

Proposed Amendments

March 2015

Comments requested by 15 May 2015



Proposed Amendments to the Code of Professional Conduct for Registered Auditors Definition of Public Interest Entity (PIE)

REQUEST FOR COMMENTS

The Committee for Auditor Ethics (CFAE) of the Independent Regulatory Board for Auditors (IRBA) approved these proposed amendments to the *Code of Professional Conduct for Registered Auditors* (the IRBA Code) in November 2014 for exposure for a period of 60 days. A Board Notice to the same effect is being published in the Government Gazette for public comment. The proposed amendments may be modified in light of comments received, before being issued in final form.

The IRBA adopted Part A and Part B of the International Ethics Standards Board (IESBA) *Code of Ethics for Professional Accountants* (the IESBA Code) published by the International Federation of Accountants' (IFAC) with adaptations, with effect from 1 January 2011. These proposed amendments to the IRBA Code are those made due to local needs and not as a result of amendments to the IESBA Code.

The IRBA's legislative mandate

The objects of the Auditing Profession Act, 2005 (Act No 26 of 2005) (the "Act") are set out in section 2 and include, inter alia:

- (c) *"to approve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*
- (d) *to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession;"*

To give effect to the objects of the Act, section 4(1) sets out the general functions of the IRBA, including that *"the Regulatory Board must, in addition to its other functions provided for in this Act -*

- (a) *"take steps to promote the integrity of the auditing profession; and*
- (c) *prescribe standards of professional competence, ethics and conduct of registered auditors;"*

To enable the IRBA to meet these requirements, section 4(2) (a) states that *"the IRBA may participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession;"*

Statutory responsibility of the CFAE

The statutory responsibility of the CFAE is set out in section 21(2) which requires that *"the CFAE must assist the IRBA:*

- (a) *To determine what constitutes improper conduct by registered auditors by developing requirements and guidelines for professional ethics, including a code of professional conduct;*
- (b) *To interact on any matter relating to its functions and powers with professional bodies and any other body or organ of state with an interest in the auditing profession; and*
- (c) *To provide advice to registered auditors on matters of professional ethics and conduct.*

REQUEST FOR COMMENTS

The proposed amendments may be downloaded free-of-charge from the IRBA website at: www.irba.co.za.

Comments should be submitted by **15 May 2015**.

Respondents are requested to submit their comments electronically in Word and PDF format to the Director: Standards, Imran Vanker to standards@irba.co.za. All comments will be considered a matter of public record and will be posted on the IRBA website, www.irba.co.za. Responses received will assist the CFAE to identify any further changes to the amendments.

Comments may also be mailed for the attention of the Director: Standards to:

The Director: Standards
The Independent Regulatory Board for Auditors
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Should you have any queries, or experience any technical difficulties in downloading the documents, please e-mail the Standards Department at: standards@irba.co.za or contact:

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The proposed amendments to this Code are based on local requirements to Part B of the IRBA Code of Professional Conduct for Registered Auditors. The IRBA Code of Professional Conduct adopted the *International Ethics Standards Board for Accountants (IESBA)* published by the International Federation of Accountants (IFAC) and is used with permission of IFAC. Adaptations to Parts A and B are *underlined and in italics*.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to and an explanation of these proposed amendments to the Independent Regulatory Board for Auditors (IRBA) *Code of Professional Conduct for Registered Auditors* (the IRBA Code). The Committee for Auditor Ethics (CFAE) approved these proposed amendments in November 2014 for issue on exposure for a period of 60 days for public comment.

IFAC's copyright permissions policy permits modifications to the *IESBA Code* to accommodate jurisdictional requirements in different countries. Consequently, these local amendments are being proposed.

The IRBA welcomes all comments on the proposed changes. In addition to general comments, the IRBA welcomes comments on the specific questions that are contained at the end of this memorandum.

Paragraph references refer to the IRBA Code as set out in the 2014 IRBA Manual of Information.

Background

The IRBA mission is as follows: "Our mission is to endeavour to protect the financial interest of the South African public and international investors in South Africa through the effective and appropriate regulation of assurance conducted by registered assurance providers in accordance with internationally recognised standards and processes."

The IRBA adopted Parts A and B and the Definitions of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (July 2009) published by the International Federation of Accountants (IFAC) with effect from 1 January 2011. The CFAE comments on all proposed amendments to the IESBA Code and considers final amendments to the IESBA Code for possible amendment of the IRBA Code. Local adaptations of the IESBA Code are reflected in the IRBA Code as *underlined and in italics*.

In line with the IESBA Code, the conceptual framework set out in the IRBA Code is premised on the principle that, in the case of audit engagements, it is in the public interest that members of the audit teams, firms and network firms are independent of audit clients. The two Codes, in Section 290, contain additional independence requirements that reflect the *extent* of public interest in certain entities (defined as Public Interest Entities).

The current definition of *Public Interest Entity* is the same as the IESBA's definition without any South African modification or guidance. This definition refers to listed entities and audits regulated or legislated to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. (290.25)

It goes on further to list factors to consider when determining whether other entities are Public Interest Entities, such as the nature of business, size and number of employees. (290.26)

Rationale for proposed amendments to the IRBA Code

The CFAE when proposing the amendments to the IRBA Code considered the following:

- In terms of Section 4(1)(b) of the Auditing Profession Act 2005, (Act No. 26 of 2005) the Regulatory Board must “take steps it considers necessary to protect the public in their dealings with registered auditors”;
- Providing a definition of Public Interest Entity that can be more consistently applied among registered auditors in South Africa ;
- In terms of Section 2(c) of the Auditing Profession Act 2005, one of the objectives of the Act is to “approve the developments and maintenance of internationally comparable ethical standards”; and
- Clearing the confusion between Public Interest Entity and Public Interest Score.

Protect the Public Interest

The IRBA recognises that concerns raised by stakeholders about the appearance of independence, the protection of the public interest, and continued confidence and trust in the independence of the audit process are an important rationale for the changes proposed in this Exposure Draft.

The IRBA also recognises that the different approaches adopted by registered auditors when considering whether clients are Public Interest Entities results in materially different outcomes in the identification of those entities whose activities have a significant impact on the public interest. The IRBA inspections process has identified that certain registered auditors hold a narrow view on which clients fall within the Public Interest Entity definition, whereas other firms adopt a wider interpretation.

The proposed amendment is intended to enhance perceptions of the auditor’s independence in mind and appearance especially relating to investor public interest where there are a large number and a wide range of stakeholders.

Consistently applied

The benefit of the proposed South African definition is that it will ensure that certain entities would always be treated as *Public Interest Entities* to avoid the risk of different treatment amongst firms.

In the CFAE’s view, this would enhance consistency between the increased regulatory supervision of entities in which there is a higher level of public interest and the more onerous independence requirements imposed on the auditors of such Public Interest Entities. As these entities are held to higher financial reporting and regulatory requirements, their auditors ought to be held to a higher independence requirement.

The CFAE recognises that the issues are finely balanced and that any change must be seen by stakeholders as being substantive and made on a sound and defensible basis, while a balance is achieved between the cost and complexity of implementation and the benefits.

The CFAE has carefully considered the stakeholder concerns which support strengthening the consistent application of the independence requirements applicable to Public Interest Entities. In doing so, it has kept in mind that the goal is to promote and enhance audit

quality, objectivity and professional scepticism when performing audits and/or reviews of Public Interest Entities.

The CFAE has taken into account the need for some flexibility and judgement when considering which entities are Public Interest Entities and decided that not including some flexibility and judgement may lead to unintended consequences.

Internationally comparable

The IESBA Code in Section 290.26 encourages but does not require firms to consider other factors, such as the nature of business, size and number of employees, when determining whether entities are Public Interest Entities. Evidence gathered from IRBA inspections indicates that these criteria have not been consistently applied in South Africa and that more definitive guidance is required. The IESBA clearly intended that the more restrictive independence requirements should apply to entities where an *important* public interest exists (i.e. not only Listed Entities). If the intention was to apply only to Listed Entities then 290.25 (a) of the definition would have been sufficient and it would not be necessary to have 290.25 (b).

At the 2010 World Congress of Accountants the IESBA Chairman publicly stated that the definition of *Public Interest Entities* covers more than Listed Entities. As an example, he noted that the European Union (EU) definition captures banks and insurance companies in addition to listed companies.

Before issuing this proposed amendment to the IRBA Code of Professional Conduct, the CFAE considered the definition of *Public Interest Entity* taking into account existing and proposed definitions in several other jurisdictions.

Clearing confusion between Public Interest Score and Public Interest Entity

Many registered auditors have questioned the relationship between the Public Interest Score (PIS) in the Companies Act 2008, (Act No. 71 of 2008) and Public Interest Entity in the IRBA Code. The CFAE considered the relationship in drafting the proposed amendment and believe that registered auditors should consider these concepts independently.

The proposed amendment clarifies the definition of public interest entity. In doing so, it will distance the definition of Public Interest Entity from the calculation of Public Interest Score in the Companies Act 2008 (Act No. 71 of 2008).

Significant Matters

The significant matters addressed by this proposed amendment can be broken down into:

- The firm's responsibility to consider if an audit or review client is a Public Interest Entity;
- The opportunity for a firm to consider the client not to be a Public Interest Entity and the requirement for the firm to document the reasons (the "rebuttable presumption"); and
- The entities that are likely to be considered to be a Public Interest Entity.

The firm's responsibility

The proposed amendment in paragraph 290.26 replaces the words “are encouraged to” with “shall” in order to strengthen the responsibility placed on the firm.

The opportunity for a firm to consider the client not to be a Public Interest Entity and the requirement to document the reasons (the “rebuttable presumption”);

The proposed amendment makes the rebuttable presumption that certain entities are likely to be Public Interest Entities. Where the audit firm does not agree that an audit client is a Public Interest Entity, even though it falls within the list of entities considered likely to be a Public Interest Entity, the firm is required to document its reasoning for the exception.

Entities that are likely to be considered to be a Public Interest Entity

When considering which entities to include in the proposed amendment, the CFAE used the concept of public accountability. Public accountability may be defined as accountability to those existing and potential resource providers and others external to the entity that make economic decisions but are not in a position to demand reports tailored to meet their particular information needs. Public accountability can arise either through the public holding debt or equity instruments in the entity or if the entity holds assets of the public in a fiduciary capacity.

In addition, the CFAE also took into account the extent of public interest in an entity, using the factors set out in Section 290.26 of the Code, such as the number and range of stakeholders, the size of the entity and the amount of assets held in a fiduciary capacity.

Based on these criteria, additional Public Interest Entities are likely to be large financial institutions and public sector organisations. If an entity has a large number and wide range of stakeholders that have a direct financial interest in the entity, then that entity was included in the list below.

The CFAE has consulted with the Financial Services Board, the JSE, South African Reserve Bank, Council for Medical Schemes and the Auditor - General South Africa (AGSA) in the preparation of this explanatory memorandum and exposure draft, and particularly with regard to the entities that fall within their jurisdiction and that, in their view, are likely to be considered to be Public Interest Entities. The Financial Services Board has expressed a view that the size of an insurer, a collective investment scheme and a Financial Services Provider is not relevant to consideration of whether those entities should be considered a Public Interest Entity in terms of paragraph 290.26 of the Code.

The proposed amendment lists the following entities as likely to be considered to be Public Interest Entities, subject to consideration of whether the individual entity exhibits the factors set out in paragraph 290.26.

- Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country
- Banks as defined in the Banks Act 1990, (Act No. 94 of 1990) and Mutual Banks as defined in the Mutual Banks Act 1993, (Act No. 124 of 1993)
- Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and the Short –term Insurance Act, 1998 (Act No. 53 of 1998)

- Collective Investment Schemes in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002)
- Funds as defined in the Pension Funds Act 1956, (Act No. 24 of 1956) that hold members' assets in excess of R1 billion and that are open to the public (commonly referred to as "open pension funds") or are open to a large number and wide range of public sector employees, such as the Government Employees Pension Fund
- Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act (FAIS) who receive or hold client assets
- Medical Schemes as defined in the Medical Schemes Act 1998, (Act No. 131 of 1998) that are open to the public (commonly referred to as "open medical schemes") or are open to a large number and wide range of public sector employees, such as the Government Employees Medical Scheme
- Authorised users of an exchange as defined in the Financial Markets Act 2012, (Act No. 19 of 2012) who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion; and
- Other issuers of debt and equity instruments to the public.

These entities are discussed in more detail below:

- **Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country**

These are Major Public entities where the Auditor General has opted not to perform the audit and where the entity directly or indirectly provides essential or strategic services or holds strategic assets for the benefit of the country.

When the Auditor General opts to perform the audits of certain public entities, certain aspects of the audit work may be outsourced to independent audit firms in which case AGSA specific independence requirements are applied.

- **Banks as defined in the Banks Act 1990 (Act No. 94 of 1990) and Mutual Banks as defined in the Mutual Banks Act 1993 (Act No. 124 of 1993)**

A "bank" means a public company registered as a bank in terms of the Banks Act 1990 and which performs the business of a bank as defined on the Act. A "mutual bank" means a juristic person that is provisionally or finally registered as a mutual bank in terms of the Mutual Banks Act, 1993, Act No. 124 of 1993. Due to the nature of the work performed by banks, which normally includes holding assets in fiduciary capacity for a large number of stakeholders and the use of those funds in credit lending activities, it is likely to be considered a Public Interest Entity.

- **Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and the Short –term Insurance Act, 1998 (Act No. 53 of 1998)**

Insurers covers both entities covered in the Long Term Insurance Act, 1998 (Act No. 52 of 1998) and the Short Term Insurance Act, 1998 (Act No. 53 of 1998).

Due to the significance of the "promise to pay" obligations which both short and long term insurers generally have towards a large number and wide range of policy holders, insurers are considered likely to be Public Interest Entities.

- **Collective Investment Schemes in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002)**

Collective Investment Schemes which are open to the public would normally hold a large amount of assets for the benefit of a large number of stakeholders and are likely to be considered Public Interest Entities.

- **Funds as defined in the Pension Funds Act 1956, (Act No. 24 of 1956) that hold members' assets in excess of R1 billion and that are open to the public (commonly referred to as "open pension funds") or are open to a large number and wide range of public sector employees, such as the Government Employees Pension Fund**

By their very nature, retail retirement funds which are open to the public or open to a large number and wide range of members would normally hold a large amount of funds in fiduciary capacity on behalf of a large number of stakeholders and are likely to be considered a Public Interest Entity.

In contrast, restricted funds that are not open to the public, such as stand-alone employer funds and umbrella funds, have not been included in this proposed amendment due to the limited number and narrow range of stakeholders.

- **Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act (Act No. 37 of 2002) (FAIS) who receive or hold client assets**

Financial service providers who receive or hold client assets for a wide range of stakeholders are likely to be considered Public Interest Entities.

- **Medical Schemes as defined in the Medical Schemes Act 1998, (Act No. 131 of 1998) that are open to the public (commonly referred to as "open medical schemes") or are open to a large number and wide range of public sector employees, such as the Government Employees Medical Scheme**

An open medical aid is one that is open to all South Africans who can pay for the membership. Restricted medical aids are only for people with a certain academic qualification, who works in specific industries, belong to certain professional associations or are employees of a certain company in South Africa.

Open medical aid schemes, by their nature, typically have significant "promise to pay" obligations towards a large number and wide range of policy holders, and may also hold substantial policy holder funds in medical savings accounts. As a result, open medical aid schemes are considered likely to be Public Interest Entities.

In contrast, restricted or closed funds have not been included in this proposed amendment due to the limited number and narrow range of stakeholders.

- **Authorised users of an exchange as defined in the Financial Markets Act 2012, (Act No. 19 of 2012) who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion;**

The securities services performed by an authorised user include: —

- (a) the buying or selling of securities for own account or on behalf of another person as a business, a part of a business or incidental to conducting a business;
- (b) the use of the trading system or infrastructure of an exchange to buy or sell listed securities;
- (c) the furnishing of advice to any person;
- (d) the custody and administration of securities by a nominee;
- (e) the management of securities and funds by an authorised user;
- (f) clearing services; or
- (g) settlement services.

The above services include holding funds in a fiduciary capacity for clients and it is this service which is regarded as having a material impact on the public interest. Therefore authorised users who are responsible for safeguarding a large amount of assets for a large and wide number of investors are likely to be considered Public Interest Entities.

- **Other issuers of debt and equity instruments to the public**

This category has been included to take into account other entities that are not listed on a regulated stock exchange, but may have a large number and wide range of financial stakeholders.

For the purpose of this section, “the public” shall mean the public in general or large sectors of the public such as participants in Broad-Based Black Economic Empowerment schemes or participants in offers to large industry sectors, which result in the debt or equity instruments being owned by a large number and wide range of stakeholders

Analysis of overall impact of the proposed changes

Implication for the audit profession

The proposed amendment will promote and enhance audit quality, objectivity and professional scepticism in addressing the public perception related to threats to independence. This amendment will strengthen the independence requirements in the IRBA Code, thus strengthening the reputation of the auditing profession and the protection of the public

At a firm Level

The proposed amendment places an additional level of responsibility on the audit firms. They will be required to consider if an entity other than a listed entity is a Public Interest Entity. This includes the responsibility to properly motivate and document any decision to

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rebut the presumption that an individual entity is a Public Interest Entity in accordance with this Code.

At an Engagement Level

Auditors who perform audit and review engagements for entities that are considered to be Public Interest Entities will have to consider the services that are prohibited and the additional independence requirements imposed by the IRBA Code specifically for Public Interest Entities, including those set out in the table below:

IRBA Code Paragraph	Prohibition or Independence requirement	Companies Act 2008 (Act No. 71 of 2008)
Paragraph 290.137	Prohibits a key audit partner or senior managing partner joining a Public Interest Entity client before a defined time out period	
Paragraph 290.149	Prohibits a key audit partner serving more than 7 years on a Public Interest Entity client	Section 92 of the Companies Act has a more stringent rotation requirement
Paragraph 290.177	Prohibits the provision of Valuation Services for an Audit Client	
Paragraph 290.183	Prohibits the preparation of calculation of current taxation and deferred taxation liabilities (assets)	
Paragraph 290.197	Prohibits the provision of Internal Audit Services, relating to internal controls over financial reporting, financial accounting systems or financial statements amounts disclosed to an audit client	
Paragraph 290.203	Prohibits the provision of services involving the design or implementation of an IT system	
Paragraph 290.212	Prohibits the provision of recruiting directors/officers, or senior management who will have significant influence over accounting records or financial statements	
Paragraph 290.219	If in two consecutive years the total fee from one client is greater than the total fee earned by the firm, then dependency on the client needs to be considered	

Project timetable

Subject to comments received during this period, the CFAE intends to issue final amendments to the Code during the third quarter of 2015. The CFAE plans to finalise amendments in the second quarter of 2015, before recommending them for approval by the IRBA Board for issue. It is intended that this definition of *Public Interest Entity* in the IRBA Code of Professional Conduct will be effective from **1 January 2016**, i.e. apply to engagements for financial periods beginning on or after 1 January 2016.

Transitional provisions

Depending on the effective date, transitional provisions will be determined accordingly. Draft transitional provisions are provided on page 16.

Guide for respondents

The CFAE welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and where appropriate, make specific suggestions for any proposed changes to wording.

The CFAE would prefer that respondents express a clear opinion on the specific questions raised and that opinions are supplemented by detailed comments, whether supportive or critical, on any matter. The CFAE regards both critical and supportive comments as essential to a balanced view of the proposed amendment.

Request for specific comments

The IRBA would welcome views on the following specific questions:

1. Do respondents believe that the proposed amendments provide useful guidance to help the Registered Auditor in determining whether an entity is a Public Interest Entity?
If “No”, please indicate what additional guidance is needed.
2. Do respondents agree that the entities listed in paragraph 290.26a, are generally likely to have satisfied the requirements to be a Public Interest Entity, subject to application of the criteria set out in paragraph 290.26?
If “No”, please indicate which entities would not generally likely satisfy the requirements to be a Public Interest Entity?
3. Do respondents believe that the absence of thresholds provided for Insurers still allows the proposed amendment to be consistently applied?
If “No”, please explain your view
4. Do respondents believe that the absence of thresholds provided for Collective Investment Schemes still allows the proposed amendment to be consistently applied?
If “No”, please explain your view.

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5. Do respondents believe that the absence of thresholds provided for Financial Services Providers still allows the proposed amendment to be consistently applied?

If “No”, please explain your view

6. Do respondents believe that other entities are likely to be considered to be Public Interest Entities, based on the criteria in paragraph 290.26, but have not been covered by the proposed amendment?

If “Yes”, please indicate which other entities would generally likely satisfy the requirements to be a Public Interest Entity?

7. Do respondents agree with the effective date proposed?

If “No”, please indicate the reason for the disagreement as well as an effective date and transitional provisions that will be more appropriate.

PROPOSED CHANGES TO THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS ADDRESSING PUBLIC INTEREST ENTITIES

The relevant sections have been extracted below from the extant Code, which can be accessed in the *2014 IRBA Code of Professional Conduct for Registered Auditors*

Public Interest Entities

290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:

- (a) All listed entities; and
- (b) Any entity:
 - i. defined by regulation or legislation as a public interest entity; or
 - ii. for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

290.26 Firms ~~are encouraged to~~ *shall* determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
- Number of equity or debt holders;
- Size; and
- Number of employees.

290.26 (a) The following entities will generally satisfy the conditions in paragraph 290.26 as having a large number and wide range of stakeholders and thus are likely to be considered as Public Interest Entities:

- Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country
- Banks as defined in the Banks Act 1990, (Act No. 94 of 1990) and Mutual Banks as defined in the Mutual Bank Act 1993 (Act No. 124 of 1993)
- Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and the Short-term Insurance Act, 1998 (Act No. 53 of 1998)

- Collective Investment Schemes in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002)
- Funds as defined in the Pension Funds Act 1956, (Act No. 24 of 1956) that hold members' assets in excess of R1 billion and that are open to the public (commonly referred to as "open pension funds") or are open to a large number and wide range of public sector employees, such as the Government Employees Pension Fund
- Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act 2002, (Act No. 37 of 2002) who receive or hold client assets
- Medical Schemes as defined in the Medical Schemes Act 1998, (Act No. 131 of 1998) that are open to the public (commonly referred to as "open medical schemes") or are open to a large number and wide range of public sector employees, such as the Government Employees Medical Scheme
- Authorised users of an exchange as defined in the Financial Markets Act, 2012, (Act No. 19 of 2012) who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion
- Other issuers of debt and equity instruments to the public¹

If a Firm considers an audit client that falls under one or more of the above categories not to be a public interest entity, the Firm shall document its reasoning and its consideration of paragraph 290.26.

Proposed transitional provisions

Public Interest Entities

1. Section 290 of the Code contains additional independence provisions when the audit or review client is a public interest entity. The additional provisions that are applicable because of the new definition of a public interest entity in paragraph 290.25 to paragraph 290.26(a) are effective on or after 1 January 2016. For partner rotation requirements, paragraph 290.152 will apply.

¹ For the purpose of this section, "the public" shall mean the public in general or large sectors of the public such as participants in Broad-Based Black Economic Empowerment schemes or participants in offers to large industry sectors, which result in the debt or equity instruments being owned by a large number and wide range of stakeholders.