

INDEPENDENT REGULATORY BOARD FOR AUDITORS
COMMITTEE FOR AUDITOR ETHICS

**Explanatory Memorandum and Exposure Draft of Rules Regarding Improper Conduct
and Code of Professional Conduct**

Johannesburg / 27 November 2009

The Independent Regulatory Board for Auditors (the "IRBA") would like to draw the attention of all Registered Auditors to **Board Notice 157 of 2009** in the **Government Gazette No. 32742 published on 27 November 2009** containing the **Explanatory Memorandum** setting out the background to and explanation of the Exposure Draft of **Rules Regarding Improper Conduct (the "Rules") and the Code of Professional Conduct (the "Code")** issued pursuant to the provisions of sections 4(1)(c) and 44(6) of the Auditing Profession Act (the "Act").

In line with the IRBA's legislative mandate, the IRBA's objectives are to create the framework and principles to contribute to the protection of members of the public who rely on the services of registered auditors, and to support registered auditors who carry out their duties competently, fearlessly and in good faith. The goal is to help create an ethical, value-driven financial sector that encourages investment and confidence and promotes sound practices by developing and maintaining ethical standards which are internationally comparable.

The *Rules* and *Code* will replace the existing "*Old Disciplinary Rules - Rules 2.1.1 to 2.1.21* (the Old Disciplinary Rules)" and the "*IRBA Code*" and discharges the responsibilities of the CFAE contained in section 21 of the Auditing Profession Act, No. 26 of 2005 (the Act), *to determine what constitutes improper conduct by registered auditors and by developing requirements and guidelines for professional ethics, including a code of professional conduct.*

After careful consideration and the completion of a mapping exercise between the existing *IRBA Code of Professional Conduct* to the *Revised IFAC Code of Ethics for Professional Accountants (July 2009)* (the *IFAC Code*) published by the International Federation of Accountants (IFAC), the Committee for Auditor Ethics has determined that it is appropriate for the IRBA to adopt *Parts A and B, and the related definitions*, contained in the *Revised IFAC Code* in their entirety, as these relate to professional services provided by registered auditors. Part C of the *IFAC Code* has not been adopted as it provides for ethical conduct of Professional Accountants in Business who are not registered auditors.

IFAC's copyright permissions policy permits modifications to the *IFAC Code* to accommodate jurisdictional requirements in different countries. Consequently, more stringent requirements in the existing *IRBA Code* are incorporated into the relevant sections in Parts A and B and the Definitions in the *Code*. References to "*professional accountants*" in the *IFAC Code* have been replaced throughout with a reference to "*registered auditors*" as the IRBA regulates only individual registered auditors and registered firms. This includes the retention of the "Joint and Vicarious Liability" requirements in the existing *IRBA Code*. All such modifications to the *IFAC Code* are reflected by *underlining and italics*.

The adoption of Parts A and B of the *IFAC Code* contributes toward the worldwide convergence of ethical standards. It is anticipated that this convergence will facilitate the implementation of the *Code* by registered auditors in South Africa.

Comment process

To ensure that all relevant stakeholders are consulted and to streamline the consultation process, interested and affected stakeholders are invited to submit written comments on the Exposure Draft to the IRBA. As significant changes to the existing *IRBA Code* have been effected, the profession is encouraged to consider the implications of the changes and submit comments thereon.

The Committee for Auditor Ethics (CFAE) will consider comments received on the proposed *Code* prior to adoption of the final *Code*. All comments received will be regarded as being on public record unless confidentiality is requested.

Please submit written comments, preferably by e-mail, or on a computer disk to:

The Director-Standards
Independent Regulatory Board for Auditors
P O Box 751595
Garden View
2047

For Attention: Mrs SD van Esch

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Fax: + 27 86 575 6535

Enquiries should be directed to Mrs SD van Esch:

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Closing date: 31 March 2010

The Board Notice, Explanatory Memorandum, the Rules and the Code may be downloaded free of charge from the Ethics Standards section of the IRBA website:

http://www.irba.co.za/index.php?option=com_content&task=view&id=128&Itemid=73

Should you have any further queries please do not hesitate to contact the Standards Department at +27 87 940 8800 or send an email to standards@irba.co.za

About the IRBA

The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes. The CFAS assists the IRBA to develop and maintain auditing pronouncements which are internationally comparable.

Sandy van Esch

Director: Standards