> • The nature of the relationship between the audit team member and the close family member. • The materiality of the financial interest to the close family member. • <u>Whether the financial interest is direct or indirect.</u> 	<p>We suggest a reordering of the list and clarification on whether the interest is direct or indirect as follows:</p> <ul style="list-style-type: none"> • The nature of the relationship between the audit team member and the close family member. • <u>Whether the financial interest is direct or indirect.</u> • <u>The materiality of the indirect financial interest to the close family member.</u>
17.	<p>510.1311 A64 A64 An eExamples of <u>an actions that might be a safeguards to address threats created by having a financial interest set out in paragraph R510.13(c) is include:having a professional accountant review the work of the audit team member.</u> <u>An action that might eliminate those threats is removing the audit team member with the financial interest from the audit team.</u> Having a professional accountant review the work of the audit team member.</p>	<p>The threat identified in this paragraph is a self-interest threat; however, the safeguard suggests an additional review. This may not be an adequate safeguard.</p>
18.	<p>510.1311 A86 A86 Examples of <u>actions that might be safeguards to address threats created by a financial interest set out in paragraph R510.13(d) include:</u></p> <ul style="list-style-type: none"> • Removing the audit team member with the personal relationship from the audit team. 	<p>We suggest that the Board clarifies whether the professional accountant is from within the firm or external to the firm/network firm.</p> <p>If the professional accountant is from within the firm/network firm,</p>

No	Chapter 2	Comment
	<ul style="list-style-type: none"> • Excluding the audit team member from any significant decision-making concerning the audit engagement. • Having a professional accountant review the work of the audit team member. <p><u>An action to eliminate those threats is removing the audit team member with the personal relationship from the audit team.</u></p>	<p>the same level of bias may be passed on, especially if the person holding the interest is at a senior level.</p>
19.	<p>Section 521 Family and Personal Relationships Requirements and Application Material</p> <p>521.96 A2 Examples of <u>actions that might be safeguards to address threats created by such relationships</u> include:</p> <ul style="list-style-type: none"> • Structuring the partner’s or employee’s responsibilities to reduce any potential influence over the audit engagement. • Having a professional accountant review the relevant audit work performed. 	<p>The threat identified in this paragraph is a self-interest threat; however, the second safeguard suggests an additional review. This may not be an adequate safeguard.</p>
20.	<p>Section 524 Employment with an Audit Client Requirements and Application Material</p> <p>524.53 A3 Examples of <u>actions that might be safeguards to address threats created by such employment relationships</u> include:</p> <ul style="list-style-type: none"> • Modifying the audit plan. • Assigning individuals to the audit team who have sufficient experience in relation<u>relative</u> to the individual who has joined the client. • Having a professional accountant review the work of the former audit team member. 	<p>The example of a review as a safeguard does not adequately mitigate the familiarity and intimidation threats.</p>

No	Chapter 2	Comment
21.	<p>524.74 A2 An eExamples of <u>an action that might be a safeguards to address threats set out in paragraph 524.7 A1 include: is having an appropriate professional review any significant judgments made by that individual while on the team.</u></p> <p><u>An action that might eliminate such threats is R</u>removing the individual from the audit team.</p> <p>Reviewing any significant judgments made by that individual while on the team.</p>	<p>The example of a review as a safeguard does not adequately mitigate the self-interest threats.</p>

Conforming Amendments included in the Structure Phase 2 Exposure Draft (Chapters 2-5)

Suggested text has been added and they appear in italics and are underlined, while suggestions for deletion are struck through.

No	Pg No.	Conforming amendments (Ch 2- 5)	Comment
1.	55	<p>540.4 A3 Examples of actions that might be safeguards to address familiarity and self-interest threats include:</p> <ul style="list-style-type: none"> • Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs. • Having a professional accountant who was not an audit team member review the work of the individual. • Performing regular independent internal or external quality reviews of the engagement. • Performing an engagement quality control review. <p>An action that might eliminate the threats would be rotating the individual off the audit team.</p>	<p>4th Bullet:</p> <p>The main threats identified are familiarity and self-interest. Performing an EQCR may not be sufficient to address a threat.</p>
2.	60	<p>940.4 A3 Examples of actions that might be safeguards to address familiarity and self-interest threats in relation to a specific engagement include:</p> <ul style="list-style-type: none"> • Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs. • Having a professional accountant who is not an assurance team member review the work of the individual. • Performing regular independent internal or external quality reviews of the engagement. • Performing an engagement quality control review. <p>An action that might eliminate the threats would be rotating the individual off the assurance team.</p>	<p>3rd bullet:</p> <p>The examples of possible safeguards appear to be repetitive and misleading, e.g. these safeguards are a “one size fits all”.</p> <p>The identification of a familiarly or a self-interest threat is not the outcome of a quality control review. It is rather the result of the root cause analysis. Thus, a quality review may not be the best safeguard.</p> <p>The internal and external quality reviews will need to be conducted on a timely basis.</p>
3.	72	<p>905.4 A2 Examples of actions that might be safeguards to</p>	<p>The examples of safeguards provided do not adequately</p>

No	Pg No.	Conforming amendments (Ch 2- 5)	Comment
		<p>address the threats set out in paragraph 905.4 A1 include:</p> <ul style="list-style-type: none"> • Increasing the client base in the firm to reduce dependence on the assurance client. • External quality control reviews. • Consulting a third party, such as a professional body or a professional accountant, on key assurance judgments and taking appropriate steps following that consultation. 	mitigate the self-interest threat.
4.	72	<p>905.5 A2 An example of an action that might be a safeguard to address the threats set out in paragraph 905.5 A1 is having an additional professional accountant who was not an assurance team member review the work or otherwise advise as necessary</p>	This paragraph appears to be a repetition of para 905.4 A2 .
5.	75	<p>907.4 A2 An example of an action that might be a safeguard to address threats created by actual or threatened litigation is having a professional review the work performed. If the litigation involves an assurance team member, an action that might eliminate those threats is removing that individual from the assurance team.</p>	The self-interest or intimidation threat is to be addressed by an additional professional review.
6.	76	<p>910.6 A1 Factors that are relevant in evaluating the level of threats created by holding financial interests in an assurance client include:</p> <ul style="list-style-type: none"> • The role of the individual holding the financial interest. • Whether the financial interest is direct or indirect. • The materiality of the financial interest. 	<p>Suggested amendment:</p> <ul style="list-style-type: none"> • The role of the individual holding the financial interest. • Whether the financial interest is direct or indirect. • The materiality of the <i>indirect</i> financial interest.
7.	77	<p>910.11 A1 A self-interest threat might be created if an assurance team member has a close family member who the assurance team member knows has a direct financial interest or a material indirect financial interest in the assurance client. Factors that are relevant in evaluating the level of such threats include:</p>	<p>Suggested amendment to the order and clarification to materiality:</p> <ul style="list-style-type: none"> • The nature of the relationship between the assurance team member and the close family member; • Whether the financial interest is direct or indirect; • The materiality of the <i>indirect</i> financial interest to the

No	Pg No.	Conforming amendments (Ch 2- 5)	Comment
		<ul style="list-style-type: none"> • The nature of the relationship between the assurance team member and the close family member; and • The materiality of the financial interest to the close family member. • Whether the financial interest is direct or indirect. • The firm's organizational, operating and reporting structure. 	<ul style="list-style-type: none"> • close family member. • The firm's organizational, operating and reporting structure.
8.	78	<p>910.11 A2 Examples of actions that might be safeguards to address threats created by having a financial interest as set out in paragraph 910.11 A1 include:</p> <ul style="list-style-type: none"> • The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material. • Having a professional accountant review the work of the assurance team member. <p>An action that might eliminate those threats is to remove the individual from the assurance team.</p>	The safeguard suggested in the second bullet point does not appear to adequately mitigate the threats.
9.	78	<p>910.11 A3 An example of an action that might be a safeguard to address threats set out in paragraph R910.11(b) is having a professional accountant review the work of the assurance team.</p>	Safeguards do not appear to adequately mitigate the threats.
10.	85	<p>921.9 A2 Examples of actions that might be safeguards to address threats created by such relationships include:</p> <ul style="list-style-type: none"> • Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement. • Having a professional accountant review the relevant assurance work performed. 	The threats identified in this paragraph are familiarity and intimidation; however, the safeguards suggest an additional review. This may not be an adequate safeguard.
11.	88	<p>924.5 A2 Examples of actions that might be safeguards to address threats created by such employment relationships</p>	In the 5 th bullet point, we caution that the example of a review as a safeguard in response to a self-interest threat

No	Pg No.	Conforming amendments (Ch 2- 5)	Comment
		<p>include:</p> <ul style="list-style-type: none"> • Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements. • Making arrangements such that any amount owed to the individual is not material to the firm. • Modifying the plan for the assurance engagement. • Assigning individuals to the assurance team who have sufficient experience relative to the individual who has joined the client. • Having a professional accountant review the work of the former assurance team member. 	<p>may not be sufficient.</p>
12.	89	<p>924.6 A2 An example of an action that might be a safeguard to address threats set out in paragraph 924.4 A1 is having an appropriate individual review any significant judgments made by that individual while on the team. An action that might eliminate those threats is removing the individual from the assurance engagement.</p>	<p>We caution that the example of a review as a safeguard in response to familiarity and intimidation threats may not be sufficient.</p>