

18 August 2014

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 Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients

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 Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients that might result in possible amendments to Parts A and B is of particular interest to the IRBA.

We appreciate this opportunity to comment on the IESBA Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients.

Our comments are presented in the following sections:

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

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. We generally support the proposed amendments to the provision of non-assurance services to an audit client as independence of registered auditors is one of the fundamental ethical principles.
- 1.2. While the proposed amendments to the IESBA Code of Conduct for Professional Accountants have 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 and who are required to consider the non-assurance services for audit clients.

2. Request for Specific Comments and Responses

The IESBA is seeking comments on the following specific matters:

Emergency Provisions

Question 1

Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

- 2.1. We are not aware of any situations that would warrant retaining the emergency exception relating to bookkeeping and taxation services as mentioned in the IESBA Code. We agree that any emergency exceptions to the independence provisions could be addressed through the application of paragraph 100.11 of the IESBA Code.
- 2.2. We agree that the situation in which an emergency provision should be allowable should be so rare and extraordinary that it should not be addressed by the IESBA Code. We believe that it strengthens the Code by removing paragraphs that could potentially open it to abuse.

Management Responsibilities

Question 2

Does the change from “significant decisions” to “decisions” when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

- 2.3. We support the deletion of the word “significant” as it increases clarity and removes the need to apply professional judgment in determining what is a significant versus an insignificant decision.
- 2.4. We believe that registered auditors will be guided by the inferred definition of management responsibilities which “involve controlling, leading and directing an entity” when determining whether a decision is a management decision.
- 2.5. The examples provided of what would be considered to be a management responsibility could be enhanced in order to make the overall guidance more useful. See our response to question 3 for further details.

Question 3

Are the examples of management responsibilities in paragraph 290.163 appropriate?

- 2.6. We believe that the examples provided are useful to the understanding of management responsibilities.
- 2.7. The removal of the word “significant” from paragraph 290.162 coupled with the removal of the word “generally” in paragraph 290.163 implies that the list of examples are prohibited services as they are management responsibilities.
- 2.8. We believe that these amendments would strengthen the Code and allow for more enforceability, however are aware that this may lead to unintended consequences if the examples are not further clarified. For example:
 - “Setting policies and strategic direction”, should clarify if this prohibits the audit firm from advising the client as management develops policies and strategic direction. If this prohibition is limited to making the management decision, the example will need to be clarified.
 - The example "Supervising activities for the purpose of management oversight" should make a clear distinction that these relate to supervisory activity that would be considered a management responsibility only if undertaken on behalf of management. We therefore suggest amending the proposed example to "Supervising activities in an oversight role on behalf of management."
 - ISA 610 Use of Internal Audit allows for direct assistance of the audit client’s staff. This would include using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor, which is a permitted activity when undertaken in compliance with ISA 610. We suggest that the Board clarify that this is not the intention of the proposed example by considering the following updated language: “Directing, supervising or taking responsibility for the actions of employees in relation to the employees’ work for the entity except to the extent permitted when using internal auditors to provide direct assistance under auditing or assurance standards.”
 - Additionally, the same example as currently drafted may indicate a prohibition on an audit firm being engaged to act as a project manager with respect to an audit client project. If this was the Board’s intention, this may need to be clarified.

Question 4

Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?

- 2.9. We agree with the prerequisites set out in paragraph 290.165. These steps help ensure that the registered auditor’s independence is maintained by not making a management decision. This will also help limit the reliance placed on audit firms relating to non-assurance engagements.
- 2.10. The amendment goes further than just asking management to accept the responsibilities. This will ensure that management is involved from the beginning and are ultimately making decisions and taking responsibilities.

- 2.11. The paragraph helps eliminate the risk that the client will approve the suggestion of the non-assurance service without really understanding the objectives, nature and results of the service.
- 2.12. Additionally, the final point requires that management “accepts responsibility for the actions to be taken arising from the results of the services.” In some cases, a specific action might not take place, and instead the results provided by the audit firm would need to be interpreted by management with potentially no further action required. Accordingly, we recommend this sentence is reworded to state “accepts responsibility for the actions, if any, to be taken arising from the results of the services or the interpretation thereof.”
- 2.13. However, we recommend amending paragraph 290.165 to undo certain of the deleted text as it provides a firm with useful guidance to better meet the requirement of not assuming a management responsibility: “To reduce the risk of the firm inadvertently making any significant judgments or decisions on behalf of management, the firm gives the client an objective and transparent analysis and presentation of the issues. As such, when providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management.”

Question 5

Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?

- 2.14. We do believe that the additional guidance will assist registered auditors. It does eliminate certain areas of subjectivity.
- 2.15. While it is useful to have additional examples of what may be considered to be a management responsibility, as stated above, further explanatory language would promote these efforts even further.

Question 6

Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

- 2.16. We believe that the relocation provides clarity on what is meant by administrative services in the Code. The clarity that it involves “little or no professional judgement and are clerical in nature” is an important distinction that can be used to test if services are truly administrative services.
- 2.17. We agree with the wording of paragraph 290.166 especially the word “generally”. This anticipates the possibility that what is perceived by the registered auditor as administrative services may create a threat to independence.
- 2.18. We support the overriding requirement that the registered auditor is required to consider threats to independence and possible safeguards.

Routine or Mechanical

Question 7

Does the proposed guidance on “routine or mechanical” clarify the term, or is additional guidance needed?

- 2.19. We believe that the proposed guidance is sufficient and clarifies the term appropriately. It also helps that “routine or mechanical” and “administrative” have been separated.
- 2.20. We have the following suggestions to Paragraph 290.171 for the Board’s consideration:
- Additional guidance around management’s responsibilities for the financial statements would be helpful such as:
 - Assessing the entity’s ability to continue as a going concern.
 - Making accounting estimates, including responsibility for the underlying assumptions used in the estimates.
 - Ensuring that the disclosures in the financial statements are appropriate and in compliance with the financial reporting framework.
 - The identification of subsequent events, etc.
- 2.21. The South African Companies Act 2008 (Act No.71 of 2008) prohibits the preparation of financial statements by the audit firm. It further disqualifies the audit firm from being the appointed auditor of the company if they have been involved in the preparation of the company’s financial statements in the proceeding five years. In keeping with this requirement, we believe that the example, “Preparing financial statements based on information in the client-approved trial balance” requires to be strengthened.

Question 8

Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?

- 2.22. We agree with the wording.

Section 291

Question 9

Do the changes proposed changes to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?

- 2.23. Our response to question 2 above would also be applicable to Section 291.
- 2.24. We also note that the word “significant” was not deleted in paragraph 291.143, whereas it was deleted in the corresponding paragraph 290.162. It is unclear whether this is an error or whether the Board intended that the significance of the decision be relevant when defining management responsibilities in respect of the provisions of assurance services to non-audit clients.

Question 10

Are the examples of management responsibilities in paragraph 291.144 appropriate?

- 2.25. Our response to question 3 above would also be applicable to Section 291.
- 2.26. We notice that while paragraph 290.163 provided the following example, “Taking responsibility for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework”, S291.144 has not provided a similar example for the other assurance section.
- 2.27. We believe that the following example should be provided in paragraph 291.144 “Taking responsibility for the preparation of subject matter information in accordance with the applicable criteria”.

Question 11

Does the relocation of the guidance pertaining to administrative services provide greater clarity?

- 2.28. We believe that the relocation provides clarity on what is meant by administrative services in the Code. The clarity that it involves “little or no professional judgement and are clerical in nature” is an important distinction that can be used to test if services are truly administrative services.
- 2.29. We agree that the wording of paragraph 291.150 especially the word “generally” as it anticipates the possibility that what is perceived by the registered auditor as administrative services may create a threat to independence.
- 2.30. We support the overriding requirement that the registered auditor is required to consider threats to independence and possible safeguards.

3. Request for General Comments and Responses

(a) SMP

- 3.1. No comment.

(b) Preparers (Including SME's) and users (including regulators)

- 3.2. No comment.

(c) Developing Nations

- 3.3. No comment.

(d) Translations

- 3.4. No comment.

(e) Effective Dates

- 3.5. We do not foresee a problem with the effective implementation within 12 months from issuance. Where multiple amendments to the IESBA Code have been considered in one calendar year, we suggest that the Board coordinate the effective dates of the amendments and have one effective date.