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

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

We are pleased and appreciate the opportunity to comment on the Proposed Amendments to the IRBA Code of Professional Conduct, in respect of the Revisions to the Definitions of Listed Entity and Public Interest Entity as defined in the Code. Our response has been informed by consulting with members of our Department of Professional Practice, various Audit and Assurance partners in our practice. In addition, a number of our comments have already been considered through our representation on the task group for this project at the IRBA.

This letter represents the view of KPMG South Africa and addresses the specific questions posed in the Exposure Draft.

If you would like to discuss our comments further, you may contact Riana Fourie Riana.Fourie@kpmg.co.za.

Yours faithfully

Riana Fourie
Department of Professional Practice – Audit & Assurance
KPMG South Africa

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Below are our responses to the specific comments requested and as well as our general comments:

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?

We agree that the proposed amendments provide useful guidance which will assist registered auditor's in determining whether an entity is a Public Interest Entity (PIE). The proposed amendments provide clear indications on which factors to consider when determining whether an entity is a PIE which includes the category of the entity as well as where applicable the relevant thresholds set out in the proposed amendments. However, we do believe there are additional considerations as noted in responses below, that should be considered as well.

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.

Yes, we agree that public entities listed in Schedule 2 of the PFMA should be identified as PIE's.

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?

We agree with the proposal to include the above identified entities (public entities or institutions) in the definition of public interest entities. We suggest however that the Code enables the user to clearly define these public entities or institutions with clear references or guidance to the applicable legislation and thresholds. E.g. With regard to question 2, there is a clear reference to the list of entities in Schedule 2 of the Public Finance Management Act.

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?

We agree with this proposal as universities are the forefront of both economic and financial reform in South Africa and is critical in developing the youth of our country. We believe that these institutions should be identified as PIEs to enhance the transparency over their operations and management of funds received from the government.

Question 5 - Do respondents agree with the proposed harmonisation of the thresholds to R10 billion, as follows:

i **(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 **(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 **(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 **(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?**

i **(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.

We agree with the harmonisation of the thresholds, however as these thresholds were set higher for some categories in the extant code, we believe that a higher threshold (ie above R10 billion) would be a fairer reflection considering the advancement of these entities and the growing economy. In addition, this would assist in the avoidance of fluctuations between these entities being a PIE in one year and not a PIE in the following year linked to the responses for Question 6 below. In addition, consideration should be given around whether nominee companies would also meet the above requirements where they hold assets on behalf of clients.

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.

Yes there may be situations resulting in fluctuations for some entities as a result we suggest a higher threshold be stipulated as indicated to the response in Question 5 above. Audit firms would need to have protocols and processes in place to re-assess all PIEs on an annual basis.

The impact of fluctuations in meeting the thresholds would be widespread across a number of areas, some of which are set out below:

- The requirement to have an Engagement Quality Reviewer based on requirements in terms of ISQM 2 and firm processes.
- Extended audit reporting rule that is being drafted.
- Materiality levels considered by users of the entities.

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.

Yes, we agree with the proposed threshold for medical schemes.

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.

We do not agree with the proposed removal from the extant code (R400.8c SA) of "*if a firm considers an audit client that falls under one or more of the categories listed in paragraph R400.8a SA not to be a public interest entity, the firm shall document its reasoning and its consideration of paragraph R400.8b SA*" because the rebuttable presumption is useful in particular circumstances for example in respect of the category relating to **Insurers registered under the Insurance Act No. 18 of 2017**:

I. Micro-insurers (as defined by the Insurance Act) will generally write much lower premiums volumes and provide less complex products. We believe that treating them as a PIE, like some of the major insurance players in the economy, introduces additional regulatory requirements and a related cost burden for these insurers. Making these insurers PIEs would increase the cost of the audits. This appears to go contrary to the spirit in which micro-insurers were introduced, which was to promote financial inclusion.
II. An insurer in run-off (i.e. which is closed to new business) should not always be considered a PIE. Some of these entities might be in run-off for many years, with very minimal remaining liabilities. Hence a liability cap on insurers which are closed to new business would make more sense.
III. There are some small insurers that historically have been scoped out from the PIE definition as these insurers write premiums which are not significant to the industry, often these are small owner managed businesses, they write specialist and corporate risks, and we believe that treating them as a PIE introduces additional regulatory requirements and a related cost burden for these insurers. Making these insurers PIEs would increase the cost of the audits and add additional pressures on the auditors without any real benefit due to the nature of these small insurers. For example an insurers which writes R100m of premium is not comparable to an entity that writes R50bn.

In light of the above concerning Insurers registered under the Insurance Act, 2017 (Act No. 18 of 2017) we propose that a monetary requirement should be added in determining whether or not an insurer is a PIE or consideration provided on whether micro-insurers can be specifically excluded. The above has been looked at from a cost-benefit factor, taking into account the size of these micro-insurers and the complexity of their operations.

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.

No additional entities considered at this stage.

Question 10 - Do respondents agree with the proposed definition of a publicly traded entity?
If "No", please explain your view.

Yes, we agree with the proposed definition of a publicly traded entity.

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.

We agree with the proposed effective date.