



November 12, 2014

By email: kensiong@ethicsboard.org.

Ken Siong
IESBA Technical Director
International Ethics Standards Board for Accountants

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

Dear Mr. Siong,

The Cayman Islands Society of Professional Accountants (CISPA) welcomes the opportunity to comment on the latest IESBA Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*.

CISPA is a not for profit organisation that regulates and promotes the accounting profession in the Cayman Islands. CISPA is responsible for licensing all practitioners that are engaged in public practice in the Cayman Islands. In addition, membership is open to accountants not engaged in public practice. CISPA currently has more than 930 members, 49% of which work as auditors and 71 of those are Practitioner Members (Licensed Practitioners). The accounting and auditing profession is large relative to the total population of the Cayman Islands (57:1).

CISPA has sought the feedback of its members and for some aspects of the proposed changes there are differing views which reflects CISPA's membership, comprising large audit firms, SMPs and professional accountants in business representing the audit clients' perspective.

Overall, it is understood that the large audit firms already have systems in place for rotation that would comply with the proposed amendments to the Code. Obviously auditor rotation presents challenges for SMPs but it is noted that para 290.153 remains in the Code and CISPA will consider issuing direction on when rotation is not required and what alternative safeguards are appropriate.

In the case of the Cayman Islands, the vast majority of audited entities fall outside the definition of a public interest entity and thus the changes have limited application. However, CISPA encourages its members to observe the spirit of the Code and thus has considered the implications of the proposals on all types of audits.

The market profile of the Cayman Islands also means that the audit clients are typically SMEs and this has a bearing on the responsibilities and capabilities of "Those Charged with Governance". In particular, there is

often no Audit Committee in SMEs/Non-PIEs but interestingly we received views from the market that TCWG should be mindful of its own independence and objectivity when engaging auditors, which is more an issue of corporate governance within the client, than independence for the auditors. In principle TCWG need to take a more active role in the monitoring of auditor independence, although it depends on the size and nature of the entity.

Generally, CISPA supports a view that Independence should be an overriding principle, which takes precedence over specific rotation rules and this should be made clear in the Code, perhaps by moving new section 290.150C and D to before 290.148.

The Code and amendments have different impacts on firms depending on their size and location and thus the anti-competitive effects of prescribed rules should be considered in relation to the public interest. Presumably it is for each jurisdiction to evaluate this as market profiles will differ.

Our detailed responses to the specific questions are set out below.

	Specific Question	CISPA Response
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?	<i>Whilst some members from auditing profession thought that clarifying the factors that affect the threats to independence would enhance the Code, some non-audit members thought that the changes would not have any impact and found the current rotation rules to be satisfactory. For the additional safeguard of changing the individual's role on the engagement, it is proposed that this should be considered based on an assessment of the individual's ability to influence the audit in their re-assigned role and does not appear to be a strong safeguard with respect to senior personnel. Non audit members recommend that TCWG have a primary responsibility for its own independence and objectivity in appointing an auditor.</i>
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)?	<i>In overview the auditor members agreed that the provisions should apply to all individuals on the audit team but the non-auditor members responded that audit firms should be allowed to self-regulate and continue to supervise audit juniors adequately as to extend rules to all personnel is too complex.</i>
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?	<i>Firms could be allowed to determine the cooling-off period for persons that are not EPs as the potential independence issues are less direct given the indirect nature of the relationships between such roles and the client.</i>
4	Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?	<i>Yes, 7 years is an appropriate time-on period</i>
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?	<i>Yes, there should be no distinction between listed companies and PIEs.</i>
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?	<i>Where an entity is listed on an exchange in a non-trading capacity for compliance/convenience purposes only while such entities may fall within the definition of a PIE, they are not actively engaging in operations with investors in a public manner. Consideration should be given to not extending the cooling off period for these entities as operationally they are otherwise the same as private investment funds that are not listed.</i>
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	<i>Yes, the 5 year cooling off period should be limited to the engagement partner given that the stated objective of the code is to reduce familiarity and self-interest threats and the limited interactions with group management of the other KAPs including the EQCR would warrant a limited cooling off period.</i>

	Specific Question	CISPA Response
	KAPs?	
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?	<i>Non audit members did not agree with this proposal. Audit members agreed on basis that the 5 year cooling off period should be limited to the engagement partner given that the stated objective of the code is to reduce familiarity and self-interest threats and the limited interactions with group management of the other KAPs including the EQCR would warrant a limited cooling off period.</i>
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?	<i>Whilst the new provisions are helpful it is suggested that the new provisions in 290.150 are moved to before 290.148 with a more general and emphatic reminder to firms about the spirit of the law and the priority of audit independence being more important than the technical requirements as inserting these provisions in this section may have the opposite effect. We suggest a preamble that says "Notwithstanding the following rules about auditor rotation and cooling off periods, members are reminded that auditor independence and the appearance of independence can only be maintained with constant vigilance and review of each individual circumstance. The following rules are provided as a minimum."</i>
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?	<i>CISPA members agree with this proposal as efficiency in audits is important but that importance will vary according to the technical complexity. A more specific comment is that in order to achieve the objective of independence in appearance, this consultation should be limited to matters that were not previously considered by the individual while they were the engagement partner. As an additional safeguard, where this is the case, such a consultation should require notification of those charged with governance.</i>
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?	Yes
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 <i>TCWG in principle need to take a more active role in the monitoring of auditor independence. TCWG for SMEs may not currently consider rotation proactively but clearly an audit committee should be doing so.</i>
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"?	<i>Yes, other assurance engagements are typically non-recurring so limiting the provisions to assurance engagements of a "recurring nature" seems appropriate.</i>
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?	<i>Yes whilst noting that the robustness of auditor independence should lie more clearly with TCWG.</i>

We thank you again for the opportunity to comment.



Sheree Ebanks
CEO