

21 March 2016

International Ethics Standards Board for Accountants (IESBA)

Email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Sir

**SAICA SUBMISSION ON THE IESBA'S EXPOSURE DRAFT, PROPOSED REVISIONS PERTAINING SAFEGUARDS IN THE CODE – PHASE 1**

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 Safeguards in the Code – Phase 1**, 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**

## QUESTIONS ASKED

### *Proposed Revisions to the Conceptual Framework*

## RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

1. Do respondents support the Board's proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to: **(If not, why not? For a – e below)**

(a) Identifying threats;

Yes, we support the changes.

The rework has added value by linking the 5 fundamental principles to the type of threats in a clearer more crisp read, and the code now clarifies that circumstances could lead to more than one threat which also may result in multiple breaches of different fundamental principles.

SAICA approves and agrees with the removal of polices etc. which are included as safeguards in the extant code to that of an environmental factor to influence the identification potential threats that might exist

SAICA believes that re-evaluating was already practiced, as it is very professional to do so. Just as much as audit materiality is re-calculated at the end of the field work to ensure that all determinations of "below materiality" still stand up to scrutiny, so the re-evaluation of threats makes sense. In this way, by giving that request more prominence, it will assist auditors to better observe compliance with the fundamental principles and evaluate threats to compliance in a more stringent manner.

The overall assessment now proposed to be included in the code is a valuable addition to the code. This brings about a deeper insight into the overall effect of the threats and if they have been reduced to an acceptable level after applying the safeguards, but where there are many, the overall assessment will indicate if further action is required.

(b) Evaluating threats

SAICA believes that the definition of an acceptable level is a welcome addition to the code, it makes it clear that the situation refers to a hypothetical reasonable and informed party –a useful benchmark, for the PA to step back and consider his judgements– how would this hypothetical person see the situation if they knew all the facts set out before the PA at that moment.

(c) Addressing threats;

Agreed. In paragraph 35 (s) and R120.7 (a), consider adding the following "Eliminating **or reducing** the circumstances, including interests...."

(d) Re-evaluating threats; and

SAICA welcomes these changes and we believe the additional requirement to re-evaluate the threats and safeguards after new information comes to light, makes the conceptual framework more complete, it is also consistent with other similar accounting principles well known in the accounting industry for example revaluation and write downs of goodwill or other investments when applying fair value accounting after certain events impact on future profitability.

(e) The overall assessment.

SAICA supports the concept of overall assessment as it adds value to step back at the end of applying the framework and positively review the process as sound.

*Proposed Revised Descriptions of “Reasonable and Informed Third Party” and “Acceptable Level”*

2. Do respondents support the proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed third party;” and (b) “acceptable level” in the Code. If not, why not?

SAICA endorse the new definitions, we would however recommend the IESBA investigates whether “Hypothetical” is easily translated into other languages.

*Proposed Revised Description of Safeguards*

3. Do respondents support the proposed description of “safeguards?” If not, why not?

SAICA supports the definition of safeguards. A safeguard is only “safer” if it has been tested and is proven and is perceived by a reasonable person to be effective in eliminating or reducing threats.

4. Do respondents agree with the IESBA's conclusions that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code: **(If not, why not? For 4a and 4b)**

(a) Do not meet the proposed description of safeguards in this ED?

SAICA agrees with the view. These “safeguards” are general comments and cannot be listed as specific safeguards and does not in fact conform to the new definition of a safeguard.

b) Are better characterized as “conditions, policies and procedures that affect the professional accountant's identification and potentially the evaluation of threats as discussed in paragraphs 26–28 of this Explanatory Memorandum?”

SAICA agrees with the amendments. A sentence could be included to state “...and could be used to identify potential safeguards that may exist and that could be tested to see if they address identified threats”.

*Proposals for Professional Accountants in Public Practice*

5. Do respondents agree with the IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice? If not, why not and what suggestions for an alternative approach do respondents have that they believe would be more appropriate?

Yes, SAICA agrees that the standard is improved by additional guidance and clarity of wording and improved definitions.

In the examples of Safeguards, 300.2A1 instead of fully removing the previous example, "discussing the level of audit fees with those charged with Governance", we would rather include an example of a safeguard as "the firm complies with a limit set by TCWG being a maximum of 10% of Audit fees allowed for Non-Assurance work" i.e. this example will illustrate that specific rules and regulations can be safeguards if and when they are applied and tested and found to be in place are now defined as a safeguard – the rule addresses a potential self-interest threat that prevents a breach of a fundamental principle being for example independence

Under 300.2A1 (d) relating to the second bullet point SAICA believes that the limitation of a familiarity threat limited to just the engagement partner who has served recently may not be sufficient. EQCR partners and KAP should also be included in a manner similar to that proposed for partner rotation.

**Request for General Comments**

54. 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.

SAICA believes that there could be increased costs for compliance in terms of training and documentation requirements.

- SMPs may not have the necessary resources and expertise (i.e. dedicated compliance department) to ensure that general ethical standards and revisions such as these are promptly and effectively adopted.
- Furthermore, it is a well-known fact that most SMPs provide both accounting and other financial services (e.g. Advisory) and assurance services for same client with limited staff. This leads to high level of threat to compliance with fundamental principles.
- With the above in mind, these changes do and will affect mostly those SMPs and IESBA needs to be cognisant of that fact.

(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 further comment.

© 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.