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Mr K Siong

IESBA Technical Director

International Ethics Standards Board for Accountants (IESBA)

529 Fifth Avenue, 6th Floor

New York, NY 10017, USA

Submitted electronically to kensiong@ethicsboard.org

Dear Ken

Comments on the Exposure Draft *Limited Re-Exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*

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 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 the long association of personnel with an audit client could result in possible amendments to Parts A and B, the IRBA has particular interest in the proposals.

In preparing this comment letter, the IRBA, through its CFAE, hosted a seminar for users and practitioners to consider the exposure draft and has drawn on feedback from the seminar in drafting these comments.

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

A. Opening Comments;

B. Request for Specific Comments and Responses; and

C. Request for General Comments.

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	**Saadiya Adam**
Director: Standards	**Professional Manager: Ethics**

A. Opening Comments

1.1. The IRBA supports the initiatives of the IESBA to strengthen the independence requirements in the Code as this will ensure that the Code is in line with international developments.

1.2. While this 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 and reviews as well as provide other assurance services.

1.3. As a regulator, we are concerned about the effective implementation and enforceability of the Code. However, we still support a principle-based code. These proposed amendments to long association suggest a rule-based approach. We believe that ultimately a Code with strong principles and salient rules would be the correct approach for the IESBA.

1.4. The re-exposed amendments may create complexity by introducing different cooling-off periods for differing levels of public interest entities (PIEs) and key audit partners (KAPs). This could lead to unnecessary complexity and might be too difficult, time-consuming and costly to manage.

1.5. The IESBA may have to consider including a general statement regarding joint audit engagements. In South Africa, joint audits are required for the audits of some banks and some public sector audits performed on behalf of the Auditor-General of South Africa. Such a statement would clarify that additional planning may be required for joint audit engagements.

1.6. We recommend that the effective date on the final amendments to this exposure draft be set before the finalisation of the restructured Code. This will allow the valuable proposed amendments to be effective sooner rather than later.

1.7. We note that there are certain overlaps between the Code and the *International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (ISQC 1)*. We suggest that all ethics issues be dealt with primarily in the IESBA Code and, if needed, reiterated in the IAASB ISA.

1.8. This exposure draft implies that the rotation required by the IESBA is a safeguard. However, we note that in the IESBA Safeguards exposure draft, safeguards are defined as:

> "120.7 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level."

A rotation requirement in the Code would not be a safeguard as it is a "safeguard created by the profession or legislation", which has been specifically excluded from the revised definition of a safeguard highlighted above.

1.9. We welcome the clarity provided in the Frequently Asked Questions (FAQs) section of the Code. This includes questions that are often asked in South Africa. However, the additional complexity will lead to more questions that will need clarification and which may not be addressed in the FAQs, e.g. transitional provisions if an audit client is a PIE (unlisted) and then lists.

1.10. We appreciate the efforts of the IESBA to accommodate all views in finalising the amendments to the exposure draft. We support the majority of these changes, but would like to record our concerns regarding the following:

a) Allowance for Limited Consultation on Technical Issues after Two Years

The importance of the cooling-off period is to distance the person from the financial information. Additionally, there is a need for a cooling-off before being reinstated in the position of a key audit partner, as lack thereof may result in a self-review threat.

b) Long Association of Audit Team Members other than KAPs

This statement may be useful and we do not think that it may have created confusion. The issue of non-partner engagement team members "growing up" on an engagement is a real one that the IESBA Code does not address.

c) The Appropriate Cooling-Off Period for Rotation of an Individual Other than a KAP

There may be a need for a statement to be made on what would be the appropriate cooling-off period for an individual other than a KAP of a PIE. The firm should consider the requirements applicable to the public interest entities' cooling-off period (i.e. two years) as a guideline.

B. Request for Specific Comments and Responses

Cooling-Off Period for the EQCR on the Audit of a PIE

1. Do respondents agree that the IESBA's proposal in paragraphs 290.150A and 290.150B regarding the cooling-off period for the EQCR for audits of PIEs (i.e. five years with respect to listed entities and three years with respect to PIEs other than listed entities) reflects an appropriate balance in the public interest between:

(a) Addressing the need for a robust safeguard to ensure a "fresh look" given the important role of the EQCR on the audit engagement and the EQCR's familiarity with the audit issues; and

(b) Having regard to the practical consequences of implementation given the large numbers of small entities defined as PIEs around the world and the generally more limited availability of individuals able to serve in an EQCR role?

If not, what alternative proposal might better address the need for this balance?

1.1. To accommodate more views, this section of the Code has resulted in amendments that are unduly complicated and clearly not in the public interest.

1.2. The introduction of three types of key audit partners (EP, EQCR and other KAP) is within the scope of the project. However, the introduction of the two levels of PIEs (listed and unlisted) may fall outside the scope of this project, and will have extensive unnecessary regulatory consequences.

PIE (listed) vs. PIE (unlisted)

1.3. This distinction may not only make rotation complex, but may open the door for similar differentiation when considering independence and non-assurance services.

1.4. There has previously been no distinction or ranking between the different categories of PIEs in the IFAC Code, and we suggest that all PIEs continue to be treated uniformly.

1.5. We question why a listed PIE should be differentiated from an unlisted PIE in the IESBA Code. There are certain pension funds (unlisted) that hold funds in a fiduciary capacity and have a greater public interest than small listed entities.

1.6. While we appreciate that PIEs may be overly complicated, the current solution may not solve the long-term problem i.e. clarify the definition of a PIE.

1.7. The correct approach may be to encourage jurisdictions to work on finding the correct fit for the definition of a public interest entity.

1.8. The IESBA may have to consider transition provisions relating to rotation for a PIE (unlisted) that becomes a PIE (listed) or vice versa.

EQCR Partner

1.9. We do agree that an EQCR is required to be independent of the financial information and that the familiarity threat needs to be addressed. If independence requirements need to be clarified, we would argue that the Code would be the appropriate guide rather than ISQC1.

1.10. ISQC1 includes a sub-heading on Criteria for the Eligibility of Engagement Quality Control Reviewers. The IESBA may wish to suggest to the IAASB that independence and the familiarity threat need to be addressed within the ISQC1.

1.11. Furthermore, according to ISQC1 not all audits of PIEs require an EQCR partner to be appointed. However, from the proposed wording of the exposure draft it may appear that all audits of PIEs require an EQCR partner, which may lead to a misunderstanding.

Jurisdictions Clarification

1.12. We are concerned if these restrictions are imposed on non-jurisdictional individuals (i.e. restrictions on individuals from outside the country of domicile of the company acting as an EP or EQCR). The IESBA would also need to consider whether the restrictions would result in a decrease in audit quality. For example, in French Africa (Francophone Africa), where there are limited numbers of practitioners with appropriate industry knowledge in-country, jurisdiction restrictions would prevent those countries from sourcing either EPs or EQCRs from out of country.

1.13. We understand that the primary reason for a limit to in-country professionals is primarily to ensure adequate local market and legislative knowledge. But we believe that there are circumstances where deep local knowledge would not be critical to the role of an EQCR and as such these countries should not be prevented from outsourcing beyond their borders. We recommend that where these restrictive legislative requirements are in place, the IESBA should consider writing a specific exception that deals with these situations in addition to the exemptions in sections 290.150 and 291.151.

Cooling-off Period

1.14. We agree with the cooling-off period suggested for EQCRs. The frequently asked questions provide a good indication on how these requirements will be implemented.

1.15. We especially support the provisions included in 290.150A.

Alternate Proposal

1.16. We see no significant difference between the two-year cooling-off period currently being applied and the proposed three years in terms of the strength of safeguard. Consequently, we are not convinced that it is necessary to incur the implementation costs of moving from a two-year to a three-year cooling-off period for the marginal improvement in safeguard for non-listed PIEs.

1.17. We suggest that the EQCR partner for non-listed entities remains within a cooling-off period of two years. An EQCR partner for a listed PIE would be subject to the same rotation requirements of an engagement partner.

Jurisdictional Safeguards

2. Do respondents support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D?

2.1. South Africa will be eligible for this provision. The South African Companies Act, 2008, (Act No. 71 of 2008) Section 92 already provides for a shorter period, as it requires the individual engagement partner on an audit to rotate after five years. This is followed by a two-year cooling-off period

2.2. These proposed amendments will be welcomed by registered auditors in South Africa as it would be a relief that the previously proposed Code rotation requirements take into consideration aligned to the local jurisdictional requirements.

2.3. However, we note that this addition will create greater complexity to the cooling-off period attached to a rotation schedule.

3. If so, do respondents agree with the conditions specified in subparagraphs 290.150D (a) and (b)? If not, why not, and what other conditions, if any, should be specified?

3.1. While we do not have an objection to these provisions, we note that this is the first time that the IESBA has introduced the requirement to implement “an independent regulatory inspection regime”. We question if criteria for a regulatory inspection regime should be provided in the IESBA Code or whether there is an intention to use the work of the International Forum of Independent Audit Regulators (IFIAR).

Service in a Combination of Roles during the Seven-Year Time-on Period

4. Do respondents agree with the proposed principle "for either (a) four or more years or (b) at least two out of the last three years" to be used in determining whether the longer cooling-off period applies when a partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period (paragraphs 290.150A and 290.150B)?

4.1. We commend the IESBA for identifying the service in different roles in the seven-year period as a potential loophole. This provision will allow for the correct or the best cooling-off period to be applied.

C. Request for General Comments

1. (a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed subject to re-exposure for SMPs.

1.1. The biggest barrier faced by SMPs in complying fully with the Code is in understanding its requirements.

1.2. We have received responses from SMPs expressing concerns that the proposed amendments will add a strain on the limited resources available to them. In particular, they are concerned about:

- Difficulty to understand;
- Cost implications;
- Complex schedules; and
- Additional local requirements.

2. (b) Preparers (including SMEs) and users (including Those Charged with Governance and Regulators) – The IESBA invites comments on the proposals subject to re-exposure from preparers, particularly with respect to the practical impact of those proposals, and users.

2.1. Without maintenance of appropriate documentation and rotation schedules, it will be difficult for an inspector (of a regulator) to ascertain during inspections if the proposed rotation requirements have been implemented. These schedules will have to be assessed and updated at least annually.

3. (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 subject to re-exposure, and in particular, on any foreseeable difficulties in applying them in their environment.

3.1. In environments where the ISAs and the Code have been adopted recently, the need for clarity is self-evident. The complex calculation and the different levels of requirements in this exposure draft will make it difficult for practitioners, standard-setters and regulators to apply and enforce the Code accordingly.

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

4.1. No comment.