

November 11, 2014

Mr. Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017 USA

Dear Mr. Siong:

**Re: August 2014 Exposure Draft,  
Proposed Changes to Certain Provisions of the Code Addressing the Long Association of  
Personnel with an Audit or Assurance Client**

I am writing on behalf of the Public Trust Committee (PTC) of Chartered Professional Accountants of Canada (CPA Canada) in response to your request to comment on the Exposure Draft entitled *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client* (“the Exposure Draft”). CPA Canada together with its partners Chartered Professional Accountants of Bermuda and various Canadian provincial accounting bodies are currently working towards unification of the Canadian accounting profession under the designation “Chartered Professional Accountant”. The Canadian CPA profession represents a membership of more than 190,000 professional accountants in Canada and Bermuda.

CPA Canada conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally. The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goal is to achieve consistency between provincial CPA bodies in Canada and to make sure that the processes and standards in Canada meet or exceed the international standards.

We thank you for the opportunity to provide our comments on the Exposure Draft.

Generally, we support the proposed amendments, with some specific suggestions as noted in answer to the request for specific comments. One general area of concern is the possible impact on smaller firms and consequential impacts on accessibility and cost of services. An additional suggestion is to issue any amendments that may be approved by the IESBA at the same time as any amendments arising from the recent IESBA Exposure Draft on Non-assurance Services.

Responses to the specific questions outlined in the Guide for Respondents section of the Exposure Draft, are as follows:

**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?*

The proposed enhancements provide useful guidance for identifying and evaluating self-interest threats created by long association.

No additional safeguards have been identified at this time.

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)?*

The General Provisions should extend the evaluation of potential threats created by long association to all individuals on the audit team. The inclusion of the ability of an individual to make key decisions is an important factor to be considered.

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?*

When a firm decides that rotation of an individual is necessary, firms should be required to determine an appropriate time-out period. It is reasonable that the professional judgment that is necessary to evaluate threats should also be applied to the determination of a 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?*

The time-on period should remain at seven years for KAPs on the audit of PIEs.

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?*

The cooling-off period for the engagement partner should be 5 years.

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?*

In general, the concerns underlying the proposal to apply the extended cooling-off period to audits of all PIEs are reasonable. However, the impact of extending the application to all PIEs will depend on how each member body interprets and applies the definition of PIEs.

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?*

The rationale for not extending the cooling-off period for EQCRs and other KAPs to five years from the current 2 years is reasonable. However, Canada's current requirements include a five year cooling off period for both the engagement partner and the EQCR.

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?*

Canada's requirement is currently interpreted as requiring a KAP, who at any time during the seven year period has served as an engagement partner, to cool-off for five years. Consideration might, however, be given to establishing the Code requirement such that for every year the KAP serves as an engagement partner, an additional year is added to the base two year cooling off period for KAPs, to a maximum of five years. The participation of a KAP as an engagement partner for a limited period during the seven year period is very unlikely to create a threat that is at the same level as the threat created by a seven year engagement partner. The cooling off period should reflect that reduced level of threat. While some firms may conclude that it may be simpler to adopt the same cooling off period, the option to adopt a shorter cooling off period should remain available.

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?*

The new provisions contained in paragraphs 290.150C and 290.150D are helpful as a reminder that the principles in the General Provisions must always be applied to all members of the engagement team.

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?*

A former engagement partner should not be permitted to consult with the client but should be permitted to consult with the audit team in accordance with the restrictions in paragraph 290.150B. However, there are likely to be a number of practical issues with the proposal to allow the engagement partner to consult within the firm on a technical or industry-specific issue on the condition that the consultation is in respect of issues, transactions or events that were not previously considered by the individual while in the role of engagement partner. In practical terms, it is quite likely that an engagement partner who is also a subject matter expert will be consulted on areas of his or her particular expertise; for instance, how many pension specialists will there be in one firm? Moreover, enforcement of this requirement will likely require the development of strict guidelines and definitions by regulators.

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?*

The additional restrictions are reasonable in theory but implementation of them may only be possible in larger firms. The former engagement partner should not be permitted to consult with the client during the five-year time-out period. Given the former relationship between the engagement partner and client, the familiarity threat would be reinforced, creating the appearance of influence over the engagement by the former engagement partner.

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

The concurrence of TCWG should be obtained when the provisions in paragraphs 290.151 and 290.152 are to be applied.

### **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”?*

The rationale underlying the corresponding changes to Section 291, specifically that the provisions should be limited to assurance engagements "of a recurring nature" is reasonable. However, practically, this may be difficult to apply if applied to all engagements, particularly in respect of small entities, and where engagements are conducted by those with small practices. In those situations it may be impossible to implement the safeguard of rotating personnel off the engagement, and safeguards such as the performance of regular independent external quality reviews may be the only practical solution.

### **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?*

The IESBA has conducted a well-reasoned analysis of the possible impact of the proposed changes, including the assessment of the overall adverse impact for firms. However, it is not necessarily clear that there is sufficient anticipated improvement in the perception of independence to outweigh the impact. For example, one consequence of the change is the possible consolidation of small firms. If this also results in firms moving out of smaller communities, the ability to find practitioners may be impaired, and the cost of the engagements could increase if travel is required, etc. The potential need for small and medium firms to seek advice and assistance from outside the firm is another possible consequence that could impact the cost of engagements.

### **Request for General Comments**

*In addition to the request for specific comments above, the IESBA is also seeking comments on the following general questions:*

*(a) Small and Medium Practices (SMPs) –The IESBA invites comments regarding the impact of the proposed changes for SMPs.*

As noted above, one consequence of the change is the possible consolidation of small firms. If this also results in firms moving out of smaller communities, the ability to find practitioners may be impaired, and the cost of the engagements could increase if travel is required, etc. The potential need for small and medium firms to seek advice and assistance from outside the firm is another possible consequence that could impact the cost of engagements. There remains a question as to whether there is sufficient anticipated improvement in the perception of independence to outweigh these possible impacts of the proposals.

*(b) Preparers (including SMEs) and users (including Regulators) – The IESBA invites comments on the proposed changes from preparers, particularly with respect to the practical impacts of the proposed changes, and users.*

If the regulator referred to in 290.153 (with the role of granting exemptions to partner rotation requirements) is a self-regulatory body for professional accountants, this role would conflict with its other regulatory responsibilities

*(c) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.*

Developing nations are likely to experience some of the same issues as nations such as Canada, where there is, except in concentrated areas, a limited availability of resources (experienced practitioners).

*(d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.*

No comments.

*(e) Effective date – Recognizing that the proposed changes are substantive, would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, do the proposed effective date and transitional provisions provide sufficient time to make such changes?*

The effective date appears to provide reasonable lead time to adapt as necessary to the possible changes.

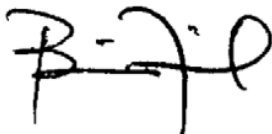
On a final note, it might be possible to make improvements to specific language as follows:

- 1) Paragraph 290.148A – in the final sentence, the use of the word “maintain” (“... the desire to maintain a close relationship...”) appears to presuppose the existence of a close relationship, which in and of itself might be a threat to independence. Perhaps the word “foster” might be used in its place.
- 2) Paragraph 290.148B – in the fourth bullet, the phrase “the closeness of the individual’s personal relationship” also appears to presuppose a close relationship. Perhaps language such as “the nature and extent of an individual’s personal relationship” might be used instead.

Parallel changes might be considered for Paragraphs 291.137A and 291.137B.

We thank you for the opportunity to comment on the Exposure Draft and we commend you for your continuing efforts to improve the requirements of the Code.

Yours truly,

A handwritten signature in black ink, appearing to read "B. Friedrich". The signature is stylized and somewhat cursive.

Brian Friedrich, CPA, FCGA  
Chair, Exposure Draft Working Group – Public Trust Committee  
CPA Canada