



**The Institute of
Chartered Accountants
of Pakistan**

HEAD OFFICE

Technical Director
IFAC
529, Fifth Avenue, 6th Floor,
New York, USA

November 12, 2014

ICAP COMMENTS ON EXPOSURE DRAFT 'PROPOSED CHANGES TO CERTAIN PROVISIONS OF THE CODE ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN AUDIT OR ASSURANCE CLIENT'

Dear Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above Exposure Draft.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

Haroon Tabraze
Director Technical Services
The Institute of Chartered Accountants of Pakistan
haroon.tabraze@icap.org.pk

ICAP 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'

SPECIFIC QUESTIONS

General Provisions:

Question 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?

Response

Principally we agree with the contents. Nonetheless, the extended guidance in paragraph 290.148 concluded that the combination of two or more facts may increase or reduce the significance of the threats. There may be a need to assess the outcome of each combination and decide upon the merits of the combined impact as to the nature and extent of the safeguards needed to be placed. We suggest this paragraph should be clarified in more detail with conclusive examples of the cases in the outset where no breach of independence can be foreseen due to combined reduced threats.

Further, at many jurisdictions generally such a long association of personnel cannot be witnessed at the firms other than SMPs because of higher turnover of the junior staff among various divisions owing to training requirements and change in the role of managerial staff over the period due to growth and learning.

Question 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)?

Response

In case there are such long associations of the junior staff, familiarity threats can theoretically arise. However, the junior staff is usually not deputed at same client on recurring basis during a longer run; and secondly, the threats associated with the junior staff cannot be considered significant unless they have progressed to the senior cadre over the long association period.

We therefore are of the view that general provisions should include examples of circumstances and indicative timelines of the association where junior staff's familiarity threat could be considered significant.

Question 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?

Response

We agree to the above suggestion in principle. The code may provide some insights as to the factors necessarily be considered while determining such a time-out period and the frequency for putting a staff member to such time-out. However, it would be better if time-out period is prescribed.

Rotation of KAPs on PIEs:

Question 4

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

Response

In our view, for an audit of a public interest entity, an individual should not be a key audit partner for more than seven years unless the law prescribes a shorter period in which case the requirement of the law should prevail for such specific entities.

Question 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?

Response

We understand the argument that an individual can serve as a KAP for up to 14 out of a total of 16 consecutive years, with two years' cooling off period. A two years' cooling off period was logically aimed at to create a reasonable gap to ensure independence by keeping KAPs away for two straight audits. In contrast, fixing a five years cooling-off period merely because of above stated reservation does not provide a stronger rationale behind this number (5 years). If serving 14 out of 16 consecutive years (with two terms of seven years each) is the issue to handle with, then it has to be decided that how many years out of 16 consecutive years can be allowed to a KAP of PIE? Eleven years - twelve or thirteen - or again fourteen years? Which number would ensure independence and how? This question in itself seems abstract.

We understand that a five years' cooling off period will pose practical problems for the SMPs and should therefore be reconsidered. A two years' cooling off period, in our view, is appropriate unless it is clearly demonstrated that independence can be ensured by allowing lesser than fourteen years out of total sixteen consecutive years to a KAP of PIE.

Question 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?

Response

Please consider our response to question 5 above. If the Board decides to increase the cooling off period to five years, we agree that it should be applicable to the audit of all PIEs.

Question 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?

Response

We agree.

Question 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?

Response

Subject to our response to question 5 above, we agree with this proposal. However, relaxation should be provided in certain cases of necessity as given in 290.153.

Question 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?

Response

These seem to be reminding provisions and would be helpful.

Question 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?

Response

We do not agree with this suggestion, if it has to come as a compulsion. If an audit can be carried out without consulting role of the partner in cooling-off, it can also continue without his consultation role after two years period. Nonetheless, if this would result in just 'permission' and not a mandatory requirement, it could be added. This comment is again subject to our response to question 5 above.

Question 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?

Response

Although a total restriction to serve the client by KAP in any other discipline does not look warranted (provided it does not influence the audit), we believe that the KAP should not by any means be involved in the audit process. This may jeopardize independence or professional capacity of the incoming new KAP. Further, ensuring a limited contact with the audit engagement team after rotating off from the engagement seems a mandatory requirement and we fully agree with it. However, in the case of a SMP, this may be hard to comply due to fewer partners available.

Further, limiting the contact of outgoing KAP with client management, in particular if his/her contact has no connectivity whatsoever with the audit engagement, seems a stricter restriction. Many non-audit services are entirely different from the nature and extent of the audit engagement and are mostly provided in different timing zones and by engaging altogether a different team typically having different set of professional skills and specialization.

In case of non-audit services (otherwise permitted by the Code), if no influence has to arise over the conduct and delivery of audit by incoming new KAP, the previous/outgoing KAP should not be prohibited from providing such services.

Question 12

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

Response

We agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without informing the TCWG and obtaining their concurrence.

Section 291:

Question 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”?

Response

We agree that the provisions should be limited to assurance engagements of a recurring nature only.

Impact Analysis:

Question 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?

Response

These changes may affect the SMPs owing to their limited resources and concentrated expertise. They may cause hardship to SMP for compliance with the same. There do not appear other costs to be considered by IESBA. We agree with the analysis of impact of the proposed changes. This is, however, subject to our reservation stated in response to question 5.

OTHER MATTERS

We believe that the proposed amendments may considerably affect the SMPs and they may have to revisit their staffing requirements, systems in effect and audit procedures and documentation. Therefore, the effective date should be reasonably extended beyond the one that has been suggested; so that ample time is provided to such firms for developing and/or revising their audit methodology, strategy and managerial structure, if required.