

31 October 2012

Submitted electronically to [kensiong@ifac.org](mailto:kensiong@ifac.org)

Mr K Siong  
Acting Deputy Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
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Dear Ken,

***Comments on the Proposed Changes to Definition of "Those Charged with Governance"***

We appreciate this opportunity to comment on the *Proposed Change to the Definition of "Those Charged with Governance"*. 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 developing and prescribing standards of *Professional Conduct for Registered Auditors*. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (the Code), prescribed as the *Code of Professional Conduct for Registered Auditors* (the IRBA Code), in South Africa in 2010, with certain additional national requirements. The IRBA Code together with its *Rules Regarding Improper Conduct* provides the basis for disciplinary action against registered auditors. Any proposed changes that strengthen the IESBA Code to enhance the high quality of audits performed by registered auditors and contribute to the integrity of international markets is of particular interest to the IRBA.

Our comments are presented under the following sections:

1. General comments
2. Request for specific comments and responses
3. Other specific comments

If you have any questions or would like to discuss the matters in our comments, please contact Sandy van Esch on: +27 87 940 8871 or at [svanesch@irba.co.za](mailto:svanesch@irba.co.za).

Yours sincerely



**Sandy van Esch**  
Director: Standards

## 1. GENERAL COMMENTS

- 1.1. We understand the need to address inconsistencies between the definitions of “*those charged with governance*” as contained in the IESBA Code of Professional Conduct and the definition of “*those charged with governance*” contained in ISA 260 *Communication with Those Charged with Governance* and as referred to elsewhere in other ISAs.
- 1.2. Whilst 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 in the performance of such engagements to communicate significant matters to those charged with governance.

## 2. REQUEST FOR SPECIFIC COMMENTS

### Question 1

Do respondents agree with the proposed change to more closely align the definition of “*those charged with governance*” to the definition contained in ISA 260, *Communication with Those Charged with Governance*?

- 2.1. We suggest that the definition of “*those charged with governance*” should be aligned with paragraphs 10 (a) and (b) in ISA 260. Thereafter retain reference to “*those charged with governance*” throughout the Code and no need to incorporate “and subgroups thereof” throughout or those where is necessary.

### Question 2

Do respondents agree that in each case as noted in the Exposure Draft, communication to “*those charged with governance or a subgroup thereof*” would be appropriate?

- 2.2. We do not believe it is appropriate or necessary to include the words “or subgroup thereof” in each section of the Code where “*those charged with governance*” is mentioned.
- 2.3. We believe it is preferable for the IESBA Code to rather refer to ISA 260 either by way of footnote, or included in the amended definition of “*those charged with governance*” for an understanding of the meaning of the term in different circumstances that is clearly explained in ISA 260 Requirements and Application Material. This would obviate the need to make unnecessary conforming amendments throughout the IESBA Code with the addition of the words: “or a subgroup thereof”, that do not enhance the meaning of “*those charged with governance*” in the context of the Code.

## 3. OTHER SPECIFIC COMMENTS

- 3.1. We support the proposed amendment to section 290.28, but note that while it addresses paragraphs 10(a) and 12 of ISA 260, namely:

*“In complying with requirements in this section to communicate with those charged with governance, the firm shall determine the appropriate person(s) within the entity’s governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example an audit committee, or an individual, the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed”;*

it fails to address the circumstances identified in paragraphs 10(b) and 13 of ISA 260, namely *“where all of those charged with governance are involved in managing the entity”*. Both circumstances may be encountered by an auditor in the conduct of an audit or review engagement where communications with those charged with governance are required.

- 3.2. Consequently the proposed change to 290.28 should be extended to provide guidance similar to that in paragraph 13 of ISA 260, namely:

*“In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this ISA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. .. The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity.”*

- 3.3. This latter suggestion they will be equally important in circumstances where professional accountants employed in an entity may identify matters of significance that they believe should be communicated to those charged with governance in the entity or in group entities, for example the proposed amendments to sections 320, 340 and 350 of the IESBA code.

- 3.4. In all circumstances the principle to be followed is that *“the auditor (or professional accountant) shall determine the appropriate person(s) within the entity’s governance structure with whom to communicate”*. Whether those charged with governance may comprise a sub group of those charged with governance, or all of those charged with governance are involved in managing the entity, will be a matter of fact to be determined in each situation.