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Mr Ken Siong,
Technical Director,
International Ethics Standards Board for Accountants,
529 Fifth Avenue, 6th Floor,
New York,
NY 10017,
USA.

Dear Mr Siong

Comment Letter *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*

Crowe Horwath International is delighted to present a comment letter on the *Proposed Changes to Certain Provisions to the Code Addressing Non-Assurance Services for Audit Clients*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 118 countries.

We welcome the exposure draft presented by IESBA. Overall, we welcome the proposed revisions to the Code. Overall, the proposed changes improve the provisions of the Code regarding long association. As an observation, we feel that it is important that IESBA prepares practical guidance to assist firms, and particularly smaller firms, with the application of the revised provisions.

We address below the specific matters detailed in the IESBA's request for 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?

The proposed enhancements to the *General Provisions* do provide improved guidance for identifying and evaluating familiarity and self-interest threats created by long association.

The safeguards listed in paragraph 90.149A are appropriate. However, IESBA should consider referring to the specific situation faced by smaller audit practices, where due to limited resources within the firm, the appropriate safeguard may result from engaging an

external consultant to, say, perform an EQCR. IESBA should make specific reference to such situations and highlight that external safeguards should be considered.

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)?

It is appropriate to refer to the evaluation of the potential threats created by the long association of all individuals on the audit team.

The explanatory memorandum explains that IESBA has recognised concerns arising from the long association of all members of the audit team. Some practitioners may disagree with this view, and we encourage IESBA to prepare examples that illustrate the threat connected with the long association of any member of the audit team. For example, IESBA could prepare an example where long association has arisen from progression from a junior position to a senior position over time. Another example could be prepared to illustrate the risks where a long serving staff member has performed the detailed audit work for many years.

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?

Allowing the firm to determine an appropriate time-out period is a proper application of a "principles based" standard. However, IESBA may wish to specify a minimum period of time, to avoid any misunderstanding. As stated in 290.149B, more detailed requirements apply in the case of public interest entities.

IESBA should state that the firm has to document the reasons for determining the time-out period chosen for a specific individual on a particular engagement.

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?

We agree with retaining the time-on period as seven years. This period is considered appropriate for most situations, but as noted in the *Explanatory Memorandum*, individual jurisdictions can choose to shorten this period to reflect their own circumstances.

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 Explanatory Memorandum includes a useful discussion about the length of the cooling-off period. We have sympathy with the proposal to extend the cooling off period to five years, but have concluded that the period should be for a minimum of three years, following the new requirements in the European Union. The European legislation has been subject to extensive debate and scrutiny in the course of its development, and at this time IESBA should follow the course determined by the European institutions. In due course, studies can be conducted to determine whether the time-on and cooling-off periods in the European legislation are achieving their intended objectives.

We acknowledge, that individual jurisdictions will choose to maintain or adopt a longer cooling-off 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?

In principle, having a cooling-off period that is the same for all PIEs is sensible and consistent. However, a practical problem arises with the application of the definition of "public interest entity". In some jurisdictions, small public companies, traded on secondary markets, and often thinly traded with small numbers of shareholders are deemed to be PIEs. The risks attaching to these companies, as well as their profiles, are very different from fully listed companies, and there are arguments in favour of reducing regulation for this type of company.

In the event that IESBA adopts a cooling-off period of five years then this should apply to the audits of listed companies. By 'listed" we mean companies that are "fully" listed, such as those listed on markets regulated by the European Union. The cooling-off period for the audits of other PIEs should be three years.

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?

We disagree with the proposal to retain the cooling off period for the EQCR at two years. The EQCR is an important role, defined by Auditing Standards, supplemented by other guidance, including a commentary on the role issued by the IFAC Forum of Firms. The commentary given in the *Explanatory Memorandum* understates the importance of the role of the EQCR in providing objective input into the audit and in achieving audit quality objectives. The cooling-off period for the EQCR should be the same as for the audit engagement partner.

The cooling-off period for other KAPs can remain at two years.

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?

We agree with IESBA's conclusions on this matter. Adopting an alternative approach is potentially confusing and may be difficult to apply in practice.

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?

We agree with these new provisions. These reminders are important, prompting firms about the threats than can arise from long association.

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?

The discussion in the *Explanatory Memorandum* clears defines the scope and circumstances of involvement by a former engagement. We agree with the conclusion that limited involvement is permitted after two years.

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?

We agree with the proposed additional restrictions.

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

We agree that TCWG have to concur with the application of these provisions.

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 and the proposed limitation.

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 analysis is fair and balanced. In the analysis, there is reference to the particular issues that face smaller firms that audit PIEs. Whilst it is important to promote and enhance audit quality and independence, in concluding upon these revisions to the Code, IESBA should be alert to these issues. The publication of practical guidance will assist smaller firms with addressing the impact of these changes.

We trust that our comments assist the IESBA in their revision of the Code. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

David Chitty
International Accounting and Audit Director