

16 July 2018

Submitted electronically to kensiong@ethicsboard.org

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

Dear Ken

Comments on the Consultation Paper, Proposed Strategy and Work Plan, 2019-2023

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.

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 is currently in the process of adopting the recent IESBA revisions relating to the *Restructure of the Code*, *Safeguards* and *Professional Judgement and Professional Scepticism*. The IRBA Code, with its *Rules Regarding Improper Conduct*, provides the basis for disciplinary action against registered auditors. As the IESBA's Strategy and Work Plan could result in possible amendments to the Code, the IRBA has particular interest in the process.

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

- A. General Comments.**
- B. Request for Specific Comments and Responses.**

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

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Yours faithfully,

Signed electronically

Imran Vanker
Director: Standards

Saadiya Adam
Professional Manager: Ethics

A. General Comments

- 1.1. The IRBA notes the importance for the IESBA to set a robust and dynamic strategy to produce projects of high quality in the evolving environment of professional accountants.
- 1.2. As a regulator of registered auditors with a statutory objective to protect the public, we are concerned with 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 consultation paper 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 congratulate the IESBA on the completion of several large projects, such as the Restructure of the Code and Safeguards, which includes revisions to the conceptual framework. It is encouraging to note that the proposed Strategy and Work Plan has not slowed down but is taking on new and challenging projects.
- 1.5. We would encourage the IEBSA to use the opportunity presented by these difficult topics to take a leadership stance in the ethics field.
- 1.6. The Code needs to move at the same pace as the environment in which we operate. Thus, it would be important to keep alert to evolving topics, e.g. technology and innovation. Projects that take longer than anticipated may lead to legislative responses at jurisdictional levels that undermine the global applicability of the Code.
- 1.7. We caution against projects that include complex rules that are often too difficult to administer. The Code can only be relevant if it is clear, understood and implementable. Complexity to certain elements of the Code creates lack of clarity. While differentiation is important, this should be achieved in a manner that is understandable. We would encourage the IESBA to find a balance between these two when proposing amendments to the Code.
- 1.8. The necessary due care is required to allow for future projects to be evidence based. It is necessary to see how experiences from regulatory inspections and research results are influencing the choices of the IESBA.
- 1.9. When projects proposals are considered, care should be given to separately address the responsibility of the firm as well as the individual. This dual consideration will lead to projects that are balanced and aligned.
- 1.10. We have addressed three significant additional items in Part B, question 4 of this letter.

B. Request for Specific Comments and Responses

1. *Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?*
 - 1.1. We support criteria that consider public interest, taking into account the pervasiveness of the issue; the degree of urgency in addressing the matter; the global relevance of the matter; and the feasibility of undertaking the issue in a realistic timeframe.
 - 1.2. The IEBSA may consider including the following when prioritising projects:

- The potential impact of the project;
 - The constituency that proposed the new project; and
 - Whether the project will result in new guidance being drafted, or whether the project is a revision to guidance that is currently available.
- 1.3. Where items are time sensitive, consideration should be given to address them piecemeal. Bigger projects require time and sufficient understanding; however, this has to be balanced with the need for standard setting in the interim.
 - 1.4. When setting the proposed criteria, the IESBA may consider whether each criterion is weighted equally. The IESBA may want to differentiate between primary considerations and secondary considerations.
 - 1.5. The timing of projects may need to take into consideration coordination efforts with other International Federation of Accountants (IFAC) independent standard-setting boards (namely, the IAASB and the IAESB). This would allow for efficient collaboration on projects that are inter-related.
 - 1.6. A key ingredient in considerations of the Work Plan of the IESBA is the notion of “Board Capacity”. The IESBA may consider redefining “Board capacity” so that it is supported by subcommittees with greater authority than at present, thus increasing “Board Capacity” and the effectiveness of the Board.
2. *Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why.*

Strategic Theme: Advancing the Code’s Relevance and Impact

Sub-theme: Maintaining a global Code fit for purpose in the evolving environment

Trends and Development in technology

- 2.1. We support the actions proposed under this project. Professional Accountants, including auditors, are required to keep up with the rapid developments in technology and innovation. As clients’ businesses are evolving, this has an effect on the audit environment. Similarly, auditors are encouraged to use technology to increase audit efficiencies, and this will possibly have an impact on audit quality.
- 2.2. However, for the IESBA and the IESBA Code of Ethics (the Code) to remain relevant on this topic, timely consideration is required. We would encourage the IESBA to be the thought leaders on the ethical implications of technology and innovation.
- 2.3. There is a concern that auditors may have limited knowledge on how the work of these latest technologies, e.g. data analytics, can be appropriately integrated into the audit engagement. There is a likelihood that professional accountants may go on doing work ignoring the risks/opportunities/challenges that technology introduces. As a result, professional accountants may not be acting with professional competence and due care.

Emerging or Newer Models of Service Delivery

- 2.4. There is standard-setting interest in this topic. Outsourcing and insourcing have cross-border implications. Thus, the Code becomes the common denominator for PAPPs and PAIBs. We would support a project that considers the ethical implications of these relationships.

- 2.5. Awareness raising on this project may be required, especially on the independence consideration when firms rely on shared service centres and with regards to the definition of “office” and “engagement team”.

Emerging Issues Initiative

- 2.6. The IESBA may consider adding more structure as this project is taken forward to allow for an effective output. There is potential for this group to deliver substantial strategic insight on future IESBA projects.

Strategic theme: Advancing the Code’s Relevance and Impact

Tax Planning and Related Services

- 2.7. As the IRBA Code of Professional Conduct does not apply to PAIBs, we limit our comments to auditors that are performing tax services. We would support a project on this topic.

Definition of Public Interest and Listed Entities

- 2.8. The introduction of the concept of a public interest entity to the Code provides a level of complexity and judgement. This may also result in differentiation; and without local amendments, the definition is open to some interpretation.
- 2.9. We do not view this project as a priority. In South Africa, we have issued a jurisdiction-specific definition of a public interest entity that builds on the Code. From our experience of researching a suitable definition of a public interest entity, we believe that this should be a jurisdictional project as it is rather difficult to set a universal definition that will be comparable and helpful.
- 2.10. This calls on different jurisdictions to consider their financial environment and provide guidance on this matter. The IEBSA may consider issuing implementation guidance to jurisdictions on this topic rather than an amendment to the Code.
- 2.11. The IESBA may need to consider the relationship between the above project and the IEBSA Non-Assurance Services Project. The relationship between the two has the potential to be material as consultation is undertaken. These two projects require careful consideration.

Materiality

- 2.12. Our view is that this is a priority project. Without the right level of guidance relating to materiality, the Code is left exposed to misinterpretation by its users and readers.
- 2.13. Materiality introduces some unnecessary complexity to issues; thus, the project should not be limited to clarification, but rather a re-evaluation of its use within the Code.

Pre-commitments

- 2.14. We appreciate the speed at which these projects are progressing. We look forward, with interest, to developments, especially on the Non-Assurance Services Project.

General Maintenance of the Code

- 2.15. Our experience with the Code is that certain terminology used in the Code could use some clarification, e.g. network firms, engagement period.
- 2.16. There are certain differences between the definitions of some terms in the Code and the definitions of the same terms in the IAASB standards. These terms include

“assurance engagement”; “engagement quality control review”; “financial statements”; “firm”; “independence”; “review engagement”; and “special purpose financial statements”.

2.17. As included in our response to the IESBA Strategic Questionnaire, we suggest:

- Reconsidering the use of the term “employee” as it appears to cover only employees of an audit client and not others who may act in the capacity of an employee (e.g. a contractor).
- Not limiting the concept of “engagement period” to the date when the audit report is issued, as the auditor has further responsibilities in an audit of financial statements, such as addressing the effect on the audit opinion of matters that come to the auditor’s attention after the conclusion of the audit.
- Revisiting the definition of “financial interest” to, for example, clearly cover interests in a trust.
- Defining the concept of a “network firm” to focus more on the exercise of judgement rather than on a list of examples of situations that might indicate the existence of a network.

Other

2.18. We would strongly urge the IESBA to consider the projects on Communications with Those Charged with Governance and Documentation. From a regulatory perspective, these two projects would be useful to areas that currently have limited guidance available.

2.19. Also, these projects will have potential for substantial impact in the audit environment.

Strategic theme: Deepening and Expanding the Code’s Influence

Promoting Global Adoption of the Restructured Code

2.20. We encourage the IESBA to continue its work on adoption and implementation. This is an important and strategic item that requires due consideration.

2.21. Among the actions that the working group will be undertaking, advocacy tools would be helpful. It is useful when a fact sheet, multimedia content and learning material are released alongside amendments to the Code. This helps to add to the conversation on ethical matters.

Monitoring and Documenting the Extent of Adoption of the Code

2.22. An action that the IESBA may consider is documenting the challenges that adoption poses and then issuing implementation guidance. This may include sharing strategies between jurisdictions, and having this facilitated by the IESBA.

Pre-commitments

2.23. We appreciate the IESBA’s dedication to keeping to its previous commitments. The extent of these projects may need to be fully considered, especially in respect of competing projects.

Post-Implementation Review of the Restructured Code

- 2.24. This should be a priority issue; however, the appropriate timing of this project must be considered. Sufficient time must be allowed for auditors and jurisdictions to implement the Code, evaluate the implementation and then provide feedback on whether the objectives of the Restructured Code Project have been met.
- 2.25. The IESBA's effective date for the IESBA Revised and Restructured Code of Ethics for sections relating to independence for audit and review engagements will be for audits and reviews of financial statements for periods beginning on or after 15 June 2019. This is assuming that jurisdictions have aligned with the IESBA effective date.
- 2.26. Real information may only be available in mid-2022, at least two years after implementation. Thus, the proposal for post-implementation review in Q2 2023, while possible, may be ambitious.

Other activities:

- 2.27. We agree with the actions planned by the IESBA.

Strategic Theme: Expanding the IESBA's Perspective and Inputs

Coordination with the IAASB and IAESB and Other Activities

- 2.28. We support the IESBA's efforts to increase coordination and consultations. While this has been listed as a proposed action during the strategic period, coordination and consultation may be an approach that the IESBA would consider adopting beyond the strategic period.
- 2.29. We look forward to a more coordinated approach in setting strategic objectives, as this may result in common themes.
- 2.30. On the IAASB's revisions to ISQC 1 (System of quality management), the IESBA may consider reflecting on the system theory as well as governance and leadership from ISQC 1.

Other Activities

- 2.31. We agree with the actions planned by the IESBA.

3. *Recognizing that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why.*

- 3.1. We believe that the IESBA should give due consideration to the timing of the projects when finalising the proposed SWP. This includes the capacity of the Board, staff and the capacity at the jurisdictional level in keeping up with these changes.
- 3.2. The Revisions and Restructure of the Code is an all-encompassing project, and time is needed at a jurisdictional level for proposed awareness raising and implementation support. Further amendments to the Code in the short term would be disruptive, inefficient and a distraction from real change.
- 3.3. We welcome a carefully considered and coordinated consultative process on projects. Large projects that start with a survey usually yield better results as that allows for the conversations to be initiated at the jurisdictional level. This may also ease the pressure on the Board, Working Groups and respondents as the conversation matures.
- 3.4. While we have not suggested that a project be left off the agenda, the projects proposed have various levels of work effort. We would encourage the IESBA to

consider combining a few small projects into one cumulative project, e.g. the Definition of PIE and Materiality Project.

4. *Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?*
 - 4.1. While the monitoring group proposal has not been integrated into the proposed strategy, consideration should be given to the approach the IESBA will take at a project level if there was a change at the Board level.
 - 4.2. We encourage the IESBA to decisively deal with the culture of firm secrecy and the role that transparency plays in embedding an ethical culture. The transparency of audit firms lags behind the transparency of other role players in the financial reporting value chain. Firms play systemically important roles in the economy, in serving their clients, their dependence as a source of employment and as an intellectual resource to the economy. While firms continue to grow in all directions, the need to better understand their functioning, governance, goals, risks and achievements also grows. Firms have generally not been responsive to this need, and a few economies have needed a legislative directive to start being more transparent. The IESBA is best placed to recognise the seriousness of this issue, assimilate stakeholder needs and respond globally. This is not a parochial issue. It speaks to the relevance of the profession, and the IESBA should be responsive to this need.
 - 4.3. The IESBA may also consider looking at gaining a better understanding of audit, accounting and governance failures, firm structures and multidisciplinary firms. The corollary of discussions about auditor independence is the uncomfortable relationship of audit services sitting alongside other non-statutory services in the same firm. There are significant tensions that emerge in choices between clients, services and fees, and the potential for decision making by firms and their personnel that are not in the public interest.