

*Committee for Auditor Ethics (CFAE)*

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**Revisions to the  
IRBA Code of Professional Conduct for Registered Auditors  
(Revised April 2023)**

*Revisions to the Definitions of Listed Entity and Public Interest Entity*

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The IRBA Code is based on Parts 1, 3, 4A and 4B of the Code of Ethics for Professional Accountants (Including International Independence Standards) of the International Ethics Standards Board of Accountants (the “IESBA Code”) published by the International Federation of Accountants (IFAC) in September 2023 and is used with the permission of IFAC. *South African adaptations and amendments to the IESBA Code are underlined and in italics in the IRBA Code.*

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## **DEFINITIONS, INCLUDING LISTS OF ABBREVIATIONS AND STANDARDS**

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**Audit client** An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities<sup>8</sup>. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.27.)

*In Part 4A, the term “audit client” applies equally to “review client”.*

*In the case of a group audit, see the definition of group audit client.*

**Group audit client** The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a publicly traded entity, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a publicly traded entity, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

*See also paragraph R400.27.*

**IESBA Code** *IESBA International Code of Ethics for Professional Accountants (including International Independence Standards).*

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<sup>8</sup> Related entity is defined in the IRBA Code as:

An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.

Public interest entity For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

Paragraph R400.23 SA more explicitly defines the categories of public interest entities in (b) and (c) above, and specifies those additional entities that are deemed to be public interest entities to meet the purpose described in paragraph 400.15, as contemplated in paragraph (d) above.

Publicly traded entity An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

*A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.*

## **PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

### **SECTION 400**

#### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

##### **Introduction**

##### **General**

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##### **Public Interest Entities**

400.13 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities, due to the potential impact of their financial well-being on stakeholders.

400.14 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole, in the event of financial failure of the entity.

400.15 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.13 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

## Reports that Include a Restriction on Use and Distribution

400.16 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

## Assurance Engagements other than Audit and Review Engagements

400.17 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

## Requirements and Application Material

### General

**R400.18** A firm performing an audit engagement shall be independent.

**R400.19** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

## Prohibition on Assuming Management Responsibilities

**R400.20** A firm or a network firm shall not assume a management responsibility for an audit client.

400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.20 A2 When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.

- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
  - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
  - Designing, implementing, monitoring or maintaining internal control.

400.20 A4 Subject to compliance with paragraph R400.21, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

**R400.21** When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the activities; and
- (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

### Public Interest Entities

**R400.22** For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

400.22 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph

400.15, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as “public interest entities” for reasons unrelated to the purpose described in paragraph 400.15, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.

400.22 SA *A client’s public interest score, as calculated in terms of the South African Companies Act No. 71 of 2008 (Act No. 71 of 2008), as amended, should not be used to determine whether the client is a public interest entity in terms of this Code. The two concepts should not be confused or used interchangeably.*

**R400.23** In complying with the requirement in paragraph R400.22, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.22 (a) to (c).

400.23 A1 The categories set out in paragraph R400.22 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The IESBA Code therefore provides for those bodies responsible for setting ethics standards for registered auditors to more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

*Considering the guidance above, paragraph R400.23 SA more explicitly defines specific types of entities for South Africa, taking into account paragraph R400.22 (a) to (c).*

400.23 A2 Paragraph R400.22 (d) anticipates that those bodies responsible for setting ethics standards for registered auditors will add categories of public interest entities to meet the purpose described in paragraph 400.15, taking into account factors such as those set out in paragraph 400.14. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organisations or governmental entities.
- Public utilities.

*Considering the guidance above, paragraph R400.23 SA adds certain categories*



of public interest entities to meet the purpose described in paragraph 400.15, taking into account the factors set out in paragraph 400.14.

**R400.23 SA** Given the factors set out in paragraph 400.14, the purpose described in paragraph 400.15, the broadly defined categories of public interest entities in R400.22, and the guidance from the IESBA in 400.23 A1 and 400.23 A2, a firm shall treat the following entities as public interest entities:

- (a) Publicly traded entities.
- (b) Public entities listed in Schedule 2 of the Public Finance Management Act No. 1 of 1999, excluding any subsidiary or entity under the ownership control<sup>9</sup> of these public entities.
- (c) Other public entities or institutions, as referred to in Section 4(3) of the Public Audit Act No. 25 of 2004, including any subsidiary or entity under the ownership control of these public entities and public entities listed in (b) above, authorised in terms of legislation to receive money for a public purpose:
  - (i) with annual expenditure in excess of R5 billion; or
  - (ii) that are responsible for the administration of funds for the benefit of the public in excess of R10 billion as at financial year-end.
- (d) Universities, as defined in the Higher Education Act No. 101 of 1997, excluding private universities registered in terms of that Act.
- (e) Banks, as defined in the Banks Act No. 94 of 1990, and Mutual Banks, as defined in the Mutual Banks Act No. 124 of 1993.
- (f) Market infrastructures, as defined in the Financial Markets Act No. 19 of 2012.
- (g) Insurers, as defined in the Insurance Act No. 18 of 2017.
- (h) Collective Investment Schemes, including hedge funds, as defined in the Collective Investment Schemes Control Act No. 45 of 2002, that hold assets in excess of R30 billion.
- (i) Funds, as defined in the Pension Funds Act No. 24 of 1956, that hold or are otherwise responsible for safeguarding client assets in excess of R30 billion.
- (j) Pension Fund Administrators, in terms of Section 13B of the Pension Funds Act No. 24 of 1956, with total assets under administration in excess of R30 billion.
- (k) Financial Services Providers, as defined in the Financial Advisory and Intermediary Services Act No. 37 of 2002, holding financial products and funds on behalf of clients in excess of R30 billion.

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<sup>9</sup> Ownership control is defined in the Public Finance Management Act No1. of 1999.

**(l) Medical Schemes, as defined in the Medical Schemes Act No. 131 of 1998, with a membership in excess of 89 000 beneficiaries as at financial year-end.**

**(m) Authorised users of an exchange, as defined in the Financial Markets Act No. 19 of 2012, that hold or are otherwise responsible for safeguarding client assets in excess of R30 billion.**

**(n) Other issuers of debt and equity instruments to the public<sup>10</sup>.**

400.24 A1 A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the factors set out in paragraph 400.14 as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, a predecessor firm has applied independence requirements for public interest entities to the entity.
- Whether in similar circumstances, the firm has applied independence requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards.
- Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.

*Public Disclosure – Application of Independence Requirements for Public Interest Entities*

**R400.25** Subject to paragraph R400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.13 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

**R400.26** As an exception to paragraph R400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

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<sup>10</sup> For the purposes of R400.23 SA (n), "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 that result in the debt or equity instruments being owned by a large number and wide range of stakeholders.

## **Related Entities**

**R400.27** As defined, an audit client that is a publicly traded entity in accordance with paragraphs R400.22 and R400.23 includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

**[Paragraphs 400.28 to 400.29 are intentionally left blank]**

## CONSEQUENTIAL AND CONFORMING AMENDMENTS

### PART 3 – REGISTERED AUDITORS PERFORMING PROFESSIONAL SERVICES

#### SECTION 300

#### APPLYING THE CONCEPTUAL FRAMEWORK – REGISTERED AUDITORS PERFORMING PROFESSIONAL SERVICES

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#### Requirements and Application Material

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*Consideration of New Information or Changes in Facts and Circumstances.*

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#### Evaluating Threats

300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the registered auditor is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the registered auditor's personal or immediate family relationships.

## **PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

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### **SECTION 600**

#### **PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT**

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##### **Requirements and Application Material**

###### **General**

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###### *Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service*

- 600.8 A1      When a firm or a network firm provides a non-assurance service to an audit client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.21 have been complied with.

###### *Identifying and Evaluating Threats*

###### All Audit Clients

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- 600.10 A2      Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgement. (Ref: para. R400.20 to R400.21).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements.
  - The degree of subjectivity involved in determining the appropriate

amounts or treatment for those matters reflected in the financial statements.

- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fee relating to the provision of the non-assurance service.

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#### Providing advice and recommendations

**R600.18** As an exception to paragraph R600.17, a firm or a network firm may provide advice and recommendations to an audit client that is a public interest entity in relation to information or matters arising in the course of an audit provided that the firm:

- (a) Does not assume a management responsibility (ref Para. R400.20 and R400.21); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

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#### *Considerations for Certain Related Entities*

**R600.27** This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.20, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client, provided that all of the following conditions are met:
  - (i) The firm or a network firm does not express an opinion on the financial statements of the related entity;

- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
- (iii) The services do not create a self-review threat; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

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## **SUBSECTION 601 - ACCOUNTING AND BOOKKEEPING SERVICES**

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### **Requirements and Application Material**

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#### **Potential Threats Arising from the Provision of Accounting and Bookkeeping Services**

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##### *Audit Clients that are Not Public Interest Entities*

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601.5 A3 Examples of services that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

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## **SUBSECTION 605 - INTERNAL AUDIT SERVICES**

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### **Requirements and Application Material**

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#### **Risk of Assuming Management Responsibility When Providing an Internal Audit Service**

**R605.3** Paragraph R400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
  - (i) Be responsible at all times for internal audit activities; and
  - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

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## **SUBSECTION 606 - INFORMATION TECHNOLOGY SYSTEMS SERVICES**

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### **Requirements and Application Material**

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#### **Risk of Assuming Management Responsibility When Providing an IT Systems Service**

**R606.3** Paragraph R400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (a) The client Acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client Assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system



to a competent employee, preferably within senior management;

- (c) The client Makes all management decisions with respect to the design and implementation process;
- (d) The client Evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client Is responsible for operating the system (hardware or software) and for the data it uses or generates.

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## **SUBSECTION 609 - RECRUITING SERVICES**

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### **Requirements and Application Material**

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#### **Risk of Assuming Management Responsibility When Providing a Recruiting Service**

**R609.3** Paragraph R400.20 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an audit client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
  - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
  - Determining employment terms and negotiating details, such as salary, hours and other compensation.

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### **EFFECTIVE DATE**

The Revisions to Listed Entity and Public Interest Entity Definitions in the IRBA Code (Revised April 2023) are effective for audits of financial statements for periods beginning on or after 15 December 2024. Early adoption will be permitted.