|  |
| --- |
| **INDEPENDENT REGULATORY BOARD FOR AUDITORS**  **COMMITTEE FOR AUDITOR ETHICS** |

|  |
| --- |
| **Clarification of the definition of Public Interest Entity and Public Interest Score**  Johannesburg / 12 December 2016  This communique clarifies some issues which arose from the March 2016 amendment relating to Public Interest Entities (PIEs) in the IRBA Code of Professional Conduct (IRBA Code).  **What is a Public Interest Entity (PIE)?**  The IRBA Code, and the IESBA Code of Ethics on which it is based, clearly set out incremental independence restrictions (including certain prohibitions) that apply to the audit of a PIE. The base definition of a PIE as set out in paragraph 290.25 of the IRBA Code comprises all listed entities, as well as any entity for which the audit thereof is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Currently in South Africa, only the IRBA has promulgated the independence requirements that apply to a PIE.  **What is the Public Interest Score (PIS)?**  The Companies Act, 2008 (Act No 71 of 2008) (Companies Act), together with Regulation 26(2), defines the method for the calculation of a PIS and requires that a PIS is calculated for all companies. As set out in Regulations 26(2), 27-30, 43, 127 and 128 of the Companies Act, the PIS determines:   * Which financial reporting standards apply to a company; * Whether a company should be audited or independently reviewed in the public interest; * Whether a company must file a copy of its annual financial statements with the CIPC; * Whether a company requires a Social and Ethics Committee; and * The size of the company for purposes of appointing a Business Rescue Practitioner.   **Independence Requirements**  The IRBA Code includes the following wording:  '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.*'  This section of the Code should not be interpreted to equate a company that must comply with the independence requirements of the Companies Act (as a result of being listed), to another company that must also comply with the independence requirements of the Companies Act (as a result of meeting a PIS threshold).  The CFAE is of the view that an entity does not meet the definition of a PIE on the basis of its PIS alone. A company with a high PIS may be a PIE, but not simply because its PIS exceeds a certain threshold, but rather on the basis of the factors included in paragraph 290.26 and paragraph 290.26(a).  **CFAE Consideration and Communication**  The amendment relating to PIEs in the IRBA Code issued via communique on 4 March 2016 includes a presumption that certain additional categories of entities are likely to meet the definition of a PIE. This amendment deliberately did not include reference to the PIS of a company. Additionally, the communique clearly states that the two concepts are independent of each other.  As the PIE classification and the PIS determination serve two different purposes, the IRBA considers that there is no automatic relationship between the PIS and the classification of whether a company is a PIE.  When drafting the IRBA amendments to clarify the definition of PIEs, the CFAE considered the possibility of misinterpreting that a company with a certain PIS was a PIE. Accordingly, the following extract was included in the PIE Exposure Draft issued in March 2015:  *'Clearing confusion between Public Interest Score and Public Interest Entity*  Many registered auditors have questioned the relationship between the Public Interest Score (PIS) in the Companies Act 2008, (Act No. 71 of 2008) and Public Interest Entity in the IRBA Code. The CFAE considered the relationship in drafting the proposed amendment and believe that registered auditors should consider these concepts independently.  The proposed amendment clarifies the definition of a PIE. In doing so, it will distance the definition of a PIE from the calculation of a PIS in the Companies Act, 2008 (Act No. 71 of 2008).'  Furthermore, when the final amendments to the definition of PIEs were released, we included the following paragraph in the communique dated 4 March 2016:  *'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).'  **Responsibility of the Firm**  The amendments introduced that related to the classification of PIEs were not intended to be a complete list, but rather a list of entities that would normally be presumed to be PIEs. Thus, there are audit clients that will be considered to be PIEs although they are not specifically included in paragraph 290.26. As stated in paragraph 290.26 of the IRBA Code, the firm is responsible for determining which audit clients are PIEs.  Should you have any further queries please do not hesitate to contact the Standards Department by sending 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.* |