



Mr Imran Vanker
Director: Standards
The Independent Regulatory Board for Auditors

Email: standards@irba.co.za

03 April 2023

Dear Mr Vanker

Comment 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

We appreciate the opportunity to comment on the Committee for Auditor Ethics' (CFAE) Proposed Amendments to the IRBA Code of Professional Conduct:Revisions to the Definitions of Listed Entity and Public Interest Entity in the IRBA Code (the "Proposed Amendments"). This response summarises the views of PricewaterhouseCoopers Incorporated.

We have provided our views on the matters on which comments were specifically requested.

If you would like to discuss our comments further, please do not hesitate to contact Natalie Terblanche on (011) 797 5723 or Mohammed Adam on (011) 797 4837.

Yours sincerely,

Natalie Terblanche

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Director

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REQUEST FOR SPECIFIC COMMENTS

No.	Question	Response
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? Yes / No.</p> <p>If “No”, please indicate where additional guidance is needed.</p>	<p>We believe that there are areas that could benefit from additional guidance or clarification in assisting registered auditors in applying the Proposed Amendments. These are set out as follows:</p> <p><u>Definition of publicly traded entity</u></p> <p>In terms of the IESBA Basis for Conclusions document, the term ‘publicly traded entity’ is intended to scope in more entities, as it is not only confined to entities that have shares, stock or debt traded in formal exchanges but also encompasses those on second-tier markets or over-the-counter trading platforms, subject to local refinements.</p> <p>As these platforms are not uncommon in the South African market, we propose that clarification be provided in the IRBA Code that entities whose shares are traded over such platforms are considered to meet the definition of a ‘publicly traded entity’.</p> <p><u>Other issuers of debt and equity instruments to the public</u></p> <p>We propose that additional guidance is issued in respect of this category due to the ambiguity in its application.</p> <p>The definition of ‘publicly traded entity’, which results in a broader range of entities which would have previously been categorised as ‘Other issuers of debt and equity instruments to the public’ now meeting the criteria of a ‘publicly traded entity’.</p> <p>This category poses some challenges in application in practice. For example, a private agricultural company that issues a certain class of its shares only to farmers in a specific district</p>

		<p>(formerly referred to as agricultural cooperatives). In these instances judgement was applied for each individual company offering its shares on whether the shares were issued to the public which would result in the company being classified as a PIE or classified as non PIE, given the limited scope and geography of the offering.</p> <p>In achieving consistent application, we therefore propose that guidance or clarification on the definition of 'the public' be provided, specifically focussing on where the share offerings are restricted to certain geographies or individuals.</p> <p><u>Insurance groups</u></p> <p>An insurance group is defined in the Insurance Act No. 18 of 2017 as <i>'the group of entities designated by the Prudential Authority under section 10'</i>.</p> <p>The Proposed Amendments only makes reference to 'insurers as defined in the Insurance Act No. 18 of 2017'.</p> <p>Insurance groups are required to have their regulatory returns audited in terms of the Insurance Act No. 18 of 2017.</p> <p>Clarification or guidance would be beneficial to determine whether an 'insurance group' would also be considered a public interest entity when applying paragraph R 400.18 SA (g). Alternatively, assuming the intention of the Proposed Amendment was to include only the 'insurer' as defined in the Insurance Act No. 18 of 2017 as a public interest entity, an 'insurance group' would not be seen as a public interest entity.</p> <p><u>Public entities listed in Schedule 2 of the Public Finance Management Act No. 1 of 1999</u></p> <p>Schedule 2 of the Public Finance Management Act No. 1 of 1999 makes reference to 'All subsidiaries of the above major public entities'.</p>
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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>	<p>Yes, subject to the considerations set out in (1) above.</p>
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>	<p>Yes, subject to the considerations set out in (1) above.</p>
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>	<p>No.</p> <p>A university is defined in the Higher Education Act No. 101 of 1997 as ‘<i>any university established, deemed to be established or declared as a university under this Act</i>’. This could be interpreted to mean private universities as well, which is also dealt with in the Higher Education Act No. 101 of 1997’.</p> <p>If the intention was to include only public universities, we propose the following amendment be made to this category:</p> <p><i>“Universities established as public higher education institutions, as defined in accordance with the Higher Education Act No. 101 of 1997.”</i></p> <p>Assuming that the intention was to only scope in public universities, we do not agree with the</p>

		<p>reason set out in the Explanatory Memorandum for scoping in all ‘universities’. We believe that the same strategic importance applies to the other institutions established in terms of the Higher Education Act No. 101 of 1997 (for e.g: colleges and technikons).</p> <p>We do believe that size is a factor that distinguishes universities from colleges and technikons, and that should be factored into establishing the universities that should be considered public interest entities.</p> <p>We would therefore propose that an appropriate threshold be applied, for e.g. number of students or total expenditure in excess of a prescribed amount in determining whether a university is a public interest entity or not.</p>
5	<p>Do respondents agree with the proposed harmonisation of the thresholds to R10 billion, as follows:</p> <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>(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>(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>(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>(v) Authorised users of an exchange, as defined in the Financial Markets Act No.</p>	<p>We are in agreement with the proposed harmonisation of the thresholds as it results in greater consistency in the application of the requirements of the Code to these entities that have a common objective.</p> <p>However, we do note from the Explanatory Memorandum, that the reduced thresholds will result in significantly more financial service providers being scoped in as public interest entities (i.e: 90 as opposed to 36 previously).</p> <p>Assuming that these are not already scoped in under other categories (i.e: publicly traded, a bank or insurer), this increase may result in capacity constraints in the audit profession which may negatively impact audit quality.</p>

	<p>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>	
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>	<p>Due to the reduced thresholds we are aware that this could result in year-on-year fluctuations as the values would be driven by market conditions.</p> <p>This could have practical challenges specifically as it relates to:</p> <ul style="list-style-type: none"> ● Mandatory firm rotation; ● Partner rotation; ● Provision of non-audit services, and ● IRBA Rules that apply to public interest entities. <p>In order to address these challenges, we propose that a time frame be included to establish whether the threshold has been met. For e.g. as it relates to 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 <u>for five consecutive years preceding the current year.</u></p> <p>Alternatively, it should be considered whether the value of assets is a true measure of public interest. For e.g: in a retirement fund would the number of members not constitute a better indication of public interest.</p>
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>	<p>We are in agreement with the proposed threshold to be applied for medical schemes.</p>
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>	<p>We are in agreement that the specified thresholds allow for consistent application of the Code and are considered appropriate, subject to the commentary provided in (6) above.</p>



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>	<p>No additional types of entities should be included.</p>
10	<p>Do respondents agree with the proposed definition of a publicly traded entity?</p> <p>If “No”, please explain your view.</p>	<p>We are in agreement with the proposed definition of a publicly traded entity, subject to the additional considerations provided in (1) above.</p>
11	<p>Do respondents agree with the proposed effective date?</p> <p>If “No”, please indicate the reason for the disagreement, and also suggest an effective date and transitional provisions that will be more appropriate.</p>	<p>We are in agreement with the proposed effective date as it aligns to the effective date of the IESBA Code revisions.</p>