



11 November 2014

International Ethics Standards Board for Accountants (IESBA)  
529 5th Avenue, 6th Floor  
New York, New York 10017

Dear Sirs,

**Kreston International comments on IESBA Exposure Draft: “Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client”**

Kreston International appreciates the opportunity to respond to the IESBA Exposure Draft: “Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client”.

Kreston International Limited is a global network of independent accounting firms. Currently ranking as the 13th largest accounting network in the world, Kreston covers 108 countries with 600 offices providing a resource of over 20,000 professional and support staff. Our member firms are involved in the audit of a range of businesses, from listed entities to SMEs and we have sought their input in preparing this response.

Kreston International members recognise the need to clarify and strengthen the ethical standards in the area of long association.

We have given our responses to the detailed questions below.

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 enhanced guidance in paragraph 290.148 is useful. The safeguards could include reference to discussion with those charged with governance. There is no time frame applied to the general provisions whilst a seven year time period applies to Public Interest Entities and rotation. This could lead to non-PIE audits being subject to greater scrutiny as PIE audits will principally apply the rotation rules. This could have a significant impact on SMPs.*

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 apply to all individuals, where an individual has performed the same role on an audit for a number of years there is likely to be an impact on objectivity and professional scepticism. This may have a more significant impact on SMPs where staff may move less frequently but it should be possible to manage issues that are identified.*

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?

*The firm should determine an appropriate time-out period. However, it may be appropriate to specify a minimum period of say two years. Recognition could also be given to the fact that some of the factors that lead to a rotation decision may change in the time-out period and this could mean that it is appropriate to shorten the 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 remaining at seven years for KAP's is appropriate.*

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?

*Extending the cooling-off period to five years is appropriate. The five year period should be manageable for SMPs and removes the potential impression that the new engagement partner is just marking time until the original engagement partner returns. It gives greater substance to the fresh look assertion.*

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?

*The cooling-off period should apply to all PIEs to ensure clarity and consistency.*

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?

*Given the responsibilities of the EQCR and other KAPs and their limited access and interaction with senior management and those charged with governance a two year cooling off period is appropriate.*

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?

*This provision is a practical solution. Any other provision would require complex record keeping and implementation requirements and the benefit to the public interest is difficult to identify.*

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?

*These provisions are helpful. It may be better if they are placed at the beginning of the section dealing with Public Interest Entities to emphasise that the general provisions apply and that the specific rotation requirements are the additional requirements.*

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 limited consultation role as outline in paragraph 290.150B is appropriate.*

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 appropriate.*

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

*It is important that Those Charged with Governance concur on any decision not to apply 290.151 and 290.152 to ensure audit quality is seen to be preserved.*

## **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 corresponding changes to Section 291 are appropriate. It is not clear that the provisions should be limited to assurance engagements “of a recurring nature” as the familiarity and self-interest threats could outweigh the fact that the assurance engagements change over time.*

### **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 impact analysis would appear appropriate and comprehensive.*

The proposed effective date and transitional provisions should provide sufficient time to make any changes required to policies, procedures and systems.

If you have any questions please contact [andrew.collier@kreston.com](mailto:andrew.collier@kreston.com)

Yours faithfully

For and on behalf of Kreston International

A handwritten signature in black ink, appearing to read 'A. Collier'.

Andrew Collier

Director of Quality and Professional Standards