

Comments on the August 2014 IESBA Exposure Draft
“Proposed Changes to Certain Provisions ...”

Apparent Application - The wording seems to identify the changes are applicable to audit firms and their clients limited to “public interest entities” that are “listed”, presumably meaning listed on a stock exchange. However, there are many types of entities whose securities are not “listed,” but are nonetheless publicly traded, e.g., “over-the-counter” other means. These entities include real estate investment trusts (REITs), master limited partnerships (MSLs, which are relatively new, but being increasingly used in capital-intensive industries), non-listed publicly-held entities, and state and local governments whose municipal bonds are widely held (there are over 10,000 state and local “municipal” governments with one or more series of bonds would require them to register with the SEC under the Securities Acts, but for an exemption therefrom specified in the respective Acts). The final standard should clearly define PIEs and provide guidance for these types of entities?

Complex Entities – There may be a significant number of complex entities where one or more subsidiaries or controlled investees have a different audit firm and whose principal audit firm relies on the reports of such separately-audited affiliates. Would the proposed revised standard apply to these audit firms?

Key Audit Partner – It is possible that a KAP could change audit firms, and the original client is acquired by the new KAP’s audit firm. Would the tenure requirements treat this situation as a consecutive year as KAP, restart the tenure years, or propose some other method. This could also occur in a merger of audit firms.

Impact of Potential Other Standard-Setters – The tenure rules of IESBA might conflict with other standard-setters, e.g., in the United States, the New York Stock Exchange has a shorter tenure than the ED, and other standard-setters, e.g., the PCAOB, SEC, other stock exchanges, legislation in other countries, or the AICPA might specify a different tenure for KAPs. In such instances, the final IESBA standard should provide guidance, e.g., the shortest tenure should apply.

IESBA Information – In my experience, members of the standard-setting body are generally specified in “due process” documents and the final standards. There is no such disclosure in the ED.