

November 2018
Comments requested by 5 February 2019



**Proposed Amendments to Section 321 of the IRBA Code of
Professional Conduct for Registered Auditors (Revised November
2018): Second Opinions**

REQUEST FOR COMMENTS

REQUEST FOR COMMENTS

The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditor Ethics (CFAE) approved these proposed amendments to Section 321 of the *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)* (the IRBA Code): *Second Opinions* in November 2018 for exposure for a period of 60 days, following publication of a Board Notice to be included in the Government Gazette for comment. The proposed amendments to Section 321 of the IRBA Code: *Second Opinions* may be modified in light of comments received, before being issued in a final form.

The proposed amendments to Section 321 of the IRBA Code: *Second Opinions* have been updated by a CFAE Task Group that comprised users of audits and technical staff representatives from auditing firms, the South African Institute of Chartered Accountants (SAICA) and the IRBA.

The proposed amendments to Section 321 of the IRBA Code: *Second Opinions* may be downloaded from the IRBA website at: <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/exposure-drafts-and-comment-letters>.

Respondents are requested to submit their comments electronically in Word and PDF formats 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).

Comments should be submitted by **5 February 2019**.

Should you have any queries, please e-mail the Standards Department at standards@irba.co.za.

The mission 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.

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 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 also promotes sound practices by *developing and maintaining ethical standards which are internationally comparable*. The statutory responsibility of the CFAE is to assist the IRBA to:

- Determine what constitutes improper conduct by registered auditors by developing requirements and guidelines for professional ethics, including a code of professional conduct;
- 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
- Provide advice to registered auditors on matters of professional ethics and conduct.

REQUEST FOR COMMENTS

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EXPLANATORY MEMORANDUM

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to and an explanation of the proposed amendments to Section 321 of the Independent Regulatory Board for Auditors (IRBA) *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (the IRBA Code): *Second Opinions*. The Committee for Auditor Ethics (CFAE) approved these proposed amendments in November 2018 for issue on exposure for a period of 60 days for public comment.

The International Federation of Accountants' (IFAC) copyright permissions policy permits modifications to the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the IESBA Code) to accommodate jurisdictional requirements in different countries. Consequently, these local amendments are being proposed.

The IRBA welcomes comments on the proposed amendments. In addition to general comments, it welcomes comments on the specific questions posed at the end of this memorandum.

Background

The IRBA mission is as follows: "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 IESBA Code (July 2009), published by the 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 the possible amendment of the IRBA Code. Local adaptations of the IESBA Code are reflected in the IRBA Code and they are underlined and in italics.

Circular 01/2006, *Giving Second Opinions* (the Circular). was issued in November 2006 by the Committee for Auditing Standards (CFAS).

The Circular was issued to ensure appropriate communication between the registered auditor (auditor) when asked to issue a second opinion, the existing auditor and their client to avoid misunderstanding and/or potential conflicts. The Circular includes practical guidance when there is a request for a second opinion on an accounting treatment.

When the IRBA adopted Parts A and B of the IESBA Code in 2011, it was not considered necessary for the Circular to be revised as the requirements, in principle, were incorporated into Section 230: *Second Opinions*, of the IRBA *Code of Professional Conduct for Registered Auditors* (the IRBA Code (January 2011)). The Circular was retained as it was still in use and offered good guidance.

In February 2012, the CFAE considered the need to include local amendments to Section 230: *Second Opinions* of the IRBA Code (January 2011), when several queries were received in relation to the giving of second opinions on Broad-Based Black Economic Empowerment (B-BBEE) assurance engagements. The CFAE concluded that the extant IRBA Code and the CFAS-issued Circular were adequate in dealing with queries received.

In October 2017, while deciding on its work programme, the CFAS considered its pronouncements that had a "health warning". A health warning is a statement on the cover of a pronouncement that indicates that the document needs to be updated. This could be as a result

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of a new auditing standard, new legislation, etc. The Circular carried a health warning that read, “Please consider Section 230: *Second Opinions*, of the IRBA Code of Professional Conduct when using this Circular.”

The CFAS requested that the Circular should be reconsidered by the CFAE as it is an IRBA Code related matter. Though the Circular was issued before the formation of the CFAE, it now falls under its mandate. The CFAE is also best placed to advise on whether the Circular should be amended, incorporated into the IRBA Code or withdrawn.

A project proposal for incorporating relevant content of the Circular into Section 321 of the IRBA Code: *Second Opinions* was approved by the CFAE in February 2018. The project serves the public interest in that it allows for the offering of a second opinion in an ethical and responsible manner as at times the second opinion is given by the auditor in connection with a proposal to obtain a new client. The prospect of securing another auditor’s client might create a self-interest threat where the auditor has been requested to provide a second opinion.

The CFAE Task Group (Task Group) considered whether the guidance contained in the Circular is still relevant and applicable to auditors. It also considered whether the guidance to be incorporated into Section 321 of the IRBA Code: *Second Opinions* should be included as introductory material, requirements or application material.

Further, the Task Group considered whether the guidance included in Section 321 of the IRBA Code: *Second Opinions* should be amended to:

- Align the guidance, where applicable, with South African amendments made elsewhere in the IRBA Code;
- Further strengthen the guidance by escalating certain application material to a requirement paragraph; and
- Include additional safeguards mentioned in other Sections of the IRBA Code that might be relevant in addressing a possible self-interest threat when an auditor is engaged to provide a second opinion.

Significant Matters

General opinions

The Circular includes the following in respect of an auditor giving a general opinion:

“Second auditors are cautioned against giving ‘general opinions’ (one relative to hypothetical situations not related to specific entities or circumstances). If a second auditor is asked for a ‘general opinion’, whether written or oral, the second auditor should ensure that the client or the recipient of the opinion understands that it has been given in the context of that particular hypothetical situation only. The second auditor should still make the appropriate enquiries detailed in paragraph 9.”

The Task Group agreed that guidance on the auditor giving a general opinion was not necessary to be included as an amendment to Section 321 of the IRBA Code: *Second Opinions* as the auditor would apply the conceptual framework in such circumstance.

Other

Proposed additions are *underlined and in italics* and deletions are denoted by ~~strike through~~.

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SAICA has adopted verbatim the local amendments made to the IRBA Code of Professional Conduct in the SAICA Code of Professional Conduct. Thus, the proposed amendments could result in SAICA considering a similar change to its Code of Professional Conduct.

Project Timetable

Subject to comments received during the comment period, the CFAE plans to finalise the amendments during May 2019 for approval by the IRBA Board for issue in June 2019. It is anticipated that the amendments to Section 321 of the IRBA Code: *Second Opinions* will be effective on or after **15 January 2020**.

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 the wording.

When a respondent agrees with the proposals in this exposure draft it will be helpful for the CFAE to be made aware of this view.

Request for Specific Comments

The IRBA welcomes views on the following specific questions:

1. Do you agree with the proposed amendments to Section 321 of the IRBA Code: *Second Opinions*? If not, please indicate what additional amendments are required.
2. Do you agree that guidance in respect of giving general opinions should be excluded? If not, please indicate what guidance is required.

PROPOSED AMENDMENTS TO SECTION 321 OF THE IRBA CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS (REVISED NOVEMBER 2018)

SECOND OPINIONS

DEFINITION

Predecessor accountant A registered auditor who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.

SECTION 321

SECOND OPINIONS

Introduction

321.1 Registered auditors are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

321.2 Providing a second opinion to an entity that is not an existing client might create a self-interest or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

321.3 A1 A registered auditor might be asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to (a) specific circumstances, or (b) transactions by or on behalf of a company or an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor accountant had, or is based on inadequate evidence.

321.3 A2 A factor that is relevant in evaluating the level of such a self-interest threat is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgement.

321.3 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- With the client's permission, obtaining information from the existing or predecessor accountant and confirming the completeness of the information received.
- Describing the limitations surrounding any second opinion in communications with the client.
- Having an appropriate reviewer who has not taken part in the second opinion, review the draft second opinion.
- ~~Providing the existing or predecessor accountant with a copy of the opinion.~~

321.3 A4 SA With the client's permission, a registered auditor may through enquiries of the client and enquiries of the existing or predecessor accountant:

- Ascertain the circumstances surrounding the proposed engagement for a second opinion.
- Ascertain whether the client has sought a second opinion from other registered auditor(s).

R321.3a SA A registered auditor shall provide a second opinion in writing.

321.3a A1 SA Providing an oral and other forms of a second opinion can be misunderstood without the support of a written report.

R321.3b SA A registered auditor shall not provide a second opinion regarding an opinion expressed on financial statements performed in terms of the ISAs.

When Permission to Communicate is Not Provided

R321.4 If an entity seeking a second opinion from a registered auditor will not permit the registered auditor to communicate with the existing or predecessor accountant, the registered auditor shall ~~determine whether the registered auditor may provide the second opinion sought~~ decline the appointment, unless there are exceptional circumstances of which the registered auditor has full knowledge, and the registered auditor is satisfied regarding all relevant facts, by some other means.

Providing the Existing or Predecessor Accountant with a Copy of the Second Opinion

R321.5 SA A registered auditor shall, in terms of the engagement with the client, provide the existing or predecessor accountant with a copy of the second opinion, at the same time as it is given to the client.

321.5 A1 SA The purpose of providing the existing or predecessor accountant with a copy of the second opinion is to ensure that the registered auditor and the existing or predecessor accountant have the same information.