

25 April 2017

International Ethics Standards Board for Accountants (IESBA)

Email: kensiong@ethicsboard.org

Dear Sir

**SAICA SUBMISSION ON THE IESBA's EXPOSURE DRAFT, SAFEGUARDS IN THE CODE—PHASE 2
AND RELATED CONFORMING AMENDMENTS**

In response to your request for comments on the *IESBA's Exposure Draft pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). We have provided general comments as well as editorial suggestions.

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,

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Project Director – Governance and Non-IFRS Reporting



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RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

1. Do respondents support the proposals in Section 600? If not, why not?

Response:

SAICA support the proposals subject to the below considerations

- Referencing to International Standards of Auditing (ISAs) should be considered. In certain paragraphs of the extant code and the Safeguards ED general references to the ISAs are used, in 600.5 A1 an exact reference to ISA 320 is included. The exact reference may present a quality risk, should the ISA numbering or structure changes which IESBA may or may not detect timeously, this will require a conforming change due to an outdated and incorrect reference. It may thus be better to just refer to “The ISA standard used in determining Materiality in Planning and Performing an Audit” This suggestion is consistent with the rest of the Code where no specific number references are used but just a general reference, refer to 291.2 ; 290.12; 290.194; 225.38 of extant code.
- Also see par 605.6 A1 of the current ED refers to an ISA but does not specifically refer to ISA610 (the standard being referred to). A consistent approach should be used in the code. A foot note with specific standard detail and highlighting the version (date) being referred to, may be a solution in this regard.
- The wording in par 601.2 is repeated throughout the following sections up to and including par 610.2. This is very repetitive and does not necessarily add any value to the provisions of the Code, bearing in mind that the code is not to be applied in terms of individual paragraphs but as a document in its totality. Also, bearing in mind that the type of service that is prohibited is already addressed in the headings to each paragraph 601 to 610. We would suggest whether it would not be possible to include a general introduction to the section and include that paragraph.
- Par 602.3 2A. SAICA would like to request that the provision of payroll services is also dealt with. The question arises on whether the provision of payroll services also fall under administrative services as many firms provide payroll services.
- 606.4 A1. The Factors sighted would be better understood if they were accompanied by examples, e.g.:



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- The nature of the services: An example of performing routine system vulnerability or penetration testing compliments the audit approach and is not a threat, whereas advising on implementing an ERP system, could result in self review threats.
 - The nature of the IT system – An example designing a system used to measure consumer satisfaction is not as much of a threat as a system that projects estimated future revenue that would form part of audit assumptions that need to be tested.
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- 609.3 A1. Another example of recruitment services that does not usually create threats and that could be included is “Assisting the client with Visa applications for their staffing requirements.”
 - 609.4 A1. Factors to consider when evaluating the threat by providing recruitment services consider adding an additional factor “ Any appearance of conflicts of interest or relationships of candidates to the firm providing the advice or services.”

Editorial suggestion

- 609.4 A2 Insert a full stop “.” at the end of the sentence.

In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.

Response:

SAICA is supportive of the prohibition of recruitment services, as this type of service frequently is used for senior executives. It may also lead to a conflict with other existing audit clients as the person to be recruited is from another one of the professional accountant's audit clients. It will make it easier to apply and also strengthen independence of the auditor at non-PIEs.



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2. *Do respondents support the proposals in Section 950? If not, why not?*

Response:

SAICA supports section 950 as it extended the responsibility of the accountant to deal with threats to compliance with the fundamental principles and with non-compliance with the independence requirements to assurance services other than audits.

950.4 A4 - We wish to advise that a consistent approach should be used with regards to referencing of ISAs. A consistent approach should be used in the code. A foot note with specific standard detail and highlighting the version (date) being referred to, may be a solution in this regard.

3. *Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?*

Response:

SAICA is of the view that the following should be added:

Having another firm or independent PA who is suitably qualified and independent perform an external or peer review over work carried out.

4. *Do respondents agree with proposed conforming amendments set out in:*
a) Chapter 2 of this document.

Response:

SAICA agrees with proposed conforming amendments. Please note the following:

330.4 A4: The safeguard Adjusting the fee or scope of the engagement while ensuring adequate audit coverage is maintained and provided the adjusted fee is justifiable and does not create new threats.



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Editorial suggestions:

- 320.5 A2 second bullet, suggest a change of "... subject matters." to "subject matter."
- 320.6 A4 Second bullet "of" needs to be reinserted to now read "Asking the existing or predecessor accountant to provide any known information which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware of before deciding whether to accept the engagement..."
- 321.5 A1 Suggest change as follows "Factors that are relevant in evaluating the level of threat created by providing a second opinion to an entity that is not an existing client depends on the circumstances of the request..."
- 410.9 A2 Second bullet, delete "or" to read as follows "Having an additional professional accountant, who did not take part in the audit engagement review the work performed."
- 521.5 A3 delete 2 X "s", to now read: "An example of an action that might be a safeguard to address threats set out in paragraph 521.5 A1 is:"

b) The gray text in Chapters 2–5 of Structure ED-2.

Response:

SAICA has no comments on the changes.

Editorial suggestion:

- 940.5 A1 last bullet page 61 of marked version, "Whether there have been any recent changes in the individual or individuals who are responsible, or, if relevant, senior management."

5. *Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.*

Response:

SAICA would like to suggest that the reference to "firms and network firms" be consistently used throughout the Code.



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- Par 600.1 where it only refers to “Firms are....”, whilst para 600.2 refers to “Firms and network firms”
 - R600.10 – Section 600 prohibits a firm or network firm assuming....
 - Para. 601.1 and all similar paragraphs starting a subsection of NAS should start with: “Firms or network firms providing....”
 - Para. 601.2 and all similar paragraphs starting a subsection of NAS should read: “....framework when firms or network firms providing an audit client with accounting.... There are circumstances in which firms or network firms providing accounting....
 - Para 603.4 A1 – “....created by firms or network firms providing valuation....
 - Para 604.5 A1 – “Firms or network firms providing tax return....”
 - Para 604.6 A1 – “Firms or network firms preparing calculations....”
 - Para 604.7 A1 – “created by firms or network firms preparing tax calculations....”
 - Para 604.9 A1 – “Firms or network firms providing....”
 - Para 604.12 A1 – “Firms or network firms providing....”
 - Para 604.15 A1 – “Firms or network firms providing....”
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- Par 600.3 – in our view it would make sense to indicate that threats to independence should be identified, evaluated and addressed “before” and “during” providing non-assurance services to audit clients. The current wording seems to suggest that this only occurs “when” an auditor performs these services, while it is possible that the services are never performed due to the independence threats being at too high a level. This is highlighted in R600.4 but should also be indicated in this paragraph.
 - Par 600.4 A3 bullet point 3 is not clear why this is a factor to consider to evaluate the level of threats. It is also contradictory to R600.8 (a) where it is indicated that the client individual is not required to possess the expertise to perform or re-perform the services.
 - R600.9 seems to refer to NAS currently in progress and previously performed as per (a) and (b). Should this not be indicated in the start of the paragraph? “A non-assurance service currently or previously provided....”. And should (b) then not refer to “Non-assurance services currently in progress that....”
 - R600.9 – SAICA request that the use of “and in para (b) implies that all three (a) to (c) applies to the situation or whether this should be “or”.
 - R600.9 – We question the relevance of (a). Will this not always be the case that the NAS provided to the non-PIE will comply with the requirements and application material of section 600? We are not sure what exceptions will arise.
 - Para. 603.1 – suggest that the “advocacy threat” is added as a valuation can be performed for an audit client by the audit firm for example in merger and acquisitions transactions. It



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can be viewed by the other party (buyer or seller) or other third parties that the audit firm is advocating their audit client.

- Para. 604.4 A2 bullet point 2 is not clear why this is a factor to consider to evaluate the level of threats. It is also contradictory to R600.8 (a) where it is indicated that the client individual is not required to possess the expertise to perform or re-perform the services.
- Para 604.9 A1 – Advocacy threat is mentioned here but not addressed/mentioned again in the rest of “Tax Planning and Other Tax Advisory Services” (but the self-review threat is)

Editorial suggestions:

- Par 600.6 A1 – very last part of the sentence insert the following: “....provided to the same audit client.”
- Para. 601.5 A1 – the word “professionals” should be “professional”. Or the word “partner” should be “partners” with subsequent changes
- Para. R601.8 – it should refer to “R601.7” and not “R601.6”
- Para. R605.7 (b) and (c) – consider removing the word “the” before the word “aggregate”
- Subsection 606 refers to IT systems services. This is not consistently used in the subsection in several paragraphs – sometimes it refers to IT services only. For example, para. 606.2 “.... providing an IT service to an audit client...”
- Para. 606.2 – “....can be no safeguards to reduce...”
- Para 606.3 A1 – use abbreviation “IT” as it was explained in the previous paragraph
Para 606.3 A2 – “(d)....with respect to an IT system
- Para 607.3 A1 – “Litigation support services performed by firms or network firms for an audit client might....”
- Para 607.3 A1 – remove full stop and include a comma after the sentence
- Para 608.4 A1 – “Legal advisory services performed by firms or network firms that support an audit client....”
- Para 608.4 A2 – refer to “audit clients” in first sentence and bullet point 4, similar to bullet point 2
- Para 608.5 A2 – “....created when firms or network firms provide... to an audit client include”
- Para. 609.4 A2 – remove following: “....recruiting services include ~~is~~-using professionals...”
- Para. 609.4 A2 – “....created by firms or network firms providing....to an audit client include using....”
- Para. 610.3 A1 – “....serviced performed by firms or network firms to an audit client that might....”



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General comments

- a) Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.*

Response:

SAICA is of the view that there may be challenges in implementing for smaller practices although the effective date does allow for ample time to implement.

- b) 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.*

Response:

SAICA is of the view that improved requirements and application will assist regulators to enforce the code.

- c) 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.*

Response:

SAICA has no further comments.

- d) 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.*

Response:

This is not applicable in South Africa as the code is only available in English.