INTEGRITY I PUBLIC INTEREST I AUDIT QUALITY

EXPOSURE DRAFT

December 2022

Comments requested by 3 April 2023

Proposed Amendments to the IRBA Code of Professional Conduct

Revisions to the Definitions of Listed Entity and Public Interest Entity in the IRBA Code

WARNING TO READERS

The content of these proposed amendments should under no circumstances be used or relied upon, until the IRBA issues these proposals as final amendments.

REQUEST FOR COMMENTS

The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditor Ethics (CFAE) approved the proposed amendments to the definitions of Listed Entity and Public Interest Entity in the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) (IRBA Code) in November 2022, for exposure for a period of at least 90 days. Subsequently, a Board Notice to the same effect will be published in the Government Gazette for public comment. Before being issued in their final form, the proposed amendments might be modified, in light of comments received.

The IRBA adopted the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), published in 2018, following the issue of the proposed amendments on exposure in South Africa, together with South African enhancements. As such, all amendments to the IRBA Code are in addition to the IESBA Code. Since 2018, the IRBA Code has continued to track changes in the IESBA Code and has been updated for those developments, following local due process and adoption by the IRBA Board.

The IRBA's Legislative Mandate

The objectives of the Auditing Profession Act No. 26 of 2005, as amended (the Act), which are set out in Section 2, are, inter alia:

> *(c) "To improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*
>
> *(d) To set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession".*

To give effect to the objects of the Act, Section 4(1) sets out the IRBA's general functions, which include that "*the Regulatory Board must, in addition to its other functions provided for in this Act -*

> *(a) "Take steps to promote the integrity of the auditing profession;"* and
>
> *(c) "Prescribe standards of professional competence, ethics and conduct of registered auditors".*

To enable the IRBA to meet these requirements, Section 4(2)(a) states that "*the IRBA may participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession*".

Statutory Responsibility of the CFAE

The statutory responsibility of the CFAE is set out in Section 21(2) of the Act and requires that *"the CFAE must assist the IRBA:*

> (a) *To determine what constitutes improper conduct by registered auditors by developing*

requirements and guidelines for professional ethics, including a code of professional conduct;

(b) *To 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*

(c) *To provide advice to registered auditors on matters of professional ethics and conduct.''*

The proposed amendments may be downloaded free-of-charge from the IRBA website at www.irba.co.za.

Comments should be submitted by **3 April 2023**.

Respondents are requested to submit their comments electronically, in Word and PDF formats, to Imran Vanker, Director Standards, by emailing standards@irba.co.za. All comments will be considered a matter of public record and posted on the IRBA website (www.irba.co.za). Responses will assist the CFAE to identify any further necessary changes to the amendments.

Should you have any queries, or experience any technical difficulties in downloading the documents, please email the Standards Department at standards@irba.co.za or contact:

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Table of Contents

EXPLANATORY MEMORANDUM

Introduction

1. This memorandum provides background to the proposed amendments to the definitions of listed entity and public interest entity in the Independent Regulatory Board for Auditors' (IRBA) Code of Professional Conduct for Registered Auditors, as amended (the IRBA Code) (the proposed amendments). The Committee for Auditor Ethics (CFAE) approved these proposed amendments in November 2022, for issue on exposure for a period of at least 90 days, for public comment.

2. The International Federation of Accountants' (IFAC) copyright permissions policy permits modifications to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), to accommodate jurisdictional requirements in different countries. As a consequence, in this document, local amendments are being proposed.

3. The proposed amendments are envisaged by the IESBA Code, in paragraphs 400.18 A1 and 400.18 A2. In its basis for conclusions for revisions to the definitions of listed entity and public interest entity, the IESBA also clarifies that in complying with the requirement to treat an entity that falls within one of the mandatory public interest entity (PIE) categories in paragraph R400.17 as a PIE, a firm must apply any more explicit definitions or refinements that have been established at the local level for those categories. Furthermore, the IESBA notes that it is ultimately the role of local bodies to determine which entities should be treated as PIEs; whereas its role rests more with setting the appropriate additional independence requirements for PIEs, such as those that address the provision of non-assurance services, fees and long association. In this regard, the IESBA has observed a need for flexibility to refine the PIE definition, even for the established category of listed entity.

4. The IRBA welcomes all comments on the proposed amendments. In addition to general observations, comments on the specific questions that are contained at the end of this memorandum are also welcomed.

5. Unless otherwise stated, paragraph references in this memorandum refer to the IRBA Code.

Background

6. 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 assurance conducted by registered assurance providers, in accordance with internationally recognised standards and processes".

7. The IRBA adopted the IESBA Code, published in 2018, following the issue of the proposed amendments on exposure in South Africa, together with South African enhancements that are in addition to the IESBA Code. Since 2018, the IRBA Code has continued to track changes in the IESBA Code and has been updated for those developments, following local due process and

adoption by the IRBA Board. Local adaptations of the IESBA Code are reflected in the IRBA Code as *underlined and in italics*.

8. On 29 January 2021, the IESBA released, for public comment, the Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*. In South Africa, the IRBA gazetted these proposed amendments in the same year (please refer to Board Notice 15 of 2021). Then, on 3 May 2021, the IRBA submitted a comment letter – drafted by a CFAE Task Group – to the IESBA on the proposed amendments.

9. Thereafter, on 11 April 2022, the IESBA released a final pronouncement on the revised definition of a public interest entity. The revised provisions specify a broader list of categories of entities as PIEs whose audits should be subject to additional independence requirements, to meet stakeholders' heightened expectations concerning auditor independence. The pronouncement, as specified by the IESBA, will be effective for audits of financial statements for periods beginning on or after 15 December 2024. Early adoption is permitted. As at the date of this Exposure Draft, the IRBA Board in South Africa had not yet adopted this pronouncement, as it was waiting for the finalisation of potential revisions to the local requirements, in line with the proposed amendments. The IRBA released a communique in this regard.

10. Among other matters, the IESBA's revisions:

    - Articulate an overarching objective for additional independence requirements for audits of financial statements of PIEs;
    - Provide guidance on factors to consider when determining the level of public interest in an entity;
    - Replace the term "listed entity" with "publicly traded entity", providing a definition of the new term;
    - Recognise the essential role local bodies that are responsible for the adoption of the Code play in delineating the specific entities that should be scoped in as PIEs in their jurisdictions, encouraging them to properly refine the PIE categories and add any other categories that are relevant to their environments; and
    - Introduce a transparency requirement for firms to publicly disclose the application of independence requirements for PIEs, where they have done so.

11. Paragraphs ***R400.8a SA*** to ***R400.8c SA*** of the extant IRBA Code include South African requirements relating to the definition of PIE. These local requirements were issued on 4 March 2016 and came into effect on 1 July 2016, and are in addition to the extant requirements of the IESBA Code.

Rationale for the Proposed Amendments to the IRBA Code

12. The CFAE, when proposing the amendments to the IRBA Code, considered the following:

- In terms of Section 4(1)(b) of the Auditing Profession Act No. 26 of 2005, the Regulatory Board must take steps it considers necessary to protect the public in its dealings with registered auditors.
- The IESBA's amendments and their impact on the IRBA Code PIE provisions, the definition of listed entity and other PIE-related paragraphs.
- The extant IRBA Code definition of PIE is more than six years old. Consequently, the CFAE considered the insights gained from the recent usage of the PIE provisions in South Africa for revision, and this included:
    - Stakeholder outreach with regulators on industry-specific matters, including whether the current thresholds contained in the IRBA Code are still appropriate, particularly for the entities specified in the extant ***R400.8b SA*** and the proposed ***R400.18 SA***.
    - A consideration of the completeness and appropriateness of the categories in the extant IRBA Code PIE definition, i.e. whether there should be more or less categories in South Africa, and whether another superior and viable approach exists to determine categories of PIEs.
    - The interaction of the PIE definition with the term "Public Interest Score", as referred to in the Companies Act No. 71 of 2008 (Companies Act).

Protecting the Public Interest

13. The IRBA acknowledges that concerns raised by stakeholders about the appearance of independence, the protection of the public interest, as well as the continued confidence and trust in the independence of the audit process are an important rationale for the changes proposed in this Exposure Draft.

14. The IRBA also recognises that the different approaches adopted by registered auditors when considering whether clients are PIEs result in materially different outcomes in the identification of those entities whose activities have a significant impact on the public interest.

15. The proposed amendments are intended to enhance the auditor's independence of mind and in appearance, especially in relation to investor interest where there is significant public interest in the financial condition of an entity, due to the potential impact of its financial well-being on stakeholders.

16. When an entity falls within the definition of a listed entity and/or a PIE, relevant laws and regulations may impose additional requirements relating to objectivity, independence, reporting, disclosure and other requirements on the entity's auditors and may affect the entity. These additional requirements are designed to enhance confidence in audits of those entities. Firms may also be applying these definitions within their systems of quality management, reporting systems, policies and procedures. Refer to paragraphs 54-63 for the overall impact analysis.

Ensuring Consistent Application

17. The proposed amendments will ensure that certain entities will always be treated as public interest entities, to avoid the risk of an inconsistent treatment by firms.

18. In the CFAE's view, this should enhance consistency between the increased regulatory supervision of entities in which there is a higher level of public interest and the more stringent independence requirements imposed on auditors of such PIEs. As these entities are held to higher financial reporting and regulatory requirements, their auditors also ought to be held to a higher independence requirement.

19. The CFAE recognises that the issues are finely balanced and any change must be seen by stakeholders as being substantive and made on a sound and defendable basis, while a balance is achieved between the cost and complexity of implementation and the benefits thereof.

Internationally Comparable Code of Ethics

20. Paragraph 400.18 A1 of the IESBA Code emphasises a provision for national standard setters to more explicitly define the PIE categories set out in **R400.17(a)** to **(c)**, as these are broadly defined, with no recognition given to size or other factors that can be relevant to a specific jurisdiction.

21. In the IESBA Code, paragraph 400.18 A2 indicates that paragraph **R400.17(d)** anticipates that those bodies that are responsible for setting ethics standards for professional accountants will add categories of PIEs to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. 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; and
    - Public utilities.

    Some of these categories are listed and defined in paragraph ***R400.8b SA*** of the extant IRBA Code.

Clearing the Confusion Between a Public Interest Score and a Public Interest Entity

22. Many registered auditors have requested clarity on the relationship between the Public Interest Score (PIS) in the Companies Act and PIE as defined in the IRBA Code. The CFAE considered this relationship in drafting the proposed amendments and believes that registered auditors should consider these concepts independently.

23. Accordingly, there is an additional paragraph (*400.17 SA*) in the proposed amendments that clarifies that these concepts are different and not related. The proposed amendments also make it

clear that the calculation of PIS in terms of the Companies Act has no bearing on the determination of whether an entity is a PIE or not.

Significant Matters

24. The significant matters addressed by the proposed amendments can be broken down into the following aspects:

- The adoption of the IESBA revisions.
- The firm's responsibility to decide whether an audit or review client is a PIE now depends on whether the entity falls into a listed category, rather than whether certain factors apply to it.
- The removal of the firm's option to treat an entity as an exception to the stated requirements, allowing the opportunity to consider the client not to be a public interest entity and to document the reasons.
- The list of entities that are to be considered as PIEs.
- When a firm has applied the independence requirements for PIEs in performing an audit of the financial statements of an entity, public disclosure of that fact.

Responsibility of Firms

25. Where firms have been required, in terms of extant paragraph ***R400.8a SA***, to determine whether an entity not specifically defined as a PIE should be treated as a PIE – based on factors such as the nature of the business, the size of the entity and the number of employees – they will now generally base their determination on whether the entity falls into a list of defined categories of PIEs. This could result in an entity previously classified as a PIE being no longer a PIE and vice versa. Firms are, however, still encouraged to consider whether to treat other entities as PIEs, based on various factors, as set out in proposed paragraph 400.19 A1.

Option to Treat an Entity as a Non-PIE, Though It Meets the Stated Requirements

26. Paragraph ***R400.8c SA*** of the extant IRBA Code allows firms to opt not to treat an entity that meets the stated requirements as a PIE, subject to the firm documenting its reasoning for the exception (this feature of the extant IRBA Code has led to this paragraph of the PIE requirements being referred to as a "rebuttable presumption"). After the CFAE Task Group's consultation with regulators and stakeholders, the CFAE proposes to remove the option to treat an entity that meets the PIE requirements as an exception because of the following:

- Registered auditors rarely use the requirement.
- The extant ***R400.8c SA*** allows registered auditors to selectively utilise the stricter application of the definition of PIEs in the revised IESBA Code, specifically paragraph **R400.17**, which could dilute the requirements of the proposed **R400.17** and result in an inconsistent application of

the requirements of the IRBA Code.

Entities to be Considered as Public Interest Entities

27. In considering the completeness and appropriateness of the categories in the extant ***R400.8b SA*** in the IRBA Code – whether there should be more or less categories in South Africa and whether another superior and viable approach exists to determine the categories of PIE – the CFAE considered the following:

    - The IESBA's revisions, specifically the concept of significant public interest in the financial condition of the entity, due to the potential impact of its financial well-being on stakeholders.
    - Themes arising from the work of the IRBA's Inspections Department with regard to public interest entities.
    - The experience and inputs of regulators of the entities that fall in the categories listed in the extant ***R400.8b SA***.
    - The input of other departments within the IRBA.
    - The experiences of registered auditors with the extant PIE definition.

28. In preparing this explanatory memorandum and the proposed amendments, the CFAE consulted with certain entities and regulators (particularly with regard to the entities that fall within their jurisdictions and that, in their view, are likely to be considered as PIEs) that included the:

    - Financial Sector Conduct Authority (FSCA);
    - Johannesburg Stock Exchange (JSE);
    - Auditor-General South Africa (AGSA);
    - Council for Medical Schemes (CMS);
    - Prudential Authority of the South African Reserve Bank (PA);
    - Companies and Intellectual Properties Commission (CIPC); and
    - National Credit Regulator (NCR).

    The CFAE Task Group also comprised representatives from the FSCA, the JSE, the AGSA, the CMS, the PA and the CIPC.

29. In addition, the CFAE consulted with the South African Institute of Chartered Accountants (SAICA); and the Task Group also had a representative from SAICA.

30. The CFAE considered whether entities that provide the services of credit bureaus would need to be classified as public interest entities. After consultation with the NCR and considering the IESBA's revised PIE provisions, the CFAE concluded that entities that provide the services of credit bureaus need not be automatically classified as PIEs. Registered auditors, meanwhile, would need to apply the criteria in the proposed amendments to determine whether a credit bureau should be

categorised as a PIE.

31. The extant IRBA Code excludes micro lenders from the category in paragraph R400.8b SA that deals with insurers. After consultation with the PA, the FSCA and the NCR, the CFAE concluded that with the introduction of the National Credit Act, micro lenders are no longer defined in legislation in South Africa; rather, they now form part of the smaller categories of credit providers, as defined in that Act. As such, the PIE criteria in the proposed amendments should be sufficient, and registered auditors will need to apply the criteria per micro lender that is their audit or review client. In addition, the PA and the FSCA confirmed that they do not regulate micro lenders. Therefore, as part of the proposed amendments, the extant reference to micro lenders in paragraph ***R400.8b SA*** will be deleted.

32. The proposed amendments to extant ***R400.8b SA*** (which has been moved to proposed paragraph ***R400.18 SA***) list the following entities – with thresholds, where applicable – that shall be considered to be public interest entities:

- Publicly traded entities.
- Certain Public Entities or Institutions.
- 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.
- Market infrastructures, as defined in the Financial Markets Act No. 19 of 2012.
- Insurers registered under the Insurance Act No. 18 of 2017.
- Collective Investment Schemes, including hedge funds, as defined in the Collective Investment Schemes Control Act No. 45 of 2002.
- Funds, as defined in the Pension Funds Act No. 24 of 1956.
- Pension Fund Administrators, as defined in Section 13B of the Pension Funds Act No. 24 of 1956.
- Financial Services Providers, as defined in the Financial Advisory and Intermediary Services Act No. 37 of 2002.
- Medical Schemes, as defined in the Medical Schemes Act No. 131 of 1998.
- Authorised users of an exchange, as defined in the Financial Markets Act No. 19 of 2012.
- Other issuers of debt and equity instruments to the public.

The above list does not represent any new categories, but is a refinement of the categories in extant ***R400.8b SA***. It gives clarity, uses updated language from relevant legislation and amends the thresholds for certain entities.

33. These entities are discussed in more detail in paragraphs 34-53 below.

Certain Public Entities or Institutions

34. The extant IRBA Code identifies Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country as public interest entities. Feedback from audit firms suggested that it is not clear what a "major public entity" would be, without a threshold or a specific definition. This has resulted in difficulties with applying this specific requirement, leading to possible inconsistencies in the application of the IRBA Code.

35. In addressing this issue, the AGSA considered that when it opts to perform the audits of certain public entities or institutions, some aspects of the audit work may be outsourced (or insourced) to private audit firms, in which case AGSA-specific independence requirements are applied. As such, the issue described in paragraph 34 above would only apply in relation to public entities for which the AGSA has opted not to perform the audit (in line with Section 4(3) of the Public Audit Act No. 25 of 2004).

36. The AGSA then determined the following public entities or institutions as satisfying the criteria of a public interest entity:

- Public entities listed in Schedule 2 of the Public Finance Management Act No. 1 of 1999 (PFMA).
- Universities as defined in the Higher Education Act No. 101 of 1997.
- Other public entities or institutions authorised in terms of legislation to receive money for a public purpose and:
    - With annual expenditure in excess of R5 billion; or
    - Those that are responsible for the administration of funds for the benefit of the public in excess of R10 billion as at financial year-end.

37. In updating this category, the CFAE consulted with the AGSA, which, in turn, followed its internal processes to determine the appropriate updates to this category for Section 4(3) audits. The AGSA also tabled the proposals at the IRBA's Public Sector Standing Committee (PSSC) for its input.

38. All universities, as defined in the Higher Education Act, are required to report on headcount enrolments by the Regulations for Reporting by Public Higher Education Institutions. Headcount enrolments are reported in a similar manner across all universities and are audited annually. Also, headcount enrolment targets are approved for all universities by the Department of Higher Education on an annual basis. In a headcount enrolment total, each student is counted as a unit, regardless of the courseload she/he is carrying. The AGSA and the PSSC considered the headcount enrolment as a possible threshold for universities for this public interest entity category. However, it was concluded that all universities should be identified as PIEs, due to their strategic importance.

39. In the case of public entities, "annual expenditure" refers to losses as well as expenses that arise in the course of the ordinary activities of the entity and that result in a decrease in its net financial

position. In the public sector, this will include monies paid/liabilities incurred in relation to the acquisition of goods and/or services, as well as in the provision of goods and/or services to the public as part of the entity's mandate.

40. As a result of the proposed revisions specifically related to the public sector, the AGSA has estimated that approximately 34% of public sector entities or institutions could be scoped in as PIEs. For instance, all universities, as defined in the Higher Education Act, will be PIEs in the revised provisions. In addition to the entities listed in Schedule 2 of the PFMA, other public entities and institutions will now be scoped in as PIEs, based on the size of their budget or the public funds they administer.

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

41. There are no proposed amendments to the provisions relating to Banks in the extant IRBA Code. The CFAE noted that these entities would be scoped in as entities that shall be treated as PIEs by the revised IESBA Code and the proposed amendments in paragraph **R400.17**, as they take deposits from the public. Due to the nature of the activities performed by banks, which normally includes deposit-taking activities and the use of those funds in credit lending activities, the CFAE decided to identify all banks as PIEs.

Insurers as Defined in the Insurance Act No. 18 of 2017

42. The extant IRBA Code refers to the Long Term Insurance Act No. 52 of 1998 (LTIA) and the Short Term Insurance Act No. 53 of 1998 (STIA). These Acts, though, have been superseded by the Insurance Act No. 18 of 2017 (Insurance Act); therefore, references to the LTIA and the STIA have been deleted from the proposed ***R400.18 SA***. The revised category now makes reference to the Insurance Act.

43. The CFAE, after consultation with the PA, noted that branches of foreign reinsurers, which are included in the Insurance Act, are not registered as companies in terms of the Companies Act. As such, there is no requirement for them to prepare audited annual financial statements in South Africa (the branch would form part of the annual financial statements of the parent company). However, where a branch of a foreign reinsurer voluntarily prepares audited annual financial statements, the provisions of Part 4A with regard to the audit or review of financial statements would be applicable to the registered auditor because branches of the foreign reinsurer are defined as PIEs.

Collective Investment Schemes as Defined in the Collective Investment Schemes Control Act No. 45 of 2002

44. The extant ***R400.8b SA*** identifies Collective Investment Schemes (CISs), including hedge funds, in terms of the Collective Investment Schemes Control Act No. 45 of 2002, that hold assets in excess of R15 billion as public interest entities. The CFAE consulted with the FSCA and concluded that the threshold for CISs (including hedge funds) should be aligned to pension funds and pension fund

administrators in terms of Section 13B of the Pension Funds Act No. 24 of 1956 (Pension Funds Act), to achieve harmonisation and consistency. About 50% of CIS assets comprise pension clients or institutional investors; therefore, this alignment will result in consistency. The threshold for Section 13B administrators has been set at R10 billion (see paragraph 46 below). As such, the threshold for CISs, including hedge funds, in terms of the Collective Investment Schemes Control Act, has been reduced to R10 billion in the proposed paragraph ***R400.18 SA***.

Funds as Defined in the Pension Funds Act No. 24 of 1956

45. The extant ***R400.8b SA*** identifies 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 R10 billion as public interest entities. After consultation with the FSCA, the CFAE decided that the threshold should remain at R10 billion in the proposed paragraph ***R400.18 SA***. As at the date that the CFAE approved this exposure draft for issue, the number of pension funds that are above this threshold was estimated by the FSCA to be 34.

Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act No. 24 of 1956)

46. The extant ***R400.8b SA*** identifies 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 R20 billion as public interest entities. The CFAE consulted with the FSCA and concluded that this threshold should be the same as the threshold for pension funds, i.e. in excess R10 billion assets under administration by the Section 13B administrator, to achieve harmonisation and consistency within the pensions sector. Therefore, the CFAE in proposed paragraph ***R400.18 SA*** has reduced the threshold to Pension Fund Administrators with total assets under administration in excess of R10 billion. As at the date that the CFAE approved this exposure draft for issue, the number of entities that are regulated by the FSCA in this category and that are above the threshold of R10 billion was estimated at 27.

Financial Services Providers as Defined in the Financial Advisory and Intermediary Services Act No. 37 of 2002

47. The extant ***R400.8b SA*** identifies Financial Services Providers (FSP), as defined in the Financial Advisory and Intermediary Services Act No. 37 of 2002 (FAIS Act), with assets under management in excess of R50 billion as public interest entities. The CFAE consulted with the FSCA and concluded that the threshold of assets under management should be reduced and set at R10 billion. Also, the CFAE decided to align the wording to the legislation by deleting the reference to assets under management and replacing it with "holding financial products or funds on behalf of clients", in line with the FAIS Act. Therefore, it was concluded that the threshold should be "holding financial products or funds on behalf of clients in excess of R10 billion". As at the date that the CFAE approved this exposure draft for issue, the number of FSPs that are above the proposed threshold of R10 billion was estimated at 90. The number of FSPs that are above the R50 billion threshold was estimated at 36.

Medical Schemes as Defined in the Medical Schemes Act No. 131 of 1998

48. The extant IRBA Code identifies Medical Schemes, as defined in the Medical Schemes 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 as PIEs.

49. The CFAE consulted with the CMS and, in turn, the CMS also consulted with registered auditors for medical schemes on their initial view that all medical schemes should be classified as PIEs, as well as other related and regulated entities that provide or manage core insurance related functions, such as administrators, managed care entities, risk transfer arrangement providers and reinsurers.

50. As a result of this consultation, the CFAE concluded that Medical Schemes, as defined in the Medical Schemes Act, with a membership in excess of 89 000 beneficiaries should be identified as PIEs.

51. The threshold of 89 000 beneficiaries was based on the CMS' internal risk-based approach in classifying schemes. As a result, there will be a net decrease in PIEs in the medical scheme industry from 26 to 13 out of 73 schemes. Although under the proposed revised definition the number of PIEs will be halved, the coverage in terms of industry lives covered will only decrease from 91.9% to 86.2%; therefore, total coverage will still remain high. This assessment was based on the lives of the 2021 year-end total number of beneficiaries.

Authorised Users of an Exchange as Defined in the Financial Markets Act No. 19 of 2012

52. The extant ***R400.8b SA*** identifies authorised users of an exchange, as defined in the Financial Markets Act No. 19 of 2012, who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion as public interest entities.

53. Although the value of client assets held by authorised users of the JSE has increased materially since the current threshold was set, which could justify an increase in the threshold for authorised users, the CFAE felt that it was important to have a consistent treatment of entities that perform similar functions and whose activities have a similar impact on the extent of public interest in those entities. Given that the threshold for entities that hold assets and are regulated by the FSCA is proposed to be set at R10 billion, the CFAE is therefore recommending that the threshold for authorised users of an exchange should remain at R10 billion, as the custodial functions of authorised users are similar to those of the relevant entities regulated by the FSCA. As at the date that the CFAE approved this exposure draft for issue, the number of authorised users of an exchange that are above the threshold of R10 billion and impacted was estimated at 19.

Analysis of the Overall Impact of the Proposed Amendments

54. The CFAE considered the effect of the new IESBA definition and the further changes on related regulatory provisions and implications. This includes the impact on IRBA Rules, as well as on the processes and pronouncements already in place, including, the Mandatory Audit Firm Rotation

(MAFR) Rule, the disclosure of Audit Tenure Rule, Audit Quality Indicators, fee declarations and competency interviews.

55. The MAFR Rule requires that an audit firm, including a network firm as defined in the IRBA Code, shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years. Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years. The requirement is effective for financial years commencing on or after 1 April 2023. Therefore, if the audit firm has served as the appointed auditor of a PIE for 10 or more consecutive financial years before the financial year commencing on or after 1 April 2023, then the audit firm shall not accept re-appointment and will be required to rotate. When the auditor determines that an audit client becomes a public interest entity, the length of time the audit firm has served the audit client as the auditor before the client became a PIE shall be included in determining the timing of audit firm rotation.

56. Furthermore, the MAFR Rule makes a transitional provision that if, at the effective date, the PIE has appointed joint auditors and both have had audit tenure of 10 years or more, then only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required. This provision will only be applicable at the effective date.

57. The proposed amendments will have a direct impact on those entities that were previously not considered to be PIEs, based on the extant IRBA Code, but will be considered as public interest entities by the proposed revisions. These entities will have to comply with the MAFR Rule, as they will be classified as PIEs on the effective date of the proposed amendments to the definition of public interest entity. Similarly, the proposed amendments could have an impact on entities that are currently considered to be PIEs, based on the extant IRBA Code, but that might not be considered to be PIEs on the effective date of the proposed amendments. Such entities will still have to comply with the MAFR Rule, as they will be PIEs on the effective date of the Rule, irrespective of them not being considered to be PIEs when the proposed amendments become effective.

58. The IRBA's Inspections Department performs independent inspections of mainly PIE audits and smaller assurance engagements that are selected on a risk basis. As such, a change in the number of entities that are classified as public interest entities will have an impact on the pool of entities that are selected for independent inspections.

59. The IRBA will continue to track its ongoing projects or projects in development that have considered the use of PIE. An example is its Enhanced Auditor Reporting Project that will be recommending certain required disclosures by registered auditors for public interest entities and other entities in the auditor's report for the audit of annual financial statements.

Implications for the Auditing Profession

60. The revisions to the IRBA Code will promote and enhance audit quality, objectivity and professional scepticism in addressing the public perception related to threats to independence. They will also

strengthen the independence requirements in the IRBA Code, thus, bolstering the reputation of the auditing profession and the protection of the public.

Implications at a Firm Level

61. There could be an impact on the additional level of responsibility for audit firms to determine whether an entity is a PIE or not. The firms will be required to consider the implications on any entity that was previously referred to as a PIE and a listed entity, to take into account the revised PIE definition and the definition of a publicly traded entity.

62. With the deletion of extant paragraph ***R400.8c SA***, firms will have the responsibility to reconsider whether any entities to which this paragraph has been applied by registered auditors will be PIEs under the revised provisions.

Implications at an Engagement Level

63. Auditors who perform audit and/or 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 for public interest entities, including those set out below.

Prohibited Non-Assurance Services

Prohibited Without Regard to Materiality

- Assuming a management responsibility.
- Serving as General Counsel.
- Accounting and bookkeeping services, including preparing accounting records and financial statements.
- Promoting, dealing in or underwriting client shares.
- Negotiating for the client as part of a recruiting service.
- Recruiting directors/officers, or senior management, who will have significant influence over accounting records or financial statements.
- Evaluating or compensating a key audit partner, based on that partner's success in selling non-assurance services to their audit client.

Prohibited if Material to the Financial Statements

- Valuation services.
- Calculations of current/deferred taxes.
- Tax or corporate finance advice that depends on a particular accounting treatment/financial statement presentation with respect to which there is reasonable doubt as to its

appropriateness.

- Acting as an advocate before a public tribunal or court to resolve a tax matter.
- Internal audit services relating to internal controls over financial reporting, financial accounting systems or financial statement amounts/disclosures.
- Designing/implementing financial reporting IT systems.
- Estimating damages or other amounts as part of litigation support services.
- Acting as an advocate to resolve a dispute or litigation.

Prohibited Interests, Relationships and Actions

- Contingent fees for an audit engagement or, when material to the firm, for a non-assurance service to the audit client.
- Financial interests in the client.
- Financial interests in an entity in which the client has a material interest and can significantly influence.
- Financial interests in the parent entity, if the client is material to that entity.
- Loans from a client lending institution that have not been made under normal lending procedures, terms and conditions, or from a client that is not a lending institution and that are material.
- Material loans to a client.
- Deposits with a client not held under normal terms.
- Close business relationships with a client that are significant or entail a material financial interest.
- An individual being on the audit team, if, during the period covered by the audit, the person was a client director/officer or an employee able to significantly influence the accounting records or financial statements.
- An audit team member whose immediate family member is a client director/officer or an employee able to significantly influence the accounting records or financial statements.
- Former audit team members or a partner joining the client, if significant connections with the firm remain.
- A key audit partner or senior/managing partner joining a client before a defined period of time.
- Partners/employees serving as client directors or officers.
- Personnel loans to a client, except under predefined circumstances.

- A key audit partner serving for more than seven years.
- For a key audit partner serving a cooling-off period, being on or providing quality control for the audit engagement; consulting with the engagement team or the client regarding technical or industry-specific matters affecting the audit engagement; leading/coordinating professional services provided to the audit client, or overseeing the firm's or a network firm's relationship with the audit client; or undertaking any other role or activity involving significant/frequent interaction with senior management or those charged with governance of the client, or direct influence on the outcome of the audit engagement.
- Allowing a conflict of interest to compromise professional or business judgment.
- Offering, or encouraging others to offer, any inducement made with intent to improperly influence the behaviour of the recipient or of another individual.
- Accepting, or encouraging others to accept, any inducement that the auditor concludes is made with intent to improperly influence the behaviour of the recipient or of another individual.
- Accepting gifts and hospitality from the client that are other than trivial and inconsequential.

Project Timetable

64. Subject to the comments received throughout this period, the CFAE intends to issue the final amendments to the IRBA Code during the third quarter of 2023. Prior to this, the committee plans to finalise the amendments in the second quarter of 2023, before recommending them for approval and issue by the IRBA Board.

Proposed Effective Date

65. The intention is that the proposed amendments to the PIE provisions in the IRBA Code will be effective for audits of financial statements for periods beginning on or after 15 December 2024, in line with the effective date of the IESBA Code revisions. Early adoption will be permitted.

Guide for Respondents

66. The CFAE welcomes comments on all matters that are 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.

67. In addition, the CFAE would prefer that respondents express a clear opinion on the specific questions raised and that those views are supplemented by detailed comments, whether supportive or critical, on any matter. The CFAE regards both critical and supportive comments as essential for a balanced view of the proposed amendments.

Request for Specific Comments

68. The IRBA would welcome views on the following specific questions:

Question 1

Do respondents agree that the proposed amendments provide useful guidance to help the registered auditor in determining whether an entity is a public interest entity? Yes / No.

If "No", please indicate where additional guidance is needed.

Question 2

Do respondents agree that public entities listed in Schedule 2 of the Public Finance Management Act No. 1 of 1999 should be identified as public interest entities?

If "No", please explain your view and suggest a way forward.

Question 3

Do respondents agree that public entities or institutions that are authorised in terms of legislation to receive money for a public purpose with annual expenditure in excess of R5 billion or that are responsible for the administration of funds for the benefit of the public in excess of R10 billion, as at the financial year-end, should be identified as public interest entities?

If "No", please explain your view and suggest a way forward.

Question 4

Do respondents agree that all universities, as defined in the Higher Education Act No. 101 of 1997, should be identified as public interest entities?

If "No", please explain your view and suggest a way forward.

Question 5

Do respondents agree with the proposed harmonisation of the thresholds to R10 billion, as follows:

(i) Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act No. 45 of 2002, that hold assets in excess of R10 billion?

(ii) 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 R10 billion?

(iii) 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 R10 billion?

(iv) Financial Services Providers, as defined in the Financial Advisory and Intermediary Services Act No. 37 of 2002, holding financial products or funds on behalf of clients in excess of R10 billion?

(v) 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 R10 billion?

If "No", please explain your view and suggest a way forward.

Question 6

Considering the proposed thresholds outlined in question 5 above, are respondents aware of entities that could fluctuate from being a public interest entity to not being a public interest entity, and vice versa, from one year to the next, as a result of fluctuations in the values to which the thresholds are applied, such as the value of client assets held by the entity?

If "Yes", please indicate the details and potential consequences.

Question 7

Do respondents agree with the proposed threshold of 89 000 beneficiaries for medical schemes?

If "No", please explain your view and suggest a way forward.

Question 8

Do respondents agree that the thresholds set in paragraph ***R400.18 SA*** will allow for a consistent application of the Code and are appropriate?

If "No", please explain your view.

Question 9

Do respondents propose any other types of entities that should be included in paragraph ***R400.18 SA***?

If "Yes", please provide details and an explanation to support the response.

Question 10

Do respondents agree with the proposed definition of a publicly traded entity?

If "No", please explain your view.

Question 11

Do respondents agree with the proposed effective date?

If "No", please indicate the reason for the disagreement, and also suggest an effective date and transitional provisions that will be more appropriate.

PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE IRBA CODE[1]

The relevant Sections below have been extracted from the extant IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018).

Amendments arising from the current revisions to the IESBA Code are highlighted in grey. Extant local adaptations of the IESBA Code are reflected in the IRBA Code as *underlined and in italics*. Text that has the ~~strikethrough~~ mark denotes deletions to local adaptations, while changes or additions are indicated with purple text.

MARK UP FROM THE EXTANT VERSION

DEFINITIONS, INCLUDING LISTS OF ABBREVIATIONS AND STANDARDS

...

Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is a ~~listed entity~~publicly traded entity in accordance with paragraphs R400.17 and R400.18, audit client will always include its related entities. When the audit client is not a ~~listed entity~~publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (*See also paragraph R400.2~~02~~.*) *In Part 4A, the term "audit client" applies equally to "review client."*
~~Listed entity~~	~~An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.~~
Public interest entity	~~(a) A listed entity; or~~ ~~(b) An 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 might be promulgated by any relevant regulator, including an audit regulator; or~~ ~~(c) *Other entities as set out in paragraphs R400.8a SA and R400.8b SA.*~~ For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

[1] These proposed revisions should be considered in line with the Auditing Profession Act, as amended, and the IRBA Code, as amended.

	(a) A publicly traded entity; or *(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 400.10. *Paragraph R400.18 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 400.10, 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

…

Public Interest Entities

400.8 Some of the requirements and application material set out in this Part ~~reflect the extent of public interest in certain entities which are defined to be~~ 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.

~~*(Part of 400.8 has been elevated into a South African requirement)*~~

R400.8a SA400.9 ~~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 ~~ed~~ in evaluating the extent of public interest in the financial condition of an entity include:

- The nature of the business or activities, such as ~~the holding of assets in a fiduciary capacity for a large number of stakeholders~~ taking on financial obligations to the public as part of the entity's primary business. ~~Examples might include financial institutions, such as banks, insurance companies, and pension funds.~~
- ~~*Number of equity or debt holders.*~~
- 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.

400.10 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 400.8 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.

~~***R400.8b SA*** *A registered auditor shall regard the following entities as generally satisfying the conditions in paragraph R400.8a SA 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 Banks Act 1993, (Act No. 124 of 1993).*~~
- ~~*Market infrastructures as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012).*[2]~~
- ~~*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*[3]*:*~~

~~[2] *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.*~~

~~[3] *For the purposes 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 that result in the debt or equity instruments being owned by a large number and wide range of stakeholders.*~~

~~***R400.8c SA*** *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 R400.8b SA.*~~

Reports that Include a Restriction on Use and Distribution

400.~~9~~11 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

400.1~~0~~2 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

R400.11~~3~~3 A firm performing an audit engagement shall be independent.

R400.12~~4~~4 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

R400.13~~5~~5 A firm or a network firm shall not assume a management responsibility for an audit client.

400.13~~5~~5 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.

400.13~~5~~5 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.

400.13~~5~~5 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. 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.

400.13~~5~~5 A4 Subject to compliance with paragraph R400.14~~5~~6, 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.

R400.146 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments 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

R400.17 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 400.10.

400.17 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 400.10, 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 400.10, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.

400.17 SA A client's public interest score, as calculated in terms of the Companies Act No. 71 of 2008, 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.

R400.18 In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c).

400.18 A1 The categories set out in paragraph R400.17 (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 ~~professional accountants~~ *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 **R400.18 SA** more explicitly defines the categories in paragraph R400.17 (a) to (c).*

400.18 A2 Paragraph R400.17 (d) anticipates that those bodies responsible for setting ethics standards for ~~professional accountants~~ *registered auditors* will add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. 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 organizations or governmental entities.
- Public utilities.

*Considering the guidance above, paragraph **R400.18 SA** adds certain categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account the factors set out in paragraph 400.9.*

R400.8b18 SA ~~*A registered auditor shall regard the following entities as generally satisfying the conditions in paragraph R400.8a SA as having a large number and wide range of stakeholders, and thus are likely to be considered as Public Interest Entities*~~ *Taking into account the factors set out in paragraph 400.9, the purpose described in paragraph 400.10, the broadly defined categories of public interest entities in R400.17 and the guidance from the IESBA in 400.18 A1 and 400.18 A2, a firm shall treat the following entities 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.*~~

(a) Publicly traded entities.

(b) Public entities listed in Schedule 2 of the Public Finance Management Act No. 1 of 1999.

(c) Universities as defined in the Higher Education Act No. 101 of 1997.

(d) Other public entities or institutions 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.

- (e) Banks as defined in the Banks Act~~, 1990 (Act~~ No. 94 of 1990~~)~~, and Mutual Banks as defined in the Mutual Banks Act ~~1993, (Act~~ No. 124 of 1993~~)~~.
- (f) Market infrastructures as defined in the Financial Markets Act~~, 2012 (Act~~ No. 19 of 2012~~)~~.[4]
- (g) Insurers ~~registered under~~ as defined in the Insurance Act No. 18 of 2017 ~~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~~.
- (h) Collective Investment Schemes, including hedge funds, ~~in terms of~~ as defined in the Collective Investment Schemes Control Act~~, 2002 (Act~~ No. 45 of 2002~~)~~, that hold assets in excess of R~~15 billion~~10 billion.
- (i) 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.
- (j) 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 R~~20 billion~~10 billion.
- (k) 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~~ holding financial products and funds on behalf of clients in excess of R10 billion.
- (l) Medical Schemes as defined in the Medical Schemes Act~~, 1998 (Act~~ No. 131 of 1998~~)~~ with a membership in excess of 89 000 beneficiaries as at financial year-end~~, that are open to the public (commonly referred to as "open medical schemes") or are restricted schemes with a large number of members~~.
- (m) 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.
- (n) Other issuers of debt and equity instruments to the public[5].

400.19 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

[4] ~~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.~~

[5] For the purposes 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 that result in the debt or equity instruments being owned by a large number and wide range of stakeholders.

factors set out in paragraph 400.9 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

R400.20 Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 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.

R400.21 As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

~~**[Paragraphs 400.13 to 400.19 are intentionally left blank].**~~

Related Entities

R400.2~~0~~2 As defined, an audit client that is a ~~listed entity~~ publicly traded entity in accordance with paragraphs R400.17 and R400.18 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.~~21~~23 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*

…

Requirements and Application Material

…

Evaluating Threats

300.7 A7 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 ~~listed entity~~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

…

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

…

Requirements and Application Material

General

Risk of Assuming Management Responsibilities when Providing a Non Assurance Service

600.7 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 R400.146 have been complied with.

Identifying and Evaluating Threats

All Audit Clients

…

600.9 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 judgment. (Ref: Para. R400.13~~5~~5 to R400.14~~6~~6).
- 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.

…

Providing advice and recommendations

R600.17 As an exception to paragraph R600.16, 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. R400.13~~5~~5 and R400.14~~6~~6;

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.

…

Considerations for Certain Related Entities

R600.26 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 R400.13~~5~~5 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

(c) over the client and the interest in the client is material to such entity; or

(d) 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

…

Audit Clients that are Not Public Interest Entities

…

601.5 A2 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 R400.14~~3~~6 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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Requirement s and Application Material

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Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.13~~5~~5 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 R400.13~~5~~ 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 R400.13~~5~~ 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.

…

Effective Date

It is intended that the proposed amendments to the public interest entity provisions in the IRBA Code will be effective for audits of financial statements for periods beginning on or after 15 December 2024, in line with the effective date of the IESBA Code revisions. Early adoption will be permitted.

CLEAN VERSION

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 R400.17 and R400.18, audit client will always include its related entities. 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 R400.22.*) *In Part 4A, the term "audit client" applies equally to "review client."*
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; or (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 400.10. *Paragraph R400.18 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 400.10, 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

400.8 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.

400.9 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.
- 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.

400.10 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 400.8 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

400.11 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

400.12 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

R400.13 A firm performing an audit engagement shall be independent.

R400.14 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

R400.15 A firm or a network firm shall not assume a management responsibility for an audit client.

400.15 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.

400.15 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.

400.15 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. 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.

400.15 A4 Subject to compliance with paragraph R400.16, 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.

R400.16 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments 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

R400.17 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 400.10.

400.17 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 400.10, 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 400.10, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.

400.17 SA *A client's public interest score as calculated in terms of the Companies Act No. 71 of 2008 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.*

R400.18 In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c).

400.18 A1 The categories set out in paragraph R400.17 (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 **R400.18 SA** more explicitly defines the categories in paragraph R400.17 (a) to (c).*

400.18 A2 Paragraph R400.17 (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 400.10, taking into account factors such as those set out in paragraph 400.9. 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 organizations or governmental entities.
- Public utilities.

*Considering the guidance above, paragraph **R400.18 SA** adds certain categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account the factors set out in paragraph 400.9.*

R400.18 SA *Taking into account the factors set out in paragraph 400.9, the purpose described in paragraph 400.10, the broadly defined categories of public interest entities in R400.17, and the guidance from the IESBA in 400.18 A1 and 400.18 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.*

(c) *Universities as defined in the Higher Education Act No. 101 of 1997.*

(d) *Other public entities or institutions authorised in terms of legislation to receive money for a public purpose:*

(i) *with annual expenditure in excess of R5 billion; or*

(ii) *who are responsible for the administration of funds for the benefit of the public in excess of R10 billion as at financial year end.*

(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 R10 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 R10 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 R10 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 R10 billion.

(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, who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.

(n) Other issuers of debt and equity instruments to the public[6].

400.19 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 400.9 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.

[6] *For the purposes 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 that result in the debt or equity instruments being owned by a large number and wide range of stakeholders.*

- 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

R400.20 Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 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.

R400.21 As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R400.22 As defined, an audit client that is a publicly traded entity in accordance with paragraphs R400.17 and R400.18 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 400.23 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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Evaluating Threats

300.7 A7 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

…

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

…

Requirements and Application Material

General

Risk of Assuming Management Responsibilities when Providing a Non Assurance Service

600.7 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 R400.16 have been complied with.

Identifying and Evaluating Threats

All Audit Clients

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600.9 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 judgment. (Ref: Para. R400.15 to R400.16).
- 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.

…

Providing advice and recommendations

R600.17 As an exception to paragraph R600.16, 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. R400.15 and R400.16; 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.

…

Considerations for Certain Related Entities

R600.26 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 R400.15 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

(c) over the client and the interest in the client is material to such entity; or

(d) 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

…

Audit Clients that are Not Public Interest Entities

…

601.5 A2 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 R400.16 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

…

SUBSECTION 605 INTERNAL AUDIT SERVICES

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Requirements and Application Material

…

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.15 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 R400.15 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 R400.15 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.

…