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Exploring the IESBA Code

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*Exploring the IESBA Code: The International Code of Ethics for
Professional Accountants*

This 3rd webinar focuses on Independence and Conflicts of Interest

Presenter

Lettie Janse van Vuuren CA(SA), RA, CBA(SA)

- Lettie joined SA Accounting Academy in November 2017 as Head of Technical. She is a Chartered Accountant, Registered Auditor and Certified Business Accountant.
- She is a **professional trainer and webinar host**, and with her relaxed and humorous presentation style, she is able to hold the attention of an audience. She has a unique ability to communicate with delegates at their respective levels of knowledge and experience. Over the last 20 years, she has trained thousands of partners, managers, trainee accountants and other professionals.
- She is responsible for our MCLU (Monthly Compliance and Legislation Updates).
- She was the Professional Development Manager at SAICA for 4 years and in charge of accrediting new training offices and monitoring existing ones (including the moderation of training offices and trainee assessments).
- Lettie is passionate about improving the efficiency and standardisation at practices. She has extensive experience on a variety of technical and practical topics which she consults on, including: SAICA re-accreditation assistance and preparation, IRBA inspection assistance and preparation, audit file reviews (post-issuance monitoring and EQCR), Quality control implementation, other office-specific manuals, and FASSET skills development facilitation.



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Where appropriate, a **Q & A Summary will be uploaded to your profile as soon as all answers have been documented.**

WHAT'S ON THE AGENDA?

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Module 1:	Recap (<i>what have we covered thusfar?</i>)
Module 2:	Instalment 5 = Independence
Module 3:	Instalment 6 = Conflicts of Interest
Module 4:	SA Case Studies

Quote

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"We need to form a conflict-resolution team to settle the dispute over who should be chosen for our conflict-resolution team."

MODULE 1

RECAP

Module 1

Module 1 in your Webinar Material contains the basic summary (again):

- Introduction to the Exploring the IESBA Code series
- Structure of the Code
- South African Amendments (SAICA and IRBA)

What have we covered thusfar in this series?

- **Webinar 1** = Identifying threats (Conceptual framework)
- **Webinar 2** = Evaluating and Addressing threats (Conceptual framework)

MODULE 2

INDEPENDENCE

Requirement

- ✓ Independence requires that the auditor maintain a state of mind that is free from influence, but **independence of mind** is not enough.
- ✓ The auditor also has to be **seen as independent to an impartial observer**.
- ✓ The reasonable and informed third party (RITP) test is applied to determine whether the auditor has **independence in appearance**.

Only Auditors???

No, Independence is NOT only a requirement for Auditors...

In addition to complying with the fundamental principles, *the International Independence Standards (IIS) (set out in Part 4)* require professional accountants (PAs) **in public practice** to be independent when performing **audits, reviews, or other assurance engagements**.

The International Independence Standards are included Parts 4A for audit and review engagements and 4B for assurance engagements other than audits and reviews

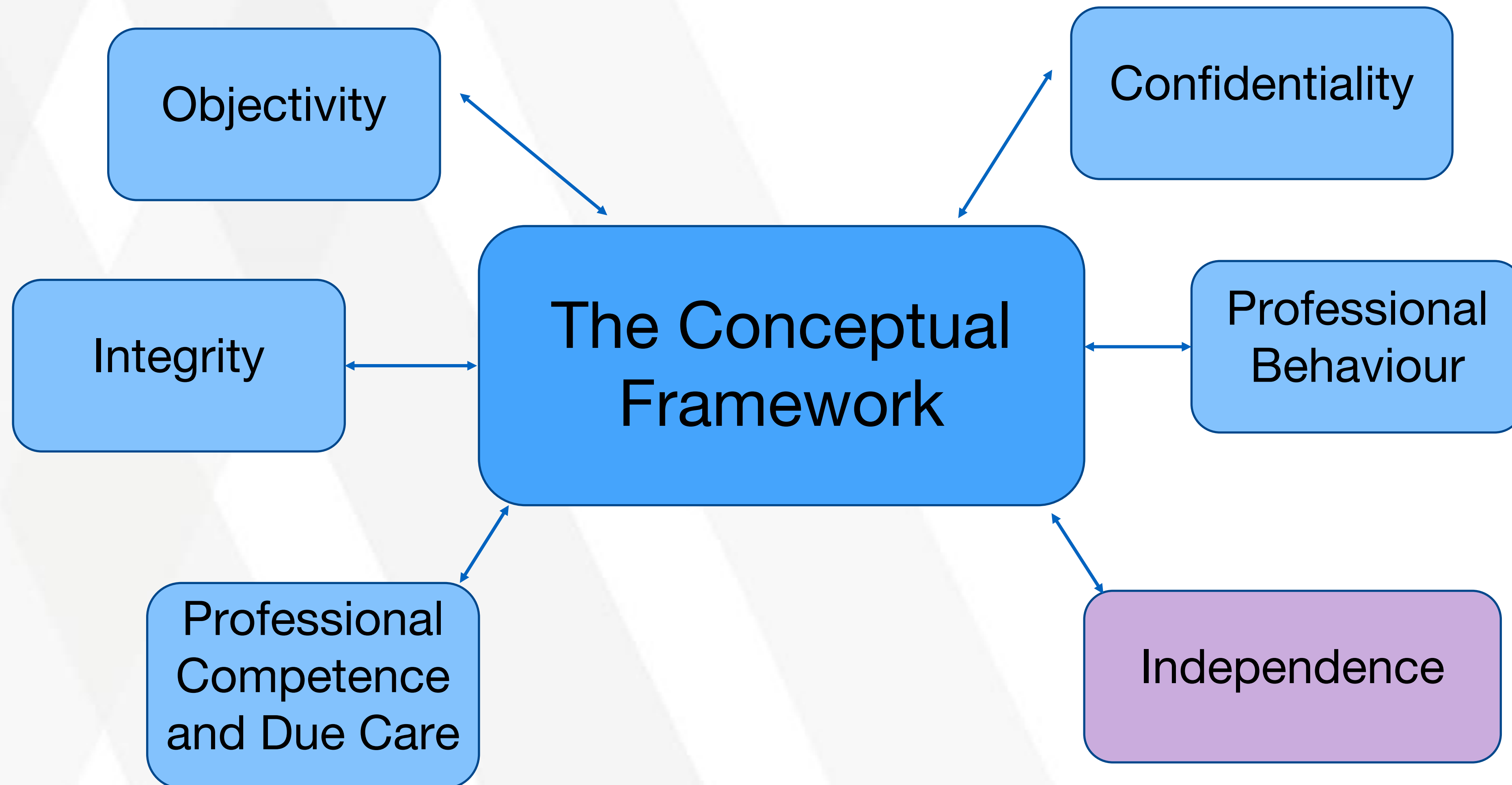
Remember:

Independence is closely linked to the principles of **integrity** and **objectivity** and is an important element of serving the **public interest**.

Perspectives

- The **internal** perspective
- The **external** perspective
- **Why is independence so important?**
 - *To rely on the auditor's report, there must be confidence that the auditor's professional judgment was not compromised, and that the auditor was not influenced in a way that would threaten their integrity, objectivity, or professional skepticism.*
- **Independence vs the Fundamental Principles**
 - *Independence is not a fundamental principle, but the same threats to compliance with the principles can also threaten independence. In an audit of financial statements, compliance with the principles supports the exercise of professional skepticism*

Independence



Examples

Example of real world scenarios

- There are email communications suggesting money transfers were made by the company to external bank accounts around the same time that the expansion plan was being developed.
- During the audit, several large bank transfers were flagged by the auditor's data analytics software.
- The field auditor has brought the flagged transactions to the audit manager for review

Refer to Webinar Material for full details of example details

Threats – example applied

Identifying the independence threats

- Self-review
- Advocacy
- Intimidation

Evaluating and addressing the threats

- Acceptable level

Remember...

- ✓ The level of a threat to independence will be impacted by the types of conditions, policies and procedures that a firm has in place to support ethical behavior, as well as any regulatory requirements.
- ✓ These are different from safeguards, which are specific actions that the firm takes to reduce an identified threat to an acceptable level.
- ✓ **A commonly used form of safeguard is to have the firm's work reviewed by an appropriate reviewer—often another PA—who is knowledgeable and impartial**
- ✓ **In some situations, there are no safeguards that can reduce threats to an acceptable level.**
 - For example, the IIS prohibit auditors from having a financial interest in an audit client

MODULE 3

CONFLICTS OF INTEREST

Requirement

- ✓ A core responsibility of professional accountants (PAs) is to ensure that the work they do and the decisions they make are **conducted in the interest of the client, employer, and the public**, rather than on the basis of self-interest.
- ❑ As trusted advisors, PAs are required to properly manage conflicts of interest that arise.
- ❑ They cannot allow a conflict o compromise their professional or business judgment.

Conflicts of interest

- Conflicts of interest are not, in and of themselves, breaches of the Code
- Perceived conflicts of interest are just as important to address as real ones

REMAIN ALERT!

- PAs are expected to remain alert to changes in circumstances (such as activities, interests, and relationships) that might create conflicts of interest
- This helps ensure that such conflicts are identified and addressed promptly

How Col Situations arise

PAAs typically encounter conflicts of interest either when:

1. **Their own interests are in conflict** with the interests of a client, employer, or other party that the PA is working for.

For example:

PA In Business (PAIB)

A **PAIB** is responsible for engaging an external tax lawyer to work for his company, and the PAIB's spouse is a partner at one of the short-listed law firms.

PA in Public Practice (PAPP)

A **PAPP** recommends an IT consulting firm to a client and receives a commission for doing so.

2. There are **conflicting interests between two or more clients**, employers, and other parties the PA is working for.

For example:

PA In Business (PAIB)

A **PAIB** serves on the board of a charity and learns confidential information that could be used to benefit their employer, to the detriment of the charity.

PA in Public Practice (PAPP)

A **PAPP** represents two clients who are divorcing or dissolving their business partnership.

Dealing with conflicts of interest

Steps	Considerations
Identify	Threats to objectivity
Evaluate	The more directly connected the more likely threat is not at an acceptable level
Address	Remove conflict, apply safeguards, withdraw

- Confidentiality considerations
- Importance of documentation and transparency

Dealing with Conflicts

In relation to the **evaluation** of the level of threats created by conflicts of interest, *the more directly connected the professional activity or service is to the matter causing the conflict, the more likely it is that the threat is not at an acceptable level.*

To address a conflict of interest, the PA can either:

- ✓ Remove the conflict, perhaps by removing themselves from having any influence over decision-making in the matter;
- ✓ Apply safeguards, which often involve restructuring duties or adding impartial oversight; or
- ✓ Withdraw from the professional activity

Code Reference

The Code's Section 120 conceptual framework includes specific provisions to help PAs deal with conflicts of interest.

The topic of conflicts of interest is dealt with in Section 210 for PAIBs, and in Section 310 for PAPPs

See Instalments 2, 3 and 4 for more information on applying the Code's conceptual framework

MODULE 4

SOUTH AFRICAN SCENARIOS

Module 4

4 IRBA News cases:

- Trustee and Auditor of business that was fully owned by the trust. Independence breached. **Effectively fined R50 000**
- Auditor provided non-assurance services to audit clients. **Effectively fined R50 000**
- Audit team member beneficiary in trust that held significant interest in audit client. Respondent failed to identify and respond to independence threat for which no safeguards exist = INDEPENDENCE. **Effectively fined R40 000**
- Acted as auditor and performed accounting work in relation to spouse's legal practitioner's trust account = INDEPENDENCE. **Effectively fined R100 000** deferred until respondent re-registers with IRBA

QUESTIONS?



Formal Q&A Session

We will now take a **quick comfort break** before we discuss some questions received during the webinar.

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