|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **INDEPENDENT REGULATORY BOARD FOR AUDITORS**  **COMMITTEE FOR AUDITOR ETHICS**  **FINAL AMENDMENTS TO THE IRBA CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS RELATING TO THE DEFINITION OF PUBLIC INTEREST ENTITIES**  Johannesburg / 4 March 2016  The Independent Regulatory Board for Auditors (IRBA) draws the attention of all registered auditors to changes to the IRBA Code of Professional Conduct (IRBA Code) relating to the definition of public interest entities (PIE).  The IRBA adopted these local amendments following their issue on exposure on 24 April 2015 for public comment (Board Notice 88 of 2015).  The CFAE has consulted with the Financial Services Board (FSB), the Johannesburg Stock Exchange, the South African Reserve Bank, the Council for Medical Schemes and the Auditor-General South Africa in drafting these amendments, particularly with regard to the entities that fall within their jurisdiction and that, in their view, are likely to be considered to be PIEs.  **Changes in Substance**  The amendments to the IRBA Code relating to the PIE definition will allow for more consistent application by registered auditors. This is also in line with international ethical practices. This has resulted in the following significant changes:   * Providing a list of entities that are likely to be considered to be PIEs, including thresholds for certain regulated entities; * Clarifying that it is the firmˈs responsibility to consider if an audit or review client is a PIE; and * Allowance for an opportunity for a firm to consider the client not to be a PIE and the requirement for the firm to document the reasons (the rebuttable presumption) for such a decision.   **Changes Made Since the Exposure Draft**  Comments received were considered and after consultation with the various regulators the following salient amendments have been made since the release of the PIE exposure draft:   * The addition of the market infrastructure and pension fund administrators to the list of entities presumed to be PIEs; * Introduction of thresholds to collective investment schemes, pension fund administrators and financial service providers; * A new determination of the threshold provided for pension funds; and * Changes to the description of medical aid schemes that would be presumed to be PIEs.   **Implication/Impact of the Amendments**  **At a Firm Level**  These amendments place an additional level of responsibility on the audit firms, which will be required to consider if an entity other than a listed entity is a PIE. This includes the responsibility to properly motivate and document any decision to rebut the presumption that an individual entity is a PIE in accordance with this Code.  **At an Engagement Level**  Auditors who perform audit and review engagements for entities that are considered to be PIEs will have to consider the services that are prohibited and the additional independence requirements imposed by the IRBA Code specifically for PIE audit clients, including those set out in the table below. It is advisable for auditors to brief audit committees about the impact of this development.  **Additional Independence Requirements Applicable to a PIE include:**   |  |  |  | | --- | --- | --- | | **IRBA Code Paragraph** | **Prohibition or Independence Requirement** | **Companies Act 2008 (Act No.71 of 2008)** | | Paragraph 290.138 | Prohibits a key audit partner or senior managing partner joining a PIE client before a defined time-out period. |  | | Paragraph 290.149 | Prohibits a key audit partner serving more than seven years on a PIE client. | Section 92 of the Companies Act has a more stringent rotation requirement. | | Paragraph 290.177 | Prohibits the provision of valuation services for a PIE audit client if the valuation has material effect, separately or in aggregate, to the financial statements. |  | | Paragraph 290.182 | Prohibits the preparation of calculations of current taxation and deferred taxation liabilities (assets) for a PIE audit client if the resulting accounting entries are material to the financial statements. |  | | Paragraph 290.197 | Prohibits the provision of internal audit services to a PIE audit client, which relate to a significant part of internal controls over financial reporting, significant financial accounting systems or material amounts and disclosures, separately or in aggregate in the financial statements. |  | | Paragraph 290.203 | Prohibits the provision of services to a PIE audit client involving the design or implementation of an IT system which forms a significant part of internal control over financial reporting or generates information significant to the financial statements. |  | | Paragraph 290.212 | Prohibits the provision of recruiting services to a PIE audit client for directors/officers or senior management who will have significant influence over accounting records or financial statements. |  | | Paragraph 290.219 | Independence threats and safeguards must be discussed with the audit committee if in two consecutive years the total fees from the PIE audit client are greater than 15% of the total fees earned by the firm. |  |   **Clarifying the Difference Between** **PIE and the Public Interest Score (PIS)**  The CFAE considered whether there is a relationship between the public interest score (PIS) in the Companies Act 2008, (Act No.71 of 2008) and the PIE definition in the IRBA Code, in drafting these amendments. 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).  **Effective Date**  In order to facilitate the implementation of the amendments to the IRBA Code, including their impact on the inspections, investigations and disciplinary functions of the IRBA, it is proposed that the amendments be effective on or after 1 July 2016.  A Board Notice will be published in the Government Gazette, advising of the publication of the amendments to the IRBA Code pursuant to the provisions of Section 10(1)(a) of the Auditing Profession Act, 2005 (Act No.26 of 2005).  The amendments to the IRBA Code may be downloaded from the IRBA [website](http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/ethics:-the-rules-and-the-code/the-rules-and-the-code).  Should you have any further queries or experience any technical difficulties in downloading the documents, please send an email to [standards@irba.co.za](mailto:standards@irba.co.za).  **Imran Vanker**  **Director: Standards**  ***About the IRBA***  *The objective 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.*  *The statutory responsibilities of the CFAE are to assist the IRBA to: determine what constitutes improper conduct by registered auditors by developing rules 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* |