



# CHANGES TO THE IRBA CODE OF PROFESSIONAL CONDUCT PUBLIC INTEREST ENTITIES CONTENTS

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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*.

## AMENDMENT TO THE IRBA CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS ADDRESSING PUBLIC INTEREST ENTITIES

The relevant sections have been extracted below from the extant Code, including the local amendment. All underlined and italics text below are as a result of a local amendment.

### 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 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).

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- Market infrastructure as defined in the Financial Markets Act 2012, (Act No. 19 of 2012).<sup>1</sup>
- 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) excluding micro lenders.
- Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) that hold assets in excess of R15 billion.
- Funds as defined in the Pension Funds Act 1956, (Act No. 24 of 1956) that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act 1956, (Act No. 24 of 1956)) with total assets under administration in excess of R20 billion.
- Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act 2002, (Act No. 37 of 2002) with assets under management in excess of R50 billion.
- 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 restricted schemes with a large number of members.
- 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 public.<sup>2</sup>

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.

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<sup>1</sup> Market Infrastructure is defined in the Financial Markets Act, 2012 (Act No. 19 of 2012) as

- (a) A licensed central securities depository
- (b) A licensed clearing house
- (c) A licensed exchange and
- (d) A licensed trade repository

<sup>2</sup> 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.

## Effective Date

1. The revised definition of public interest entity is effective on or after 1 July 2016.
2. Section 290 of the Code contains additional independence provisions when the audit or review client is a public interest entity. Partner rotation is an example of an additional independence provision that will have to be considered by the Firm. Paragraph 290.152 of the IRBA Code of Professional Conduct which deals with circumstances when an audit client becomes a public interest entity will apply and has been repeated below for your consideration.

290.152 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement