



12 November 2014

The Institute of Chartered Accountants of Zimbabwe (ICAZ),

2 Bath Road / Corner Sam Nujoma St,

Belgravia,

Harare,

Zimbabwe

Dear Sir

Exposure Draft, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

ICAZ is pleased to have this opportunity to respond to the above exposure draft. We hope you find our comments helpful.

If there are any issues arising from the above, please contact the undersigned.

Yours sincerely

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For and on behalf of ICAZ's Auditing and Professional Standards Committee (APSC)

ICAZ comments on the Exposure Draft, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

Specific Comments

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?

The proposed enhancements to paragraph 290.148 give more guidance and further clarify familiarity and self-interest threats created by long association. There are no additional safeguards that we think need to be considered at the moment.

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)?

*While we think that this enhancement is good, we do believe that the junior members (below audit-in-charge level) of a team do not necessarily have a major impact on the outcome of an audit. In most instances, they do not have the long association threat as they will be Trainees who usually get to the level of a senior after at least three years with the audit firm. We believe the Code's principles of evaluating threats to independence of junior trainees is adequate without having to consider the 'long association' threat. The significant issue here is the **role** that an individual has on an assignment over the period of association.*

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?

Where firms decide to rotate individuals, they should determine their own appropriate time-out period. This allows firms to manage their risks better.



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?

We fully concur with not changing the time-on period.

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?

We have reservations on the extension from two to five years. While the objectives are clear, the extension which comes along with stripping the Engagement Partner (EP) of any involvement on the audit client for that extended period seems to be far-fetched.

We recommend that the cooling off period be extended to three years instead (if it must be increased), and that the Engagement Partner may be allowed to provide quality control functions (EQCR) after these three years. The Engagement Partner can then be allowed to be the EP after the five years as proposed.

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?

Yes the requirement should apply to the audits 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?

We concur with not changing the cooling-off period of the EQCR and other KAPs.

There were strong views on the role of some KAPs who might be the engagement partner of the major subsidiaries/divisions of a PIE. These KAPs were deemed to sometimes face major risks relating to the audit of the PIE. These KAPs should have a similar cooling off period to the Engagement Partner. The foreseen challenges then will be around defining which KAPs require a similar cooling off period to the EP. ie whether it is going to be Revenue/Profits/Total Assets percentage contribution of a subsidiary/division to the consolidated numbers, this may also be considered against the significance of the risks associated with the subsidiary/division to the risks of the audit of the group.



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?

No we do not agree with the notion that ‘he or she has served any time during the seven year period’. The engagement partner’s cooling off period should take into consideration his total cumulative association with the client before we can attach a familiarity threat. ie where an Engagement Partner has say a four year cumulative association with the client in the preceding seven years, its only then that we can consider the need for a cooling off period.

What may need clarification is whether this is intended to be applied on an Engagement Partner who has only served two years (a single year as and EP and another year as a KAP) over the last seven years of the audit engagement. If yes, this may be contrary to the spirit of the code, as such a partner cannot be defined as having a long association with the engagement client.

290.150A first bullet – this is not very clear. It appears to put the long association tag on a KAP that has served a client for only two years in the past seven years. The paragraph appears to imply that for an engagement client that has been audited by a firm for seven consecutive years, any partner that has been involved on it say for just a year as the engagement partner (and another year as a KAP) – that this partner has to take a cooling off break of five years. This appears to be contrary to the spirit of the Code. Please refer to the table under our ‘Other General Comments’ for the confusion that 290.150A seems to create.

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?

Yes, the new paragraphs are 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?

We believe after two years of the cooling-off period, the familiarity threat would have been managed to an acceptable level as such we do not see any reasons why a ‘cooled-off’ engagement partner cannot be allowed to be consulted on a limited basis.

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?

We fully agree that the KAP should not be involved in any capacity during the cooling off period.

What may need additional consideration is the cooling off period for those KAPs who are the EPs for the major subsidiaries/divisions of a PIE, as outlined in our response to question 7.

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?

We fully agree. Extending the duration served by the KAP, should be with the express approval of those charged with governance.

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”?

We fully agree. Assurance engagements of a ‘recurring nature’ are the ones that bear the most risk of familiarity threats arising from long association with a client.

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?

We agree with the analysis

No other operational or implementation costs that need to be brought to the attention of IESBA have been noted yet.

Request for General Comments

Question 15 – In addition to the request for specific comments above, the IESBA is also seeking comments on the following general questions:

- (a) ***Small and Medium Practices (SMPs)* –The IESBA invites comments regarding the impact of the proposed changes for SMPs.**

These will be the most adversely affected as they may not have the resources that allow for partners being forced to cool-off. It is highly probably that some SMPs will be forced to increase the size of their partnerships or to lose some clients if they are to properly apply the revisions of the Code.

- (b) ***Preparers (including SMEs) and users (including Regulators)* – The IESBA invites comments on the proposed changes from preparers, particularly with respect to the practical impacts of the proposed changes, and users.**

Most preparers tend to get comfortable with the long association with their auditors as they usually think that they get more out of such a relationship. They may not be enthusiastic of having to deal with new KAPs as they associate this with higher audit fees (new personnel usually take longer to complete tasks).

TCWG and Regulators will most appreciate the enhancements of the Code as they believe the interests of all stakeholders are best served where there is enhanced independence between the client and its auditors.

- (c) ***Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.**

Zimbabwe has always applied the Code from its inception. There are no additional comments other than those highlighted above.

- (d) ***Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.**

Zimbabwe uses English as its official language as such there are no translational concerns.

- (e) **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?

For large firms we do not see any significant changes to their systems and process being necessary as such the proposed effective date and transitional provisions provide sufficient time.

However for the SMP, who may need to co-opt new partners or implement other changes to their systems and processes, there may be need to make sure that once amendments to the code are finalised, there may be need to provide for at least 18 months to the effective date. This appears to be the case if the IESBA manages to stick to their timetable.

Other General Comments

There may be need to define the 'Seven Year Time-on period' ie does it relate to seven consecutive years, or any cumulative seven years attained over a specified period like say ten years. The challenge with having the years being successive, a KAP/EP that takes a break on an audit client in say the sixth year, will have reset his/her clock to continue working as a KAP in the subsequent seven years. This will mean he can serve the client in 12 out of 13 years without being deemed to have a familiarity threat – which seems contrary to the spirit of the Code.

If the seven years relates to any partner association with a client in the preceding seven years (any breaks included) paragraph 209.150A may imply that some partners who we deem to not have a familiarity threat may be required to cool off. Scenarios A up to G as shown in the table below relate to a KAP who has acted as an EP at any one time in the last seven years. Such partners would be cooled off per paragraph 290.150A (unless we interpret it incorrectly).

Paragraph 290.150A possible scenarios

| scenario | Yr1 | Yr2 | Yr3 | Yr4 | Yr5 | Yr6 | Yr7 | Familiarity threat? |
|----------|-----|-----|-----|-----|-----|-----|-----|---------------------|
| A | EP | | | | | | KAP | NO |
| B | EP | | | | | KAP | KAP | NO |
| C | EP | | | | KAP | KAP | KAP | NO |
| D | EP | KAP | | | | KAP | KAP | NO |
| E | EP | KAP | KAP | | | | KAP | NO |
| F | EP | | | KAP | | KAP | KAP | Maybe |
| G | EP | | KAP | | KAP | | KAP | YES |

Scenarios A-E show cases where a partner has cooled off for 3 years hence should not be deemed to have a familiarity threat hence no need to cool off in year 8 going forward.

Scenario F – the partner cooled off for 2 years and it can be debated on whether there is still a familiarity threat at all in this situation.

Scenario G - while the partner only has 4 years association with the client, he/she has never taken a reasonable break from the client to alleviate any familiarity threats as such he/she can be deemed to be getting too close to the client hence should be cooled off.

The current definition of the 'period-on' should be clearly defined so that the above scenarios are dealt with in the line with the spirit of the code. The consecutive seven year association with a client is a risky definition as it may do little to address the familiarity risk as alluded to earlier.

Audit Clients that are Public Interest Entities

290.150A In respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time:

- An individual who has acted as the engagement partner **at any time during the seven year** period shall not be a member of the engagement team or provide quality control for the audit engagement for five years; and
- Any other key audit partner shall not be a member of the engagement team or provide quality control for the audit engagement for two years.