

23 March 2020

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

Submitted electronically to kensiong@ethicsboard.org

Dear Mr Siong

Comments on the Exposure Draft: *Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers*

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 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*. This was prescribed in November 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.

We appreciate this opportunity to comment on the IESBA's Exposure Draft: *Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers* (Exposure Draft) as set out in the following sections:

A: General Comments; and

B: Request for Specific Comments.

We have also noted the proposed amendments and have initiated due process procedures in South Africa for the possible adoption of these amendments when finalised by the IESBA.

Kindly e-mail us at ivanker@irba.co.za if further clarity is required on any of our comments.

Yours faithfully,

Signed Electronically

Bernard Peter Agulhas

Chief Executive Officer

GENERAL COMMENTS

1. We appreciate the coordination between the IESBA and the International Auditing and Assurance Standards Board (IAASB) on this project and the speed at which this project has progressed to reach Exposure Draft stage as well as the proposed finalisation of the project to align it closely with the anticipated finalisation of the International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, during 2020. We believe that this alignment will benefit both national standard setters and audit regulators in complying with and enforcing both compliance with ISQM 2 and the Code respectively.
2. The IRBA supports a scalable approach that considers the unique circumstances of small practitioners. In this regard, the principle-based approach to safeguards may provide relief to certain practitioners for certain types of entities and engagements. As the IESBA progresses its work on the definition of a public interest entity (PIE), it will be necessary to reflect on how threats to objectivity that engagement quality reviewers face, may be addressed in the PIE and non-PIE environments.
3. There is a need for ongoing coordination with the ISQM 2 Task Force in general, and with the ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, Task Force on certain paragraphs, for example on paragraph 120.14 A1.
4. Although the Exposure Draft has introduced the terms “*engagement quality review*” and “*engagement quality reviewer*” that is in line with the new terminology used in ISQM 2, the remainder of the IESBA Code has not been amended and still refers to the “*engagement quality control review*”¹¹. The use of the different terms within the IESBA Code will be confusing especially since the definition contained in the Glossary is still that of an “*engagement quality control review*”. We suggest that this may be an opportune time for the IESBA to make these consequential amendments to the terms throughout the IESBA Code and the Glossary but that these consequential amendments be made without extending the timeline of this project.

REQUEST FOR SPECIFIC COMMENTS

Please note: Suggested alternative wording is provided with ‘insertions’ underlined and ‘deletions’ ~~struck through~~.

Question 1

Do you support the proposed guidance addressing the topic of the objectivity of an EQR?

5. We support the proposed guidance addressing the topic of the objectivity of an engagement quality reviewer.
6. We are pleased that no distinction is made between public interest entities and non-public interest entities or between listed and non-listed entities, and do not support the introduction of any other categorisation or distinction.

¹¹ IESBA Code: Paragraphs: R400.73, 400.73 A1, R410.4, R540.5, R540.12, R540.15, R540.16, R800.10, R990.7 and Glossary: Assurance team, Audit team, Engagement quality control review and Key audit partner.

7. We support the proposal in paragraph 120.14 A2 of describing the self-review threat as serving formerly as an engagement partner or other engagement team member.

8. However, we do suggest that:

- An additional bullet be added to paragraph 120.14 A2(b), as follows:

The accountant serves as a group engagement quality reviewer on a group audit engagement after serving as the engagement partner on a component of the group audit engagement.

This example was included in paragraph A17B of proposed ISQM 2 included in Agenda Item 5-E that will be presented to the IAASB at its March 2020 meeting. It would be particularly important to include this example in the IESBA Code if the IAASB decide not to include the example in the final ISQM 2.

- The list of factors in paragraph 120.14 A3 be extended so that they are relevant to all four threats set out in paragraph 120.14 A2. The threats in paragraph 120.14 A2, being (a) Self-interest threat, (c) Familiarity threat, and (d) Intimidation threat, do not appear to be directly covered by the factors. For fulsome guidance to be provided, it is important that the factors include consideration that the threats may affect more than one professional accountant. Thus, the nature of the relationships between the professional accountants may need to be considered.
- It is important to note in the amendments to the IESBA Code that “Appointing a different engagement quality reviewer” will be seen as an elimination of the threat.

Question 2

If so, do you support the location of the proposed guidance in Section 120 of the Code?

9. We do support the location of the proposed guidance in Section 120 of the IESBA Code.

10. However, we note that there may be some difficulty on deciding on an effective date for the proposed guidance to be included in Section 120 of the IESBA Code.

11. Extant section 120 of the IESBA Code had an effective date at a point in time, whereas ISQM 2 will be effective for a period beginning on or after a date to be determined.

12. For practical purposes and ease of implementation, we suggest that the effective date of the proposed IESBA Code amendment be aligned in full to the effective date of the final ISQM 2 to avoid any confusion.

Question 3

Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?

13. It is an imperative that a cooling-off requirement be introduced to address the self-review threat. While we would have preferred the IESBA Code to have directly addressed the cooling-off requirement, in the absence of this, we agree with the inclusion of a cooling-off requirement in ISQM 2. This is also relevant as a clear rule strengthens the ability of effective enforcement.

14. We acknowledge that the IAASB has proposed in paragraph 16A of proposed ISQM 2 included in Agenda Item 5-E that will be presented to the IAASB at its March 2020 meeting, a cooling-off period of two years, as a minimum, and would be supportive of firm policies or procedures, or other laws and regulations prescribing a longer period where relevant.
15. We support that a cooling-off period has been appropriately highlighted as an example of a safeguard or action in paragraph 120.14 A4 and appreciate that the cooling-off example has been highlighted as the first example of three possible safeguards or actions.

(b) *Small and Medium Practices (SMPs)* – The IESBA invites comments regarding the impact of the proposed guidance for SPMs.

16. We do not believe that the proposals are punitive or harsh for SMPs as the scope of engagements subject to engagement quality reviews as proposed by the IAASB is inherently scalable.

(c) *Developing nations* – Recognising 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 proposed guidance, and in particular, on any foreseeable difficulties in applying it in their environment.

17. We do not envisage that this proposal presents any foreseeable difficulties from a developing nation's perspective.