

Ken Siong
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International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
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12 November 2014

Dear Mr Siong

Response of the Audit and Assurance Committee of Chartered Accountants Ireland

ED: Proposed changes to certain provisions of the code addressing the long association of personnel with an audit or assurance Client

The Audit and Assurance Committee (AAC) of Chartered Accountants Ireland welcomes the opportunity to comment on the IESBA's proposals in the above mentioned exposure draft.

AAC's responses to the specific questions posed in the ED are contained in the appendix to this letter. AAC would, however, like to emphasise the following comments.

Extending the general provisions to all individuals in the audit team

AAC does not support the proposal to apply the general provisions to evaluating the potential threats created with respect to all individuals on the audit team, rather than to 'senior personnel', as per the extant 2014 Code. AAC does not consider that the extension of the requirements to all individuals involved in the audit is a workable proposal in practice. The management by audit firms of independence and succession issues on large group audits is a significant challenge as it stands under the current requirements, and the proposal to extend the responsibilities to all individuals would, in AAC's opinion, be overly complex and burdensome. AAC would also have significant concerns about the potential negative impact this could have on audit quality, particularly in terms of reducing the pool of resources available to move into more senior roles on such audits over time. AAC does not consider that the independence issues being

addressed by this particular aspect of the proposals have been sufficiently identified and justified in the ED to warrant the amendments.

Extending the cooling-off period to Engagement Partners on all PIE audits

AAC considers that there should be a distinction made between listed PIEs and other PIEs, and that the extension of the mandatory cooling-off period to five years should only apply to the engagement partners on the audit of listed PIEs. AAC considers that this would be consistent with the approach taken by the Financial Reporting Council in the UK and by the US SEC.

Restriction on activities during the cooling-off period

AAC supports the concept of restricting the activities of rotated out key audit partners (KAPs) such that they cannot exert any influence on the audit engagement. AAC does not support, however, the reference in paragraph 290.150B to such KAPs not undertaking any activity that would result in the individual “having significant or frequent interaction with senior management or those charged with governance”. This clause is overly restrictive and would potentially prevent an engagement partner or other KAP having any involvement with the client, regardless of whether the service to be provided has any significance to the audit. AAC suggests that the IESBA focuses on the aspect of preventing the exertion of any influence on the audit. In that regard, AAC considers that the wording of paragraph 14 of the APB Ethical Statement 3 *Long Association with the Audit Engagement* (APB ES 3) achieves a high degree of clarity:

“Where an audit engagement partner continues in a non-audit role having been rotated off the engagement team, the new audit engagement partner and the individual concerned ensure that that person, while acting in this new role, does not exert any influence on the audit engagement. Positions in which an individual is responsible for the firm's client relationship with the particular audited entity would not be an acceptable non-audit role.”


Reference in the Code to ‘PIEs’

AAC is concerned that the reference in the Code to ‘PIEs’ could cause a lack of clarity as different jurisdictions have different legal and regulatory definitions of what constitutes a ‘PIE’. For instance, Public Interest Entity is a term defined in the 2013 EU Statutory Audit Directive (2013/34/EU) to include an entity ‘governed by the law of a Member State and whose transferable securities are admitted to trading on a regulated market of any

Member State', whilst the Code defines PIE more widely to include any 'listed entity'. To avoid any confusion, AAC considers it would be helpful if the terminology were changed in the Code to include a differentiator, for instance 'Code PIE' or similar.

If you wish to discuss any of the matters raised above, or in the appendix to this letter, please do not hesitate to contact me by phone (+353-1-6377344) or by email (mark.kenny@charteredaccountants.ie).

Yours sincerely



Mark Kenny
Secretary to the Audit and Assurance Committee

APPENDIX

General Provisions

Q1: 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?

AAC considers that the proposed enhancements to the general provisions provide more useful guidance in identifying and evaluating familiarity and self-interest threats created by long association and that the paragraphs covers the primary safeguards to be considered.

Q2: 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)?

As explained in the cover letter, AAC does not support the extension of the general provisions to all individuals on the audit team.

Q3: 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?

AAC agrees that, in such circumstances, the firm should be required to determine the appropriate time-out period.

Rotation of KAPs on PIEs

Q4: Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?

AAC agrees that the period of seven years for KAPs on the audit of PIEs should remain in place.

Q5: 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?

AAC agrees with the proposal with regard to the audit of **listed PIEs**, but as explained in the cover letter, considers that a distinction should be made between listed PIEs and non-listed PIEs. AAC considers that the cooling-

off period for the engagement partner on a non-listed PIE should remain at two years.

Q6: 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?

As above, AAC considers that the extension to five years should only pertain to engagement partners on the audit of listed PIEs.

Q7: 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?

AAC does not disagree with the cooling off period for EQCR and other KAPs on the audit of PIEs remaining at two years

Q8: 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?

Bearing in mind the response to question 5, AAC agrees with the proposal to require a five year cooling off period for an individual who has served any time as engagement partner (on the audit of a listed PIE) in the seven year period.

However, AAC is concerned that there is a lack of clarity in the wording of proposed paragraph 290.150A, specifically the reference to an individual having acted as engagement partner “at any time” during the seven year ‘time on’ period. The implications of the paragraph only become clear on reading the explanatory note in the exposure draft, which is not a source of information to which reference is commonly made once proposed changes to standards have been finalised and implemented. AAC considers that the wording of paragraph 19(c)(iii) of APB ES3 achieves the necessary clarity within that standard and it is for this reason that AAC recommends that the Board considers adopting the wording of that paragraph.

Paragraph 19(c)(iii) of APB ES3 reads:

“(c) anyone who has acted:

...

(iii) in a combination of roles as:

- the engagement quality control reviewer;
- a key partner involved in the audit, or
- the audit engagement partner

for a particular audited entity for a period of seven years, whether continuously or in aggregate, shall not participate in the audit engagement until a further period of five years has elapsed.”

Q9: 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?

AAC considers the provisions in paragraph 290.150C to be helpful. Consistent with the cover letter and the response to question 2 above, AAC considers that paragraph 290.150D should be deleted as it relates to the extension of the general provisions to all individuals in the audit team, which AAC does not support. There are other paragraphs in the Code where the amendment from ‘senior personnel’ to ‘individual’ is proposed, and those proposed amendments should be similarly reversed.

Q10: 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?

AAC agrees that an engagement partner could be permitted to undertake a limited consultation role with the audit team and client after the initial two years of the five year cooling-off period have elapsed.

Q11: 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?

As discussed in the cover letter above, AAC agrees that a KAP should be restricted from exerting a direct influence on the outcome of the audit during the cooling-off period, but does not agree with the clause preventing such a partner from undertaking any activities that would result in the individual “having significant or frequent interaction with senior

management of those charged with governance”. This would unduly restrict a partner from providing services to the client which would not result in the KAP exerting direct influence on the outcome of the audit.

Q12: Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?

AAC agrees.

Section 291

Q13: 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”?

AAC agrees with the proposed changes in general. AAC would request, however, that the Board reconsider the wording of the last paragraph of section 291.137B. AAC was unclear as to the meaning of the phrase “the departure of the person who is the responsible party”. AAC considers that it may refer to a relationship with a member of management, and if this is the case, considers that this should be stated explicitly.

Impact Analysis

Q14: 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?

Consistent with its earlier responses, AAC does not agree with the impact assessment in the following matters:

- AAC has concerns that extending the general provisions to all individuals in the audit team will be unworkable and may represent a considerable risk to audit quality.
- AAC considers that it is not necessary to extend the cooling off period for engagement partners on non-listed PIE audits to five years. The Board itself recognises that the proposals may “have a negative impact on audit firms, particularly smaller firms which have fewer audit personnel available to them” and AAC would also hold

these concerns in terms of reducing the pool of qualified personnel within audit firms to carry out audit engagements for non-listed PIEs.

- AAC considers there would be an overly excessive cost to audit firms arising from the proposed prohibition on rotated out KAPs having any significant or frequent interaction with the client, irrespective of whether having such engagement would result in the KAP exerting a direct influence over the outcome of the audit.

Request for General Comments

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?

AAC considers the timeframe for the introduction of the amendments to be reasonable, i.e. for application to the audit of financial statements beginning on or after 15 December 2017. AAC considers that this will allow sufficient time for audit firms to amend their independence and succession processes and systems.

However, AAC noted that there appears to be an inconsistency between the explanation of the 'Effective Date' proposals and the table - '*Illustration for a partner who has served as a KAP*' - presented on page 15 of the ED.

The effective date is stated as being "for the audits of financial statements for years beginning on/after 15 December 2017", thus the table reflects the example of financial year ended 31 December 2018 as being the first period for the application of the new rules. On that basis, the presentation in the table would appear to be correct.

However, the explanation just prior to the table also states "Accordingly, if a KAP is in the middle of a two-year cooling off period when the provisions become effective, the old provisions will apply in the first year of the cooling off and the new provisions in the second. The meaning of this is unclear and open to a number of different interpretations, and would not appear to be reflected in the table.

AAC suggests that the wording of this explanation be amended to state that if a cooling-off period has started prior to the effective date, then the

old provisions (i.e. a 2-year cooling off period) apply and if the cooling-off period begins on/after the effective date, the new provisions (i.e. a 5-year cooling off period) apply.

Other comments

Section 290.150B – AAC considers that the phrase “in last year where the individual acted as engagement partner” should replace the phrase “in the previous year”.