

22 March 2023

Mr. I Vanker
Director Standards
Independent Regulatory Board for Auditors
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Dear Mr Vanker

COMMENT LETTER ON THE PROPOSED AMENDMENTS TO THE IRBA CODE OF PROFESSIONAL CONDUCT – REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE IRBA CODE

1. Thank you for the opportunity to share our views on the revised definition of listed entity and public interest entity in the IRBA Code.
2. We welcome the principles included in the Exposure draft as we believe this will help to improve consistency in the way that audit firms will be defining an entity as a Public Interest Entity (PIE) and to enhance the auditor's independence of mind and appearance in relation to the public interest.
3. We have structured this submission, table below, in terms of the questions asked in the Exposure draft (ED) (December 2022) for comment by 3 April 2023.
4. In addition, we believe that the criteria for public interest entities should be reviewed in a 5-year period, especially with regards to the thresholds, to stay up to date with changes and inflation that arises in future.

Yours faithfully



Maryke van Deventer

Director

Request for Specific comment

Question	Question	Yes/No	Response
Question 1	<p>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?</p> <p>If "No", please indicate where additional guidance is needed.</p>	Yes, but	<p>We do believe that improvement and clarification has been provided in determining whether an entity is public interest entity (PIE).</p> <p>However, the following areas may need more clarity as it could still lead to confusion and inconsistency in the profession:</p> <ol style="list-style-type: none"> 1. R400.17 "<i>An entity one of whose main functions is to take deposits from the public</i>". This definition is very broad and can be interpreted as being any entity that also receive deposits, for example attorneys, estate agents, accommodation facilities, etc. who also hold deposits of the public but do not necessarily qualify as a PIE. <p>It is recommended that this criterion is enhanced to clearly demonstrate what is required in terms of "main function" and "deposits". For example, whether it is mainly focused on banks or any FSP entity that meets the threshold in accordance with R400.18 SA.</p> <ol style="list-style-type: none"> 2. R400.18 SA "<i>(n) Other issuers of debt and equity instruments to the public</i>" <ul style="list-style-type: none"> • Recommended that the guidance be enhanced to support this criterion. 3. R400.18 SA refers to factors that needs to be considered in paragraph 400.9 and 400.10. It is not clear if this is additional guidance for how the entities as per R400.18 SA was determined or whether it is further criteria that should be considered for entities, not listed per R400.18 SA, that could potentially result in a PIE. If this is the case, the criteria per 400.9 and 400.10 is not by itself clear. For example, "Number and nature of stakeholders", how many would be regarded as sufficient to meet this criterion?

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Question	Question	Yes/No	Response
Question 2	<p>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?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes, but	<p>In agreement that the entities listed in Schedule 2 of the PFMA should be regarded as a PIE.</p> <p>However, do not agree that a subsidiary or entity under the ownership control of these entities by nature should also, by default, be classified as a PIE. There are many instances where the subsidiaries of such entities are very small or dormant and do not meet the definition of a PIE as intended.</p>
Question 3	<p>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?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes, but	<p>We agree with the principles of this new criteria, but the following aspects are not clear:</p> <p>Firstly, the "other public entities" (that does not fall within the ambit of Schedule 2 of the PFMA), would these public entities include those entities audited by the AGSA, including AGSA Section 4(3) entities? The ED refers to only Section 4(3) entities.</p> <p>What about private Non-profit organisations, would this be seen as an institution that needs to be considered for paragraph (ii) in determining whether it is a PIE?</p> <p>The Code does not include guidance in terms of what would form part of "annual expenditure". Paragraph 39 to the ED speaks to expenses and losses that results in decreased in its net financial position. It is recommended that R400.18 SA is updated to reflect such.</p>
Question 4	<p>Do respondents agree that all universities, as defined in the Higher Education Act No. 101 of 1997, should be identified as public interest entities?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes	
Question 5	<p>Do respondents agree with the proposed harmonisation of the thresholds to R10 billion, as follows:</p>		

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	<p>(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?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes	Agree that it should be aligned to the pension fund threshold of R10 billion.
	<p>(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?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes	
	<p>(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?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes	Agree that it should be aligned to the pension fund threshold of R10 billion.
	<p>(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?</p> <p>If "No", please explain your view and suggest a way forward.</p>	No	<p>Agree with the alignment of the wording to the FAIS Act legislation "holding financial products or funds on behalf of clients".</p> <p>It can be viewed that the threshold has been harmonised to R10 billion, for all the entities included in the proposed R400.18 SA. However, the threshold was significantly reduced from R50 billion to R10 billion without sufficient explanation provided for this reduction. The reasons for the reduction should be explained. Using the number FSPs over a certain threshold to determine the reason for the change is not sufficient ground for the reduction in the threshold (Paragraph 47).</p>

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	<p>(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?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes	
Question 6	<p>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?</p> <p>If "Yes", please indicate the details and potential consequences.</p>	No	<p>With the thresholds being so diverse, especially those that were at R50 billion, it really leads to the exception rather than the norm to be classified as a PIE.</p> <p>With the new harmonization of the thresholds at R10 billion, it is likely that majority of these types of entities will consistently be classified as PIEs on a year-on-year basis.</p>
Question 7	<p>Do respondents agree with the proposed threshold of 89 000 beneficiaries for medical schemes?</p> <p>If "No", please explain your view and suggest a way forward.</p>	Yes	<p>Agree with the principle that a threshold should be based on the number of beneficiaries and not the value of premiums as the value of premiums will increase each year. This way it will result in consistency in the classification of being a PIE.</p>
Question 8	<p>Do respondents agree that the thresholds set in paragraph R400.18 SA will allow for a consistent application of the Code and are appropriate?</p> <p>If "No", please explain your view.</p>	Yes	<p>Agree with the principles except for those instances mentioned in our previous comments included in this document.</p>
Question 9	<p>Do respondents propose any other types of entities that should be included in paragraph R400.18 SA?</p> <p>If "Yes", please provide details and an explanation to support the response.</p>	No	

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Question	Question	Yes/No	Response
Question 10	Do respondents agree with the proposed definition of a publicly traded entity? If "No", please explain your view.	Yes	
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.	Yes	We are in agreement with the effective dates for audits of financial statements for periods beginning on or after 15 December 2024 as per paragraph 65 to the ED.