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Submitted electronically to kensiong@ethicsboard.org

Mr K Siong
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International Ethics Standards Board for Accountants (IESBA)
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Dear Ken

Comments on the Exposure Draft on the *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*

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 1, 3, 4A and 4B of the International Ethics Standards Board for Accountants' (Board) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code). This was prescribed in 2018 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 to the Code to promote the role and mindset expected of professional accountants could result in possible amendments to Part 1, the IRBA has particular interest in the process.

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

- A. Overall Comments;
- B. Request for Specific Comments and Responses;
- C. Request for General Comments; and

We remain available to discuss our comments.

Yours faithfully,

Signed electronically

Imran Vanker
Director: Standards

Saadiya Adam
Professional Manager: Ethics

A. Overall Comments

- 1.1. The IRBA notes the importance of the IESBA project to clarify the role and mindset expected of all professional accountants, and also appreciates the refocus on the role of the professional to act in the public interest.
- 1.2. As a regulator of registered auditors, with a statutory objective to protect the public, we are concerned with the understandability and 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 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 audit, review and other assurance engagements and other professional services.
- 1.4. Recent events in South Africa and around the world have brought criticism to the behaviour of registered auditors and other professional accountants. This exposure draft will help to address those concerns, with key enhancements to the fundamental principles.
- 1.5. While we support this project, it is, however, questionable whether these proposed amendments will produce a meaningful improvement to the environment. The anticipated effect of the changes is not clearly evident in the exposure draft. The proposed amendments appear to be the first step, with additional awareness raising, either from the IESBA or at a jurisdictional level, still required.
- 1.6. Professional bodies, standard setters and others will need to play a more robust part in ensuring that these amendments are understood and operationalised. The IESBA may consider issuing guidance in the form of a staff publication relating to suggested jurisdictional awareness raising, exploring ideas gathered during the project.
- 1.7. As the changes are so subtle, and theoretical, there is a risk of professional accountants not appreciating the significance of the changes, and viewing these amendments as dealing with requirements that are already in place, without a proper and objective evaluation of current practice.

B. Request for Specific Comments and Responses

Role and Values of Professional Accountants

1. *Do you support the proposals in Section 100 that explain the role and values of professional accountants as well as the relationship between compliance with the Code and professional accountants acting in the public interest? Are there other relevant matters that should be highlighted in these paragraphs?*
 - 1.1. We support the proposed amendments highlighting the wide-ranging role of the accountancy profession in society and the relationship between compliance with the Code and responsibility to act in the public interest.
 - 1.2. We do note that the concept of the role and mindset of a professional accountant is abstract when compared to other provisions/amendments to the Code. It is important for professional accountants to understand the practical implications and considerations of these amendments, e.g. identifying situations where decisions have to be made in the public interest. These, however, have not been fully considered and included in the proposed amendments.

1.3. We acknowledge that all the practical considerations (describing all of the types of situations in which a professional accountant should consider the public interest or describing all of the public interest stakeholders who may be affected by a decision or an action of a professional accountant) of these amendments may be difficult to describe in a global Code. However, the concept of acting in the “public interest” is a critical and foundational issue in recognising the role of professional accountants and informing the professional accountant’s mindset in the decision-making process. Professional bodies, national standard setters and others should therefore be pressed upon to offer jurisdictional guidance. In addition, the IESBA may consider issuing guidance to assist jurisdictions in raising awareness on this important topic of “public interest”, particularly how a professional accountant’s mindset should be influenced by their assessment of the impact of their decision-making on the full range of stakeholders affected by their decisions.

1.4. Paragraph 100.1 A3 does not address institutions such as supreme audit institutions (public sector auditors), or others, which may use or adopt the Code. Therefore, a proposed change to the wording is as follows:

(Suggestions for additions appear in *italics* and are underlined, while for deletion they have been ~~struck through~~.)

“The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in their jurisdiction, and by firms in developing their ethics and independence policies, and others.”

Determination to Act Appropriately

2. *Do you support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111?*

2.1. Yes. We support the inclusion of the concept of the determination to act appropriately in difficult situations and its position in Subsection 111. Integrity has become a default word when discussing matters of ethics, often without an understanding of its meaning. These amendments add robustness and depth to the fundamental principle.

2.2. Professional bodies will need to consider their jurisdictional ethical and moral landscape and appropriate examples that professional accountants should be aware of when raising awareness of these amendments.

2.3. These amendments will add a clear link between integrity and the requirements detailed under Section 360, Non-compliance with Laws and Regulations.

Professional Behaviour

3. *Do you support the proposal to require a professional accountant to behave in a manner that is consistent with the profession’s responsibility to act in the public interest in paragraphs 110.1 A1 (e) and R115.1?*

3.1. Yes, we support the proposed amendments.

Impact of Technology

4. *Notwithstanding that the IESBA has a separate Working Group that is exploring the implications of developments in technology, are there any additional matters relating to the impact of technology beyond the proposals in paragraphs 110.1 A1(b)(iii), 113.1 A2 and 120.12 A2 that you consider should be addressed specifically as part of the Role and Mindset project?*

4.1. No. We agree with the inclusion of proposed amendments with regard to technology and its relation to the role and mindset of the professional accountant, e.g. automation bias. We appreciate that this project has remained focused on the objective of the role and mindset of the professional accountant and look forward to the IESBA project and its focus on technology related issues.

Inquiring Mind

5. *Do you agree with the concept of an inquiring mind as set out in the proposals in Section 120?*

5.1. We agree with the proposals relating to an inquiring mind in Section 120.

5.2. We do acknowledge that registered auditors may find it difficult to differentiate between an inquiring mind, as per the Code, and a questioning mind, as a requirement when exercising professional scepticism.

5.3. As with professional scepticism, it may be difficult for registered auditors to demonstrate that they applied that required mindset, and in the same light, consideration of evidence on this topic may be problematic.

5.4. For ease of reference, the Board may consider including the International Auditing and Assurance Standards Board's (IAASB) definition of professional scepticism in the Code, for individuals who are not familiar with the IAASB standards.

Bias

6. *Do you support the approach to addressing bias? If so, do you agree with the list of examples of bias set out in paragraph 120.12 A2? Should any examples be omitted, or new ones added?*

6.1. We support the proposed amendments relating to bias. We think that the inclusion under Subsection 112 – Objectivity and the explanation under paragraph 120.12 A2 provide the correct balance.

6.2. The proposed examples of bias offer a vocabulary that will be helpful in identifying threats to objectivity and evaluating the root cause where there has been a lack of objectivity.

6.3. We appreciate the alignment of paragraph 120.12 A2 with the proposed amendments to International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statement* (ISA 220). This consistent language will allow for better awareness and implementation by registered auditors.

Organizational Culture

7. *Are there any other aspects about organizational culture in addition to the role of leadership that you consider should be addressed in the proposals?*

7.1. We agree with the reference to the proposed International Standard on Quality Management 1 (previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, as it provides the robust framework for implementing and monitoring an audit firm's culture.

C. Request for General Comments

8. *Small and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.*

8.1. These amendments are abstract in nature. It may be difficult for SMPs to consider the practicality of these additional requirements without appropriate guidance.

8.2. Additionally, SMPs may not fully appreciate the role their firm and clients play in the public interest. Additional emphasis may be required on how their stakeholders (e.g. the tax revenue authority) are all part of the public interest.

9. *Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.*

9.1. As a regulator, our main concern is the robustness and enforceability of the proposed amendments, as they will help address the role of the professional accountant. If the professional accountant is held to a higher accountability in respect of the public interest, this will increase the value of the audit product.

9.2. It will be difficult to find evidence of the application of an inquiring mind. As such, application may require more context to ensure behavioural changes.

10. *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.*

10.1. In environments where the IAASB pronouncements and the IESBA Code have been adopted relatively recently, the need for clarity within the Code is of utmost importance. In developing nations, the limited experience of practitioners, standard setters and regulators in the application of the Code makes it vital to have a clear structure and enforceability of the Code.

10.2. The proposed amendments help address concerns with regard to the value of professional accountants, especially in developing nations where public interest should be kept as a focal point for decision-making.

11. *Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.*

11.1. There are several words and phrases used in the exposure draft that are similar in meaning. It may not be easy to differentiate between them and they will be difficult to translate, e.g. the “inquiring mind” vs the “questioning mind”.