

Ref#:557710

18 April 2016

International Ethics Standards Board for Accountants (IESBA)

Email: kensiong@ethicsboard.org

Dear Sir

SAICA SUBMISSION ON THE IESBA's EXPOSURE DRAFT, IMPROVING THE STRUCTURE OF THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

The South African Institute of Chartered Accountants ("SAICA") is the foremost accountancy body in South Africa and one of the leading institutes in the world. It plays an influential role in a highly dynamic business sector. SAICA currently has 39 983 members of which 32 184 are resident in South Africa and 7 799 are international members.

The objectives of SAICA include the preservation of professional independence of members and SAICA insist upon a high standard of professional behaviour on the part of members, associates and students.

SAICA is an IFAC member body and have adopted the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* as the SAICA Code of Professional Conduct for all members, associates and trainees.

In response to your request for comments on the **Proposed Revisions Pertaining to the Structure of the Code**, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Juanita Steenekamp (CA (SA))
Project Director – Governance and Non-IFRS Reporting



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QUESTIONS ASKED

RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

Refinements to the Code

1. Do you agree with the proposals, or do you have any suggestions for further improvement to the material in the ED, particularly with regard to:

(a) Understandability, including the usefulness of the Guide to the Code?

The Guide is simple and describes the structure of the Code to students or first time users of the Code. The guide assists in providing guidance on how the Code should be interpreted. With the restructuring of the Code we also believe that the guide will assist members in understanding the changes.

The repeated headings relating to the conceptual framework on each page are not adding any value and should be removed.

(b) The clarity of the relationship between requirements and application material?

The split between requirements and application material is very positive and should assist members. It is confusing that the "R" is in the beginning of the numbering but the "A" is close to the end. We would suggest that the "R" and the "A" of requirements and applications be in the same format, e.g.

"R120.5"

"A120.5.1"

Regarding section 400.6 of the restructured code (290.25 of extant code), we would like to suggest that it is incumbent on any Firm or member body to determine whether to treat additional entities, or certain categories of entities as PIES, yet the term "are encouraged" inherited from the extant Code, implies choice in carrying out this determination – we suggest this be made a requirement, as we believe this clarifies that a duty to carry out an assessment is required.

(c) The clarity of the principles basis of the Code supported by specific requirements?

SAICA is satisfied that the Code and conceptual framework allows sufficient flexibility to be principle based, and brings down minimal requirements or standards where Ethics requirements are clearly needed to protect the profession and will assist regulators in maintaining baseline requirements. These requirements, in fact, protect the profession from outside regulation and give credibility to the Code.



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- (d) The clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances?

SAICA is of the opinion that this is not yet finalised and we will have to wait until the revised ISQC1 will be published. The responsibility of the firm is derived from the ISQC1 rather than the Code. The professional accountant appears to be more responsible for the ethical requirements on the area of the interface between the client and the profession.

- (e) The clarity of language?

The language of R403.7 (d) could be further simplified, suggested change:

Currently reads

The firm shall document:

(d) The reasons why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised."

Suggested simplified wording:

The firm shall document:

- (d) The reasons why the previous and current interests and relationships do not create significant threats that would compromise objectivity.

Regarding restructured sections 510.3 ; 511.2 and 520.2 these sections all contain the words "...for the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individuals immediate family members may be taken into account"

Consider removing the repetitious language and state the following in a new sentence:

Suggestion:

In determining whether an interest is material to an individual in terms of sections 510.3; 511.2 and 520.2, the combined net worth of the individual and the individuals immediate family members may be taken into account.



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The reading of the below section, in our view, does not flow well:

R510.5 A direct financial interest or a material indirect financial interest in the audit client shall not be held by:

R510.5 (d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of their immediate family.

Suggest the following improved flow to replace the above

R510.5 (d) Any other partner or managerial employee, or any of their immediate family, who provides non-audit services to the audit client, except for any whose involvement is minimal.

SAICA would like to request further clarity regarding the below: 410.1 410.7 and R410.7 Words used in these paragraph include :

410.1 "Fees from an audit client remain unpaid for a long time";;

410.7 "significant part of fees"; and

R410.7 "generally appropriate for the firm to require payment"

These terms may obscure clarity, as was indicated on the map provided with the ED these terms do give the PA more flexibility in applying their judgement. We do envision regulators and PA's, will want to understand these terms more clearly IESBA may want to consider providing further application guidance to assist in terms of applying and enforcing these sections of the Code.

- (f) The navigability of the Code, including:
- (i) Numbering and layout of the sections;
 - (ii) Suggestions for future electronic enhancements; and
 - (iii) Suggestions for future tools?

Navigability of the Code will finally be enhanced when the code appears in electronic format. It would be ideal if the electronic version will make provision for highlighting text and allow copying text from the Code.

We agree with the proposals, suggestions for future tools could include highlighting of text by user, and as stated in the paper, filtering options making the navigation easier to use and more focused on the area the user is considering at the time

A built-in dictionary might be able to provide further assistance for individuals whose mother tongue is not English.



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(g) The enforceability of the Code?

SAICA agrees with the proposals. It is still principles based, but the requirements provide more clarity on what the accountant should be doing when complying with the Code. Enforceability of the code is best performed through regulators and independent professional bodies. There needs to be sufficient publicity of the enforcement of the Code through the bodies mentioned. Independence is vital to the successful enforcement of the code.

2. Do you believe the restructuring will enhance the adoption of the Code?

Yes. Simplified language is very important in understanding which will aid adoption, however education, advocacy and outreach are also very key in ensuring improved results. In South Africa there is wide adoption of the code, the question that arises refers to the implementation of the Code. In particular an understanding that the code is principle based and requires personal deliberations of the professional accountant rather than finding a rule or getting a ready-made answer from advisers. The Code is enforced, but it seems that the effects of sanction on the professional accountant are not always effective.

The enforcement of the Code at engagement level remains problematic because of time and fee pressures. Particularly at the SMP level the enforcement of the code remains less effective.

3. Do you believe that the restructuring has changed the meaning of the Code with respect to any particular provisions? If so, please explain why and suggest alternative wording.

SAICA believes that the meaning of the Code has not changed. A detailed review of the Map provided together with the ED does provide a degree of assurance that no key provisions have been significantly altered or omitted.

We do note that a section of the extant code that provided important process guidance in Ethical Conflict Resolution have not been carried forward e.g.100.19 to 100.24 of the extant code (2015 edition) which we believe is a serious omission. These sections deal with the ethical conflict resolution and in our view the dilution of the information from the Code is not acceptable. We would like to request that the detail in these sections be re-included in the Code.

Other Matters

3. Do you have any comments on the clarity and appropriateness of the term "audit" continuing to include "review" for the purposes of the independence standards?

In SAICA's view we are comfortable that both Review and Audit are Assurance activities. And similar independence requirements are applicable to both



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engagements. We fully support that audit should include review for the independence standards. It should be made very clear that audit includes review so no confusion exists as to what part applies to which type of engagement.

5. Do you have any comments on the clarity and appropriateness of the restructured material in the way that it distinguishes firms and network firms?

The definition and application of the "network firm" definition is an area where difficulties are observed and decisions regarding network firms are not always in full compliance with the Code. In our view the concept of a reasonable and informed third party is not considered enough. We encourage the improvement of the link with conflict of interest as per R310.9.

Title

6. Is the proposed title for the restructured Code appropriate?

The Code is a principle based code with baseline standards in place. It may imply more of a 'rules-base' environment rather than the 'principle' based conception of the code. If the standards only refer to the way decisions are made than we have no objection to the use of 'standards' in the title of the code. Consider calling the Code: 'International Code of Ethics and required Standards of Evaluation for Professional Accountants.'

Request for General Comments

32. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

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

The Code of Ethics remains difficult and expensive for the professional accountant in micro firms such as one or two partner firms. In our view the provision of professional services in terms of auditing will need to work together to overcome any competitive disadvantage introduced by the code. In our opinion, the restructuring of the Code brings about a positive impact for SMPs as it provides further guidance to professional accountants in respect of the interpretation and application of the fundamental principles in the Code.



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- (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.

No comment

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

The definition on page 89 refer to “Reasonable and Informed Third Party Test, SAICA questions whether the term “hypothetical” is translatable and if it will be well understood.