

7 July 2023

Mr Geoff Kwan  
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Submitted electronically to: [geoffkwan@ethicsboard.org](mailto:geoffkwan@ethicsboard.org)

Dear Mr Kwan

## **COMMENTS ON THE PROPOSED IESBA STRATEGY AND WORK PLAN, 2024-2027**

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national audit and ethics standard-setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic. Our statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct for registered auditors.

We adopted Parts 1, 3, 4A and 4B of the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and incorporated these into the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023), including Independence Standards (IRBA Code), together with certain local adaptations and amendments. The IRBA Code is applicable to all registered auditors in South Africa and, with its Rules Regarding Improper Conduct, provides the basis for disciplinary action against them.

We appreciate this opportunity to comment on the IESBA Proposed Strategy and Work Plan for 2024-2027. Our comments are set out under the following sections:

- A. Overall Comments; and
- B. Specific Questions.

If you require further clarity on any of our comments, please email us at [ldupreez@irba.co.za](mailto:ldupreez@irba.co.za).

Yours sincerely,

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## A. OVERALL COMMENTS

1. We would like to congratulate the IESBA on the establishment of the International Foundation for Ethics and Audit. This marks a significant step in strengthening the independence of standard setting for audit, assurance and ethics, and is crucial in the actioning of the Monitoring Group reforms.
2. In setting a strategy at the workstream level, the Public Interest Framework of the Monitoring Group recommendations should remain the primary focus. These include standards that are comprehensive, scalable, clear, implementable, globally operable and enforceable.
3. The IESBA's agility when it comes to sustainability is admirable. We hope that the setting of ethical standards, in step with the reporting and assurance standards, will leave a small or no window of preparer or regulatory confusion.
4. We note the IESBA embrace the concept of some professionally agnostic elements of the IESBA Code. The IESBA has promoted the concept and is rapidly developing material under this profession agnostic banner. We do not yet understand what the IESBA has done to identify and understand all the impacts of this approach on the traditional users of the IESBA Code, such as audit regulators, national standard setters and public accountants.
5. The IRBA strategy, which is focused on restoring confidence, addresses how the reporting ecosystem can be strengthened and what can be learnt from recent audit failures. Its overall objective is to work on addressing the identified issues through standard setting and regulatory initiatives.
6. The IESBA may wish to consider the recently released [IFIAR Survey of Inspection Findings 2022](#). In addition, it could be helpful to peruse our recently published [2022 Public Inspections Report on Audit Quality](#) and the IRBA's first-ever [Annual Enforcement Report 2022](#). These reports highlight a number of findings related to unethical conduct, including, but not limited to, breaches of independence; non-compliance with laws and regulations (NOCLAR); dishonesty; failure to exercise due care and skill; and poor professional conduct.
7. Furthermore, the IRBA Board recently approved the IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities (EAR Rule). Among others, the EAR Rule requires that for audits of annual financial statements of public interest entities (PIEs), as defined in the IRBA Code, the audit firm shall disclose in the independent auditor's report – where the disclosure has not been made by the preparer in the annual financial statements or the annual report – the fee-related matters noted in paragraph R410.31 of the Code.
8. We recognise the need for timely standard setting. We, however, also reiterate the concern we raised in our response to the IESBA Proposed Strategy and Work Plan questionnaire that the board's overall vision for the IESBA Code in the longer term is unclear. We continue to see developments, additions and more provisions in the Code that are increasing its length and complexity, and an example is the board's current consideration to add a "Part 5" for Sustainability Assurance Engagements. Despite the recent restructuring, the new provisions are complex, and the Code has not become easier to use. The need for timely standard setting, therefore, has to be balanced with the need for the time required for adoption and implementation. As such, the opportunity to comment on the proposed strategy and work plan allows us to contribute towards finding this balance.

9. In relation to the proposed Post Implementation Reviews, we appreciate the need to learn how the changes in the Code are being applied. As the IESBA considers how best to manage a full work plan, consideration should be given to whether some of these reviews can be combined and when it would be suitable for stakeholders to participate.

## B. SPECIFIC QUESTIONS

1. *Do you agree with the IESBA's Proposed Strategic Drivers (see pp.7-11)?*

10. We agree with the IESBA's Proposed Strategic Drivers.

2. *Do you agree with the IESBA's Proposed Strategic Themes and Proposed Strategic Actions (see pp.13-18)?*

11. We agree with the IESBA's Proposed Strategic Themes and Actions, specifically those further detailed below.

11.1. The agility of the IESBA on the topic of sustainability is commendable.

11.2. The theme on *Strengthening the Code or Responding in Other Ways in Areas Beyond Sustainability Reporting and Assurance* emphasises important focus areas, such as responsiveness to disruptive technologies and a continued focus on strengthening the International Independence Standards. These focus areas, though, could easily warrant individual "strategic pillars". Strengthening/improving ethical conduct in business and in performing professional services through reinforcing the Code is important to restoring public trust and enabling professional accountants (PAs) to effectively respond to change.

11.3. In the context of the pace of artificial intelligence development and its impact on business and the accountancy profession, it is important to place a strategic focus on the ethical challenges created by disruptive technologies that include:

- Ethics considerations with respect to the custody of data;
- Transparency and accountability when using disruptive technologies;
- Pressures faced by PAs in the form of information overload, the pace of change and time pressures that impact the ability to effectively understand and/or assess the reasonableness or appropriateness of using disruptive technologies; and
- Threats to compliance with the fundamental principles created by the emergence of new business relationships between PAs and technology developers.

This also directly addresses the Monitoring Group's recommendation "to foster the development of timely, high-quality standards that respond to an accelerating pace of change".

## Proposed Work Plan for 2024-2027

3. Do you support the IESBA considering the topics set out in Table B as potential work streams (see pp.22-24)? If so, please also share your views on any specific issues or questions you believe the IESBA should consider under these topics. If not, please explain your reasons.

12. In general, we support the new potential work streams identified in Table B.
13. In line with our remarks in paragraph 7 under Overall Comments, we welcome the inclusion of only a few new work streams. The planned Post Implementation Reviews that have been added to the work plan will enable us to assess whether recent changes to the Code have been effective. They will also assist with identifying areas that require implementation support.

### ***Recommendations by the Technology Working Group (TWG)***

14. We commend the TWG for the work it has performed to produce the insights and recommendations contained in the [Phase 2 Report](#). We therefore express our support for the potential new work streams stemming from this report, namely:
  - 14.1. Business Relationships;
  - 14.2. Custody of Data; and
  - 14.3. Communication with Those Charged with Governance.

### ***Role of Chief Financial Officers and Other Senior Professional Accountants in Business***

15. We reiterate the support we expressed for this workstream in our response to the Proposed Strategy and Work Plan questionnaire. In South Africa, especially, the auditing and accounting profession has been under heavy criticism. Some of the issues that have made headlines in the media include, but are not limited to:
  - 15.1. Collusion;
  - 15.2. Bribery;
  - 15.3. Facilitation;
  - 15.4. Conflict of interest;
  - 15.5. Increased pressures on accountants/auditors when businesses are under financial distress;
  - 15.6. Whistleblowing;
  - 15.7. NOCLAR; and
  - 15.8. Complacency.

### ***Audit Firm – Audit Client Relationship***

16. We support this workstream but echo the view in our response to the Proposed Strategy and Work Plan questionnaire that only changes in substance may enhance independence between the auditor and the audit client. Therefore, the focus of the project should shift from mere changes in terminology to potentially including a consideration of, for example:

- 16.1. Changes in how the auditor communicates with the audit client/management, i.e. if communications were to be channelled strictly through the audit committee that is an independent party;
- 16.2. Changes to how audit teams are structured, i.e. requiring fee negotiations to be separated from the audit or the signing partner's responsibilities; or
- 16.3. Decreasing the auditor's dependency on the audit client/management through, for example, how fees are paid or structured (audit client payer model changes).

***Definitions and Descriptions of Terms***

- 17. We support this workstream, in the context of enhanced operability.

4. *Do you believe the IESBA should accelerate or defer any particular ongoing, potential or pre-committed work stream(s) set out in Tables A, B and C? Please explain your reasons.*

- 18. In considering the *Heightened Stakeholder Expectations for Greater Timeliness* operational driver, specifically, we suggest prioritising the work streams that stem from the TWG recommendations, namely, Business Relationships, Custody of Data and Communication with Those Charged with Governance, as these represent an opportunity to demonstrate responsiveness to market developments of significant public interest. The potential ethics impacts of technology on the behaviour of PAs that the TWG has identified – which are competence and due care; objectivity; transparency and confidentiality; and independence – will increase in importance as the profession continues to evolve. Also, a sustained focus on these developments will likely identify new ethical challenges to navigate.

5. *Are there other topics the IESBA should consider as potential new work streams? If so, please indicate whether these topics are more important than the topics identified in Table B (see pp.22-24), and the needs and interests that would be served by undertaking work on such topic(s).*

- 19. As stated in paragraph 7 of the Overall Comments, we propose that the strategy and work plan should specifically incorporate a way to simplify, enhance understandability and decrease the overall length of the Code, to promote consistent ethical behaviour. This could be achieved through a focused review of all the requirements paragraphs. Requirements should be clear and able to stand alone, without too much application material. It stands to reason that if requirements are comprehensive, scalable, clear, implementable, globally operable and enforceable, there may be less need for application material. A phase two project could include looking at adjustments that conform to the structure of the International Auditing and Assurance Standards Board (IAASB) standards, in which requirements are included upfront and application material follows. Other specific applications that may require simplification include:
  - 19.1. The identification of the audit client, their related entities and the individuals associated with all the preceding entities, for the purpose of correctly applying the independence requirements.
  - 19.2. The determination of prohibited services, i.e. being clearer about which non-audit services are prohibited and which ones are not, and at what level (PIE vs non-PIE and including or excluding related entities).

20. In addition, and particularly with respect to strengthening the International Independence Standards, we propose a specific consideration of the effects of the following developments on independence and the broader Code:
- 20.1. Mandatory Audit Firm Rotation;
  - 20.2. Audit Only Firms; and
  - 20.3. Joint Audits.

#### **Additional Information**

*6. The IESBA's proposed Strategy and Work Plan emphasizes the importance of close coordination with its sister Board, the IAASB. Do you have views or suggestions as to how coordination between the IESBA and IAASB could be enhanced to better serve the public interest?*

21. We support the ongoing coordination with the IAASB, which is evident in many of the IESBA task forces. For example, there is the Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code and the IAASB's Listed Entity and Public Interest Entity projects, and coordination between the ISA 600 (Revised) and the Definition of Engagement Team and Group Audits working groups.
22. In South Africa, we adopt both the International Standards on Auditing and the IESBA Code, with some local adaptations and amendments. Thus, we appreciate the coordination between the Boards in ensuring consistent and collaborative standard setting and ease in the adoption and implementation of the standards at a jurisdictional level.
23. Where coordination efforts can include an alignment of the effective dates, that would be especially welcomed, as it could complement the implementation of both audit and ethical requirements that auditors need to apply.

*7. Do you have comments on any other matters addressed in this Consultation Paper or any significant matters not covered that you believe the IESBA should consider in finalizing the SWP 2024-2027.*

24. We have no further comments.