IESBA Exposure Draft
Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

12 November 2014

CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.org.uk +44 (0)131 347 0100 icas.org.uk

Direct: +44 (0)131 347 0234 Email: jbarbour@icas.org.uk

INTRODUCTION

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS welcomes the opportunity to comment on the IESBA Exposure Draft: 'Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client'. The ICAS Ethics Committee has considered the Consultation Paper and I am pleased to forward their comments.

Any enquiries should be addressed to James Barbour, Director, Technical Policy.

Key Points

We are pleased to note that IESBA undertook extensive research before publishing its proposals in this Exposure Draft.

On balance, we are in agreement with IESBA that a seven year time-on period continues to be appropriate for Key Audit Partners with respect to the audit of a Public Interest Entity (PIE), as that period of time seems to provide the right balance between addressing the familiarity and self-interest threats to independence created by long association and the need to maintain relevant knowledge and experience to support audit quality.

We are supportive of IESBA's proposal to increase the mandatory cooling-off period from two years to five years for the engagement partner on the audit of an entity that is a PIE.

Specific Responses

1. ***Do the proposed enhancements to the general provisions in paragraph 290.148 provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association? Are there any other safeguards that should be considered?***

   On balance, we believe that the proposed changes do provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association.

   In relation to paragraph 290.149A (b) we question the suitability in this context of inclusion of the proposed potential safeguard: "Changing the role of the individual on the audit team".

   We believe that if this potential safeguard is to be included, then further explanation/justification is required.

2. ***Should the General Provisions apply to the evaluation of potential threats created by the long association of all individuals on the audit team (not just senior personnel)?***

   Yes, the general principles, should apply to all individuals on the audit team. The extent of the threat posed by less senior personal is obviously likely to be less but will ultimately depend on their role and the nature of the work that they undertake in relation to the audit concerned.

3. ***If a firm decides that rotation of an individual is a necessary safeguard, do respondents agree that the firm should be required to determine an appropriate time-out period?***

   Yes, we are supportive of this proposal.

4. ***Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?***

   On balance, we are supportive that a seven year time-on period continues to be appropriate for KAPs with respect to the audit of a PIE. We are not aware of evidence that would suggest that a period of 7 years is too long although we acknowledge that in the UK the Financial Reporting Council in its ethical standards for auditors, restricts the time-on period for audit engagement partners of PIEs to 5 years although there is potential in certain circumstances for this period to be increased to 7 years. The EU has also recently reconsidered this issue and decided to stick with the status quo of seven years.

5. ***Do respondents agree with the proposal to extend the cooling-off period to five years for the engagement partner on the audit of PIEs? If not, why not, and what alternatives, if any, could be considered?***

   In relation to the question of perception we find it difficult to argue against IESBA's proposal and this has been the approach adopted by the FRC in the UK for several years. That said, the EU recently enacted legislation which will only require a minimum three year cooling-off period for the key audit partners of PIEs. On the basis of developments in the EU we believe this matter is worthy of further consideration by IESBA.

6. ***If the cooling-off period is extended to five years for the engagement partner, do respondents agree that the requirement should apply to the audits of all PIEs?***

   Yes, we see no reason why there would be a need for any exemptions from this rule.

7. ***Do respondents agree with the cooling-off period remaining at two years for the EQCR and other KAPs on the audit of PIEs? If not, do respondents consider that the longer cooling-off period (or a different cooling-off period) should also apply to the EQCR and/or other KAPs?***

   On balance, we are supportive of this proposal in relation to the EQCR although we note that in the UK the cooling-off period for such individuals is 5 years. In relation to other KAPs it very much depends on the particular circumstances. In this respect we note that IESBA's comment on page 10 that "an audit partner responsible for a significant subsidiary who is deemed to be a KAP for the group audit will not have the same relationship or contact with group management as would the engagement partner." Whilst we accept this, it could be argued that there is scope for considerable familiarity threats to be created when an 'other KAP' has a long-association with the management of a significant subsidiary, and it is therefore not necessarily true to state that the threats that arise from long association at subsidiary level are of lesser concern from the perspective of the group audit. We would also highlight that the EU will require a cooling-off period for 3 years for key audit partners.

8. ***Do respondents agree with the proposal that the engagement partner be required to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP?***

   We are not convinced that such a restrictive approach is necessary. We would prefer a more principles-based response to deal with such situations which of course could vary considerably in practice. A more flexible approach would need to involve discussions with those charged with governance.

   We are also not convinced by the weak rationale provided by IESBA for its proposed approach i.e. "this model is easier to apply".

9. ***Are the new provisions contained in 290.150C and 290.150D helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs?***

   We believe that the new provisions are helpful in this respect.

10. After two years of the five-year cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?

We are not supportive of this suggestion. This seems to run counter to the need to have a cooling-off period in the first instance and indeed might be perceived as a threat to the independence of the auditor.

11. Do respondents agree with the additional restrictions placed on activities that can be performed by a KAP during the cooling-off period? If not, what interaction between the former KAP and the audit team or audit client should be permitted and why?

We believe that the principle should be established such that a KAP should not be involved in any role or activity that would exert influence on the audit during the cooling-off period.

12. Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?

We are happy with this suggested approach.

13. Do respondents agree with the corresponding changes to Section 291? In particular, do respondents agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements "of a recurring nature"?

We are generally supportive of the approach. However, we do not agree with the assertion that the provisions should be limited to assurance engagements "of a recurring nature".

14. Do respondents agree with the analysis of the impact of the proposed changes? In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?

The proposed changes are likely to improve the perceived independence of auditors at least amongst some stakeholders. However, it is difficult to assess the overall impact that they will have on audit quality, and indeed the actual impact such changes will have in relation to addressing any familiarity and self-interest threats.