

International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue - 6th Floor
New York, New York
10017

12 November 2014

Dear Sirs

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

PKF International Limited administers the PKF network of legally independent member firms. The network consists of member firms and correspondents in approximately 125 countries providing assurance, accounting and business advisory services. PKF International Limited is a member of the Forum of Firms – an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.

We welcome 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 ED”). We are supportive of the IESBA’s continued efforts to develop and improve its Code of Ethics for Professional Accountants (“the Code”).

We believe that the proposed changes generally strengthen the requirements of the Code in this important area, although we are concerned that some proposals result in additional complexity, and perhaps the introduction of too many specific restrictions, suggesting a move away from a principles-based approach.

In addition, we propose an alternative model for determining the cooling-off period for all key audit partners and suggest clarification of the (existing) seven year permissible time-on period.

These and additional comments are further discussed in response to the IESBA’s specific questions in the appendix attached to this letter.

If you would like to discuss any of our comments, do not hesitate to contact me.

Yours sincerely



Theo Vermaak
Chairman: PKF International Professional Standards Committee
PKF International Limited

Request for Specific Comments

General Provisions

- 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?**

Broadly we agree that the proposed revisions provide more useful guidance. However, the final sub-paragraph in 290.148A is confusing in as far as it deals with concern about losing a longstanding client. We propose that this be removed from this section of the Code, as such self-interest threats are dealt with elsewhere and need not be linked to long association in this context.

We believe the safeguards listed as example are adequate. However, the addition of “including an engagement quality control review” in the final bullet in 290.149A is not clear and will cause confusion in its current form. We agree that this may be a necessary safeguard, but the wording may imply that an engagement quality control review is required when quality review is implemented as safeguard. We propose that the two concepts be separated to read as follows:

- Performing regular independent internal or external quality reviews of the engagement.
- Performing regular engagement quality control reviews of the engagement.

- 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, we agree that these provisions should apply to all individuals on the audit team.

- 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 agree that the firm should determine the appropriate time-out period.

Rotation of KAPs on PIEs

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

Yes, we agree in principle that seven years remains appropriate. However, we believe that the meaning of this seven year period needs to be clarified, e.g. are these consecutive years on the engagement, or any involvement as KAP during a seven year period? This has become a very important consideration in the context of the proposed extended cooling-off period, and with requirements in some jurisdictions which impose a shorter time-on period.

Our responses to questions 5 and 7 elaborate on this argument, illustrates the need for clarity and sets out our proposed solution.

- 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?**

Our response below should be read in combination with question 4.

Appendix – Responses to specific questions

PKF International Limited Response: IESBA ED Long Association

We agree that the cooling-off period is an important safeguard in reducing or eliminating threats resulting from long association, and should be increased from two years in certain circumstances. However, we do not believe that five years is appropriate in all circumstances as proposed.

The proposed revisions extend the cooling-off period to five years on the apparent assumption that the engagement partner has been a key audit partner (KAP) for the full seven years. In practice, circumstances may arise where a partner may be a KAP for less than seven years (including being the engagement partner for some or all of that time). This may be the case for any number of reasons, including internal firm needs or local regulatory requirements which impose shorter rotation periods. We do not believe that a five year cooling-off period is appropriate in circumstances where an engagement partner has been a KAP for significantly less than seven years.

Please consider this in relation our response to question 4 requesting clarification of the meaning of the seven-year period. For example, if a partner was the engagement partner for two years only, did not act as KAP for any other period, and has to rotate off the engagement for any reason, is the intention to then rotate off for five years? Or could the partner act as KAP for the remainder of any allowed period within a seven year period?

We propose a solution which considers both the on and off periods, and will clarify that the seven year permissible time-on period applies in situations where a partner has been KAP for seven consecutive years. Specifically, we propose:

- Clarify that the seven year period refers to consecutive seven years on the engagement as KAP.
- Require that the cooling-off period be determined to be the greater of:
 - Two years, or
 - The period of consecutive service as KAP (limited to a maximum of seven years) less two years.

This will result in the same effective five year cooling-off period in situations where an engagement partner has been a KAP for seven consecutive years. Where the service period as KAP was less than seven years, the cooling-off period is determined in proportion to that service period, but will not be less than two years. This further removes any potential confusion about the application of the seven year permissible time-on period.

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 believe that amendments to the cooling-off period should apply to audits of all PIEs in the interest of clarity. However, see earlier comments regarding determination of the cooling-off period.

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?

While we agree that different considerations may apply depending on the role of the KAP on the engagement, this distinction could reduce clarity and result in significant implementation challenges. In addition, KAP may include a partner on a significant subsidiary in a group. In many group audits, a small number of significant subsidiaries constitute the bulk of the group by value and volume. A distinction in rotation requirements between engagement partners on these audits and the group audit does not make sense, despite the group auditor's responsibilities as set out in ISA600.

We therefore propose that the cooling-off period and requirements for all KAP be the same, subject to a revision of those requirements based on our responses to question 5. This will provide clarity and consistency, and result in less implementation challenges.

Appendix – Responses to specific questions

PKF International Limited Response: IESBA ED Long Association

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?**

This question illustrates that the current proposals may be too complex. See our responses to questions 4, 5 and 7. We believe that the cooling-off period should be determined with reference to the period for which the partner served as KAP, and not necessarily be fixed at five years. The clarification of the meaning of the seven year time-on period is also critical in this context.

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?**

Yes, these new provisions are very important as it emphasises that ultimately the Code is principles-based.

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 do not support a distinction between the first two and the remaining three years of the cooling-off period. Such distinction does not seem to have any merit. We believe that the Code should contain principles that determine the extent of consultation during the entire period. Limited consultation may in certain circumstances enhance audit quality, regardless of the lapse of time.

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?**

No, we do not agree with all the additional restrictions. The first bullet under 290.150B has become too complex and detailed, and there is a risk that other specific situations have been overlooked. We propose that a more principles-based approach will be most appropriate to determine the activities that should be restricted. Specifically and by way of example, it is not clear why the provision of non-assurance services that result in significant or frequent interaction with senior management or those charged with governance would not be permitted in circumstances where the individual has no intention to act as KAP on that engagement again.

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

Yes, we agree with this proposed amendment.

Section 291

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 agree with the corresponding changes to Section 291 subject to alignment based on our comments in response to Section 290.

Appendix – Responses to specific questions

PKF International Limited Response: IESBA ED Long Association

We do not agree that the provisions should be limited to assurance engagements “of a recurring nature”. We believe most of the threats will arise in assurance engagements of a recurring nature, and this addition is therefore superfluous. Applying the principles without this addition will not result in any differences of application.

In addition, a recurring engagement is not the only situation in which threats could arise. This is particularly true in the context of proposed additions in 291.137A, as these additions do not refer to tenure on the engagement at all. For ease of reference, the additions in question are:

“A familiarity threat may be created as a result of an individual’s long association with:

- The assurance client; or
- The subject matter and subject matter information of the assurance engagement

Impact Analysis

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?

We agree with the analysis in as far as our comments above do not change the proposals. A reconsideration of the impact may be necessary if the IESBA makes significant changes to the proposals.

Request for General Comments

Our comments to specific questions were formulated having considered SMPs, developing nations and ease of translation.

With regards to the proposed effective date, we believe this to be appropriate.