

19 March 2010

The Director-Standards  
Independent Regulatory Board for Auditors  
P O Box 75595  
Gardenview  
2047

Dear Mrs S D van Esch,

## **Commentary on Exposure Draft: Rules Regarding Improper Conduct and the Code of Professional Conduct for Registered Auditor's**

We appreciate the opportunity to provide comments on the proposals to strengthen the independence requirements contained in the Exposure Draft: Rules Regarding Improper Conduct and the Code of Professional Conduct for Registered Auditor's issued by the Independent Regulatory Board for Auditors. Below you will find our comments on specific areas in the Exposure Draft.

### **DEFINITIONS & IMPROPER CONDUCT**

1.1.4 including Code definition at page 13.

The definition of a "Firm" is set out in the Auditing Profession Act. There is no good reason to repeat what is law in a Code of Conduct and the definition should be deleted.

1.1.5 including Code definition at page 15.

There is little merit in stating the various professional services in paragraphs (a) to (c). It is probable that the Code will be in place for many years and the nature of services provided by registered auditors is likely to change over time. Furthermore, these are adequately covered by the IFAC sourced definition stated. Accordingly, paragraphs (a) to (c) should be deleted.

2.14

This paragraph indicates that a registered auditor will be guilty of improper conduct if he or she, without reasonable cause or excuse, fails to resign when requested to do so by the client.

It will be advisable to state " .. when requested to do so by the *client party or committee responsible for the appointment of auditors*" rather than " ... when requested to do so by the client".

It is unclear who will constitute the "client" and such a request could well be egregious. For example, it is quite possible that shareholders may have appointed auditors knowing that they will stand up to an autocratic CEO known for bending the rules and that subsequently such CEO requests the auditors to resign when they will not accede to his unethical proposals.

## **Commentary on Exposure Draft: Rules Regarding Improper Conduct and the Code of Professional Conduct for Registered Auditor's**

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### **PREFACE**

1.2

"Proposed" should be removed on finalisation of the Exposure Draft..

3.

Stating that auditors have joint and vicarious liability is at odds with international developments and with the accounting profession in many other countries. Including this contradicts the stated intention of convergence with other countries. Accordingly, it should be deleted.

Common law principles are adequate to provide protection to clients and others dealing with auditors.

### **CODE OF PROFESSIONAL CONDUCT**

150.4

The prohibition on signing should apply only to audit or other reports and certificates prepared in accordance with codified auditing standards. There is no reason why a person who is not a registered auditor should be precluded from signing a report or a certificate that does not have to be signed, in terms of law, regulation or auditing standards, by a registered auditor. For example, there cannot be any objection to a person who is not a registered auditor signing a report on the suitability of a hotel for hosting a conference, or a certificate to a liquidator confirming the amount owing to the firm.

150.5

The first sentence repeats of the legal requirement set out in S44 (1) of the Act. There is no logical reason why this should be stated in the Code and it should be deleted.

Furthermore, this paragraph has been poorly worded. The current wording implies that S44 (1) of the Act requires a registered auditor, when signing audit, review or assurance reports, to reflect his or her full name, etc. S44 (1) has no such requirement.

The details that the CFAE wishes to be set out in relation to a signature should preferably be covered in a totally separate paragraph.

210.15

This paragraph is poorly worded and needs to be redrafted to ensure that people reading it will understand what is intended. For example, "themselves" is used in conjunction with "proposed registered auditor" - thereby confusing the singular and plural. Also, the paragraph confuses the proposed registered auditor with the existing registered auditor insofar as permission from the client is concerned.

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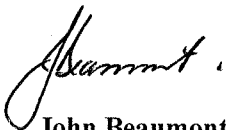
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290.104

An indication should be given as to how materiality should be determined for a partnership.

If the principles set out in paragraph 290.101 are applied, then materiality would be measured in terms of the combined net worth of every partner and their immediate family members. Practically, this will be virtually impossible to determine for many partnerships. Also, it will not make sense if this is to be determined on the basis of the business assets of the partnership (for example, materiality for a sole practitioner is based on the total value of the net assets of the practitioner and his/her immediate family. If that person then forms a partnership with another sole practitioner, the partnership net assets could well be zero and it would be illogical to use the business assets as a basis for determining materiality).

Yours sincerely,



**John Beaumont**  
Partner  
Deloitte & Touche