

Ref #765851

21 September 2020

Director: Standards

Independent Regulatory Board of Auditors (IRBA)

Email: standards@irba.co.za

Dear Sir

SAICA SUBMISSION ON THE IRBA'S EXPOSURE DRAFT, *PROPOSED AMENDMENTS TO SUBSECTION 115, PROFESSIONAL BEHAVIOUR: SIGNING CONVENTIONS FOR REPORTS OR CERTIFICATES, OF THE IRBA CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS (REVISED NOVEMBER 2018): ELECTRONIC SIGNATURES*

In response to your request for comments on the IRBA's Exposure Draft, *Proposed amendments to Subsection 115, Professional Behaviour: Signing Conventions for Reports or Certificates, of the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018): Electronic Signatures* (the Exposure Draft), 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.

Our approach to informing our members about the Exposure Draft and its content, and to gather information to inform our comment letter can be summarised as follows:

- i. SAICA is represented on the Committee for Auditor Ethics (CFAE) that approved the proposed amendments in August 2020. SAICA was also a member of the *Electronic Signatures* Task Group responsible for the research and drafting of the Exposure Draft.
- ii. The IRBA Communiqué and Exposure Draft were widely communicated through various channels to SAICA members from 18 August 2020, to encourage them to participate by commenting directly to the IRBA.
- iii. A SAICA internal working group studied and debated the Exposure Draft and prepared initial thoughts and input pertaining to the questions that have been posed.

- iv. SAICA established a task group from members of both the SAICA Ethics Committee and SAICA Legal and Compliance Committee to provide input into the questions relating to particular aspects of the Exposure Draft.

Our comment letter comprises the following sections:

- A. Overall comments
- B. Responses to specific questions
- C. Other comments

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

Yours sincerely,

Signed electronically

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A. OVERALL COMMENTS

1. SAICA supports the Exposure Draft and the work of the IRBA relating to the proposed amendments to Subsection 115, *Professional Behaviour: Signing Conventions for Reports or Certificates*, of the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) (IRBA Code): *Electronic Signatures*.
2. SAICA agrees with the statement made by the IRBA that the use of ordinary electronic signatures and advanced electronic signatures, instead of traditional wet-ink signatures, by registered auditors to sign their audit, review or other assurance reports has become more prominent, especially during Alert Lockdown Levels 4 and 5 of the COVID-19 pandemic.
3. With the inclusion of “*licensed and secure ordinary signature*” as signing convention, it allows more firms to make use of electronic signatures, as advanced electronic signatures are generally more expensive than ordinary electronic signatures.
4. Taking this into account, it is key to provide clear guidance as to what is permissible when signing audits, reviews and other assurance reports electronically.

B. RESPONSES TO SPECIFIC QUESTIONS

Our comments are presented in the sequence of the questions as they have been included in the Exposure Draft. We have responded to all 6 questions.

Question 1

Do you agree that a registered auditor should be allowed the use of both ordinary and advanced electronic signatures, making it clear in the IRBA Code that both ordinary and advanced electronic signatures are permissible; and also clarifying that if an ordinary electronic signature is used, it is required to be a “licensed and secure ordinary electronic signature”?

5. SAICA welcomes the IRBA’s approach to allow the use of both licensed and secure ordinary, and advanced electronic signatures as signing conventions for audits, reviews and other assurance reports.

6. Further clarity is however suggested on what is included as a “*licensed and secure ordinary electronic signature*”. This was debated during the task group meeting with specific reference to the following section in the Explanatory Memorandum to the Exposure Draft:

Examples of ordinary electronic signatures include:

- Clicking an “I accept” button on a website;
- A typed name in electronic format (e.g. in an email);
- A manuscript signature signed manually and simultaneously captured electronically (e.g. signed on a tablet computer);
- A physical manuscript signature that is scanned and transformed into a digital format; or
- The use of various software products for more secure signature.

- a. Although this list is included in the Explanatory Memorandum, it is recommended that guidance to this effect is included in the proposed amendments. These are practical issues and clarity regarding whether these items are regarded as “*licensed and secure ordinary electronic signatures*” is recommended.
- b. In the examples listed reference is made to “*a physical manuscript signature that is scanned and transformed into a digital format*”. A question was raised regarding the difference of scanning a signature versus an electronic signature, and if this would suffice as “*licensed and secure ordinary signature*” as meant by the proposed amendments. The task group were of the opinion that this perhaps does not fall within the definition of a “*licensed and secure ordinary signature*”, but combined with other data or data message could provide the necessary assurance as intended by the amendments.
- c. Certain firms make use of a stylus¹ when signing audit, review or other assurance reports. Again the question was raised if this would suffice as a “*licensed and secure ordinary signature*” based on the examples referring to “*a manuscript signature signed manually and simultaneously captured electronically*”. A stylus could be from a non-licensed product.
- d. The mere picture of a signature is not an electronic signature. Without proper clarity this might be misinterpreted and used as such.

¹ A pen-like object used to swipe, sign and draw on all manner of touchscreens and electronic devices.

7. To ensure consist application SAICA encourages the clarification of what is intended by the proposed amendments, specifically referring to what is included as a *“licensed and secure ordinary signature”*.
8. It is further noted that where an electronic² signature can be linked to a specific *individual* it ensures that the signature becomes defensible. Such a requirement might be considered as part of the proposed clarification. Including such measures / requirements over and above the proposed safeguards in the Exposure Draft could limit the misappropriation³ of electronic signature. It may also be useful to give guidance of what is clearly not acceptable, for example, a copy pasted signature of a person where it is not possible to prove it was pasted by the signatory. There should be an audit trail to an identifiable individual.

Question 2

Do you agree with the proposed amendments to Subsection 115, Professional Behaviour: Signing Conventions for Reports or Certificates, of the IRBA Code: Electronic Signatures? If not, please indicate what additional amendments are required?

9. We support the proposed amendments to *Subsection 115, Professional Behaviour: Signing Conventions for Reports or Certificates, of the IRBA Code: Electronic Signatures*.

Question 3

Are there any other implications or unintended consequences to introducing the use of ordinary and advanced electronic signatures into the IRBA Code?

10. Additional requirements might be imposed by Professional Indemnity Insurance Companies when an electronic signature is used to sign audit, review or other assurance reports. The unintended consequence could be that advanced signatures are prescribed by Professional Indemnity Insurance Companies that come at a much higher cost than *“licensed and secure ordinary electronic signatures”*.
11. We also recommend that the IRBA ascertains if regulatory bodies (such as the Johannesburg Stock Exchange) would accept *“licensed and secure ordinary electronic signatures”* or would prescribe advanced electronic signatures.
12. With cybercrime and fraud on the increase there is a risk of falsified signatures being used for malevolent purposes. The licensed signatures permitted may need to pass minimum

² Either advanced or licensed and secure ordinary signature.

³ Example: Signatures being “lifted” from electronic documents and used to “sign” reports on engagements for which firms have not been appointed (fraudulent use).

security standards and it may be useful to consult with those that rely on signed audit reports, for example, stakeholders such as banks.

Question 4

It is the IRBA's intention with paragraph 115.8 SA that the individual registered auditor uses the firm's authorised means of signing any audit, review or other assurance report on a consistent basis and does not vary his/her means of signature. Do you believe the requirement is clear in this regard?

13. We do *not* believe that the requirement is clear, as stated in paragraph 115.8 SA.
14. Limiting the firm's authorised means of signing an audit, review or other assurance reports is a concern. From the practical examples shared during the task group meeting, it is apparent that the type of signature used by a firm is determined by the circumstances. For example, signing the report in the presence of the client or providing the client with electronically signed copies.

Question 5

If you currently make use of electronic signatures, does the electronic signature software allow you to make use of the signature in the name of the firm?

15. Electronic signatures are currently widely used by firms. Through enquiry it was determined that in certain circumstances directors of firms have two electronic signatures⁴ that they make use of, dependent on the type of engagement or document that needs to be signed.
16. In the case where the electronic signature is used in the firm's name, the signature should be linked to a specific individual based on the authentication built into the software. To be able to link the firm's signature to a specific individual is key, as this will ensure that when an electronic signature is disputed, it can be defended in a court of law.
17. From the discussion and concerns raised, it is clear that the internal policies of a firm should clearly define the application and governance of electronic signature. We recommend that this be included as a requirement.

⁴ One in the name of the firm and the second their own personal signature.

Question 6

*Are you in agreement with the proposed effective date being on **15 December 2021**, with early adoption permissible?*

18. With the provision that the concerns highlighted in this document are clarified, we are in agreement with the proposed effective date being 15 December 2021, with early adoption permissible, taking into account that the IRBA will seek approval from the IRBA Board for issue in February 2021.

C. OTHER COMMENT

19. A concern was raised by members of the task group that the Exposure Draft mentions that:

“.. there is no requirement for the software service providers to adhere to any standards, they may meet recognised security standards, such as the information security management system standard (ISA 27001) or, by means, provide data security”

It would be prudent to include reference to Section 19 of the Protection of Personal Information Act 4 of 2013 (POPIA) that deals specifically with the duty of responsible parties to ensure the integrity and security of personal information and that the security around the implementation and use of electronic signatures is both reasonable and appropriate.