INSTITUT DER WIRTSCHAFTSPRÜFER

18 November 2014

Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0)211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0)211 / 454 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
Bankleitzahl: 300 700 10
Kontonummer: 7480 213
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDEDDXXX
USt-ID Nummer: DE 119353203

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

submitted electronically through the IESBA website

Dear Mr. Siong,

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

The IDW is pleased to have the opportunity to comment on the above mentioned exposure draft (hereinafter referred to as "the ED"). We submit general comments and then respond to the questions raised within the IESBA's request for comments.

General Comments

As a member of IFAC, the IDW continues to support the work undertaken by the IESBA in respect of the Code of Ethics for Professional Accountants. Ethical behavior, driven by globally applicable ethical standards of a high quality, is essential to the reputation of the entire accountancy profession. Although we recognize that it is common for regional (e.g., EU) or national laws and professional codes to establish certain requirements governing specific aspects the ethical behavior for certain groups of professional accountants within individual jurisdictions, we agree there is a need to strive for the application of ethical principles at an international level to provide a common basis and facilitate harmonization. However, some flexibility in the IESBA Code is required to take into account the needs of different systems to achieve the appropriate

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB CPA;
Manfred Hamannt, RA

mix of safeguards, as opposed to the Code representing a further layer of additional requirements that may not always be appropriate given national requirements.

We are also concerned with some of the statements on page 14 on the impact analysis within the explanatory memorandum: “It (cooling off period) may well, however, have a negative impact on audit firms, particularly smaller audit firms which have fewer personnel available to them.” – a statement upon which IESBA did not choose to act at all, and “No other jurisdictions currently apply a seven/ five year approach solely for the engagement partner and only three jurisdictions that participated in the benchmarking survey have a five-year cooling off period.” The IESBA is charged with developing a Code for international application and should therefore perform an analysis of impact that takes into account not only the views of some jurisdictions that choose, for national reasons, to have different provisions, but also the reasons why a large majority of other jurisdictions choose not to follow the few that have different positions.

As the IESBA is aware, legislation recently passed in the European Union introduces, among other things, the mandatory rotation for all audit firms auditing the financial statements of public interest entities as a measure to address perceived threats to an auditor’s independence that may arise from long association with an audit client. Accordingly, we believe that there is a need to revise the particular provisions of the IESBA Code relating to audit clients that are public interest entities to take situations like external rotation into account.

As we discuss in more detail below, we are concerned that in seeking to strengthen existing provisions on internal rotation, the proposals – when combined with external rotation – may do more harm than good, because in combination they potentially have a greater detrimental impact on audit quality than each of these safeguards would have individually.

A further concern is that, as a minimum, the text of the Code (and not only the explanatory memorandum) should acknowledge the fact that there may be a trade-off between particular measures aimed towards safeguarding actual and perceived familiarity threats and their impact in terms of a loss of knowledge and experience gained by an audit team, including audit partners, which will directly impact audit quality.

Proposed Changes to Provisions Relating to Audit Clients that are Public Interest Entities and Interaction with Further Safeguards

We note from reading IESBA Agenda Papers during the development of this exposure draft that any provisions developed in the ED should provide a reasonable and robust alternative to proposals on mandatory tendering and firm rotation. In seeking to strengthen the provisions of extant paragraphs 290.149 et seq. relating to public interest entity audit clients, we believe the IESBA ought to expressly take into account the interaction of internal rotation with other safeguards such as external rotation when audit firms determine the safeguards appropriate in the individual circumstances of each of their audit clients that are PIEs. Establishing specific periods of time for the involvement and cooling off in respect of specific individuals is necessarily arbitrary and, in our view, given the impact of certain other safeguards, such level of prescription is no longer appropriate in a principles-based Code that needs to be applied alongside other regulatory measures.

We note that the explanatory memorandum states that the IESBA has taken into account potential implementation costs, including the added complexity of overlaying the proposals with local jurisdictional rules (page 6), but, given our comments above, we do not see how this statement is justified. The proposals pertaining to audit clients that are PIEs do not even acknowledge the existence of external rotation as a further alternative safeguard. Furthermore, the combined impact on audit quality ensuing from external rotation at a given interval, introduction of new key audit partners and the engagement partner at a second different interval (and potentially of new personnel too, at a third interval) is not discussed in any detail. Changing audit firms, audit partners and audit team personnel – which may all be reasonable safeguards when considered in isolation – need to be viewed in combination, to ensure that the entire “package” of safeguards aimed at addressing *potential* threats to objectivity does not result in such a loss of knowledge and expertise (which, in contrast is an actual rather than “*potential*” loss) as to be detrimental to audit quality, and thus outweigh any benefits. In this context, we are concerned that the IESBA does not appear to have laid sufficient emphasis on audit quality in developing this ED.

Impact of the Proposals on the Audit of Smaller Entities that are Public Interest Entities

We would also like to draw the Board’s attention to the fact that the Code’s extant definition of PIE is dependent on local regulation, which, in turn, can change from time to time. In going beyond listed entities, the Code’s definition of

PIE varies, depending upon the particular jurisdiction's definition of PIE. Thus definitions in individual jurisdictions are neither comparable nor static, since they can change without the IESBA being in any position to take changes into account in developing the Code further. From a German perspective, following changes in EU law, the definition of PIE now encompasses far more entities than previously. In essence, the number of audits affected by this change in Germany is likely to double, as many smaller entities in specific fields are now classified as PIEs, beyond listed entities. In contrast to large listed entities, many of these "additional" smaller PIEs are audited by small or the smaller medium sized audit firms (SMPs). In this context we would also like to draw the Board's attention to s survey published recently by FEE "Definition of Public Interest Entities (PIEs) in Europe".[1]

We note that the explanatory memorandum explains that the IESBA "listened to concerns regarding … the availability of resources, and on the small and medium practices community." However, the ED retains a one-size-fits-all approach to public interest audits, regardless of their relative degree of public interest, size, complexity etc. There is a vast difference between a large complex internationally operative public company and e.g., a small national insurance company or charity. We firmly believe that IESBA should perform an exercise to assess the number of smaller entities that go beyond listed entities in order to inform the Board about the numbers and nature of entities which will be affected by their proposals each time the Board proposes changes to affect PIE-only audit clients.

In our opinion, the stringent proposals setting a time limit for association and cooling off periods during which technical expertise is limited for outgoing engagement and key audit partners may not be the most appropriate way to safeguard objectivity in respect of all smaller PIE audit clients and their largely SMP audit firms: alternative measures that have less impact on audit quality may be equally appropriate. Our concern is that overly stringent provisions associated with the proposed one-size-fits-all approach may result in some SMPs leaving the market, either as a result of additional costs of compliance or even because of a perception by prospective audit clients that they may be unsuitable in terms of their capacity to comply with these provisions. We explain our views further in the appendix to this letter, in which we respond to the Board's questions.

---

[1] The published survey is available from the FEE website: http://www.fee.be/images/publications/auditing/PIE_definition_survey_outcome_141015.pdf

Proposed Changes to the General Provisions Extending Internal Rotation Considerations to all Personnel

We accept that there might be extreme circumstances in which personnel who are not audit partners should be rotated off an audit engagement. However, we also have significant concerns as to the proposed provisions of the ED in this respect. We have detailed our concerns and suggested an alternative approach in our response to question 2 in the Appendix to this letter.

We trust that our comments will be helpful to the Board. If you have any questions relating to our comments in this letter, we would be pleased to discuss matters further with you.

Yours truly,

Klaus-Peter Feld
Executive Director

Helmut Klaas
Director European Affairs

541/584

APPENDIX: Response By Question Posed

Request for Specific 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?*

No, they do not so, as we explain:

The proposed additions make the text overly complex, which may cause problems in application. The proposed text also introduces a certain amount of duplication: for example, paragraphs 290.130-139 already deal with threats arising from personal close relationships and need not be repeated.

There is also some confusion with respect to the meaning of the familiarity threat, as proposed changes to the general provisions of section 290.148A specify an individual's long association with the financial statements subject to audit or the underlying financial information as one of three factors that may create a familiarity threat. We would like to point out that the term "familiarity threat" is defined in section 100.12(d) "Familiarity threat - the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work". Firstly, we do not understand how familiarity with financial statements and information – alone – might create a familiarity threat to an auditor's objectivity (the word "or" in 290.148A and 291.137A implies it does). Secondly, familiarity with financial statements and information is not compatible with the afore-mentioned definition of familiarity threat, since that definition refers solely to relationships between individuals.

As we explained in our accompanying letter, alternative safeguards such as external rotation or tendering ought to feature in a firm's assessment of the need to rotate individuals. Furthermore this section ought to indicate that there may be a trade-off between measures aimed at safeguarding familiarity threats and the depth of knowledge and experience gained by audit personnel, including audit partners, which directly impact audit quality. As drafted, this section

appears to imply that the familiarity threat is the sole concern without regard to the impact of certain measures on audit quality.

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)?*

We have significant concerns as to the proposed change from “senior personnel” to “personnel” in sections 290.148A and 291.137A and do not believe that IESBA has appropriately justified the need to extend the application of these sections beyond senior personnel.

The proposed deletion of “senior” means that far more individuals will fall under the provisions relating to long association than is the case at present, and will likely cause firms administrative burdens that, in our view, will generally outweigh any benefit. although it may be reasonable to assume that the length of time any individual is associated with a particular client would increase familiarity and self-interest threats, the ability of most personnel who do not have a senior role on an audit team to influence the audit opinion (or exert direct influence on the outcome of the audit) is generally relatively limited, and would likely result only from willful behavior, for example covering up errors found to protect an individual because of a close relationship or similar. As we have pointed out in responding to Question 1, paragraphs 290.130-139 of the Code already deal with threats arising from personal close relationships. Thus, we would argue that there is generally relatively little threat necessitating a safeguard in the circumstances pertaining to most audit and assurance engagements. Consequently, we doubt that a thorough consideration of all the factors listed in the ED would lead to a conclusion that rotation of personnel who are not senior personnel is a necessary safeguard in all but relatively few cases.

However, if the proposals were adopted, all firms would need to consider the potential for familiarity and self-interest threats from all personnel on an engagement team. Our concern is that the proposed change could lead to calls – from risk-management departments, from oversight authorities etc. – for firms to document, at regular intervals, considerations regarding each member of an audit or assurance team for every separate engagement in which they are involved in order to justify why the individual should not rotate from the audit engagement – an onerous task for larger teams. There are also likely to be practical difficulties in assessing the various factors and their interactions, since assessments of individual circumstances involve considerable subjectivity. Furthermore, although larger firms may have the capacity to rotate less senior

members of staff, many SMPs are likely to find this to be impossible since they simply do not have that many staff, or may be concerned that personnel changes in a smaller audit teams could have a marked negative impact on audit quality.

A loss of staff continuity at less senior levels also impacts the amount of interaction an audit team will have with a particular client's accounting department, since it is the "new" less senior staff who are likely to have questions on a day-to-day basis; questions which their predecessors would not need to repeat each year. This burden on an entity subject to audit should also be factored into the IESBA's cost-benefit considerations.

In conclusion, we believe that a risk-based approach is needed. We suggest the IESBA retain the distinction between senior personnel and all other personnel, dealing with less senior personnel on the basis of "when something comes to the attention of the firm or engagement partner". This is already possible, given the requirement of ISQC 1. 22 (b) whereby firms are required to have certain policies and procedures; specifically requiring "Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence …" and pursuant to ISQC 1. 22 (c) "the accumulation and communication of relevant information to appropriate personnel so that (i) the firm and its personnel can readily determine whether they satisfy independence requirements…".

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?

Yes, we support this proposal, since the individual engagement circumstances would need to be taken into account. We also refer to our remarks concerning audit quality in this regard.

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 that this period should not be shortened. However, as explained in more detail, we are not convinced that retaining such a rules-based approach with an arbitrary period of time is the best approach. Given the arguments we have explained above, we suggest the Code acknowledge that a maximum

period is needed for KAPs on the audit of PIEs, but provide guidance as to the length thereof, or consider whether a technique such as a rebuttable presumption might be used instead of setting a firm number of years. This would allow a degree of flexibility rather than constituting a one-size-fits-all safeguard to long association issues for the audit of PIEs – particularly when internal rotation is used in conjunction with other measures, such as external rotation.

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?*

No, we do not agree. We do have some sympathy with the proposed differentiation between KAP and LAEP, based on the fact that the more influential a partner is, the more critically his or her objectivity will be perceived to be, although – as we contend throughout this letter – we view a principles-based approach as more appropriate.

All firms will be challenged to a larger or lesser extent by the need to maintain more extensive partner rotation plans, and SMPs in particular may find it impossible to comply with such rotation plans because they have a smaller number of partners upon which to draw.

In particular, the IESBA's conclusion that there was little justification for making any distinction between listed companies and other PIEs does not, in our view, take due account of the fact that in some jurisdictions many PIEs may be very small entities that are audited by SMPs.

We believe five years is likely to be excessively restrictive for many SMPs that audit public interest entities. The length of a cooling off period also needs to be considered in conjunction with the proposed reduction in activities during the cooling off period. For example, it would not be in the public interest if compliance with the Code resulted in a reduction of audit quality, merely because an engagement partner had to be selected who was not the best partner for the job and – also as a result of compliance with the Code – that individual was denied access to relevant technical expertise within his or her own firm.

In our opinion, a principles-based rather than rules-based approach to be preferable, as this would allow flexibility based on the individual engagement circumstances.

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?*

No, we believe this is excessive for smaller PIEs. We refer to our previous comments and responses.

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?*

Notwithstanding other comments in this letter, we agree that the cooling off period for KAPs should not be extended.

It is difficult to understand the overly complex proposals as drafted in paragraph 290.150A.

Clarification of Applicability – Which Individuals

Section 290.150A deals with cooling off periods in the context of an audit of a public interest entity for both a single individual who was “engagement partner” and “any other key audit partner”, proposing periods of 5 and 2 years respectively. For the purposes of this section, we believe there is a need for further clarification –also in view of the extant definitions in the Code. The Code’s definition of “key audit partner” clarifies that audit partners responsible for significant subsidiaries or divisions are not necessarily “key audit partners”, however, they may be included. In our view, determining which individual audit partners are subject to the provisions of the Code for the audit of a PIE and which audit partners are not is likely to be challenging in practice, and may be very difficult for individual firms that are not the auditor of the holding entity or PIE – although it is the individual firms that will need to manage their personnel’s compliance. This determination can only be made at group audit level, since this will involve a retrospective assessment of and determination as to which decisions were key, and which judgments related to significant matters from a group perspective. Indeed, to ensure consistent application by audit firms and a common understanding between auditors and oversight bodies, robust criteria will be needed in this regard too. We suspect that uncertainty arising from a lack of clarity in this matter may lead firms seeking to “stay on the safe side”, leading to rotation and cooling off of individuals, which might be unnecessary from a group audit perspective. The impact on audit quality resulting from the loss of expertise and need to build up client-specific knowledge anew is also a factor that needs to be considered in this context.

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. This proposal is rules-based and also likely to be excessive in many circumstances, e.g., if the period as engagement partner was short or not recent, or the appointment represented a temporary situation. In our opinion, a risk-based approach with a sliding scale would be more appropriate.

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 do not believe that “a reminder” is required. Repetition within the Code simply serves to make it longer and more complex.

However, we are also concerned that these paragraphs could lead to annual evaluations of key audit partners and members of the audit team, as a “cover your back” exercise, that would not contribute to audit quality at all. We refer to our comments in response to Question 2 above in which we explain our reasoning in more detail.

In our view, it would be preferable for the provision to be worded on the basis of “if anything comes to the firm’s attention” instead. As explained in our responses above, such an approach would be practicable given the specific requirements already contained in ISQC 1.

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?

In our opinion, it would be appropriate to take a risk-based approach in addressing this issue. The relative audit risk associated with specific areas of consultation could be a factor. Although we agree with the reasoning as detailed in the Explanatory Memorandum for allowing some consultation, we do not understand the rationale for proposing that two of five years must elapse before the limited role would be permissible. Not only does the choice of time period appear arbitrary, the initial years of the engagement are likely to be the very time when an incoming partner might benefit from consultation of such limited nature.

There are certainly implications for the audit quality that need to be factored into a decision on the level of consultation. Precluding all consultation is probably excessive in terms of benefit and practical implications also need to be considered. For example, for matters of relatively low risk it may not be necessary to preclude such limited consultation, since recourse to external consultation would add expense, and in other cases a lack of consultation may potentially impact audit quality.

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 that some clarification of activities might be useful to ensure that potential familiarity threats are dealt with appropriately.

We agree with the proposal in paragraph 290.150A that the key audit partner should not become a member of the audit team or the engagement quality control reviewer during the cooling off period.

However, given the issues involved (as explained in the following paragraph of this response), we believe that a risk based approach would be appropriate.

A complete ban on certain activities seems inappropriate in certain areas, especially where it might be possible to introduce other safeguards. From an SMP perspective we believe that it might be counterproductive to preclude consulting with the engagement team regarding technical or industry-specific issues as the IESBA is proposing. In such cases not only would banning recourse to valuable technical or industry-specific expertise not seem sensible from an audit quality perspective, the individual may, over time, loose the expertise or not remain up to date with developments – potentially affecting audit quality should that individual return to the engagement after the cooling off period. In contrast, larger firms with recourse to technical departments may not face these issues to the same extent. Also introducing a blanket ban on services to related entities might not be necessary or appropriate in all conceivable individual circumstances when the threat could be addressed by additional safeguards such as strict separation of teams, etc. We would suggest that the IESBA consider whether it would be more appropriate to introduce safeguards instead.

We note the IESBAs proposed solution is to allow limited consulting after two years of the five years cooling off period have elapsed, but do not believe this is

helpful, since it still denies a “new” partner access to consultation in the initial period - the very period when it is likely to be most needed.

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

IESBA is not the appropriate body to establish requirements for an entity’s governance body. However, requiring an auditor to seek approval regarding departures from independence provisions seems to be a reasonable safeguard in some cases. This would, however, necessitate the relevant body having both the capacity and full information to facilitate such approval.

We note that ISA 260.17(a) (ii) already requires the auditor of a listed entity communicate with those charged with governance regarding safeguards applied in relation to threats to independence. We agree that the proposed provisions are appropriate in respect of listed entities and may also be appropriate in certain jurisdictions for other entities with particular governance structures. However, given our comments regarding smaller entities that are public interest entities in many jurisdictions, we believe that a risk-based approach would be more appropriate in this instance than the one-size-fits-all approach proposed.

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”?*

Our comments elsewhere equally relate to Section 291.

We agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements “of a recurring nature”, as we do not see how the provisions could apply to assurance engagements that are not of a recurring nature.

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?*

We do not believe that views provide a sufficient basis for an impact analysis. Indeed the text is a very disappointing read, as it points out significant problems

(factual and practical) and does not justify "ignoring" these other than with the argument of perceived independence.

The IESBA should seek firm numbers in order to assess, in particular, the potential impact on SMPs who perform audits of PIEs, and take steps not to disadvantage this group; in addition, in many cases the costs may exceed the benefits for larger audit firms auditing PIEs, given that there may be other safeguards that could be used beyond internal rotation and cooling off (refer to main comments).

Request for General Comments

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.

We refer to our general comments as well as the responses to individual questions, in which we have detailed our concerns in this regard.

In particular, the proposed extension of the cooling off period for key audit partners from 2 to 5 years and the proposed addition of a second bullet point in section 290.150A (also preventing any other key audit partner from being a member of the engagement team or providing quality control for the audit engagement for a period of two years) poses an impossibility for many SMP firms' capacities to rotate partners and other audit personnel.

The proposed additional provisions concerning consultation on technical or industry specific issues (para. 290.150B) are likely to be a particular issue from an SMP perspective, for the same reasons. If an issue is encountered that is of such significance as to warrant recourse to the firm's specialist or technical resource, it is likely that – unless there have been relevant changes e.g., in accounting standards, laws or client's circumstances – in any firm, irrespective of size, the technical advice to a new engagement team would be likely to mirror rather than overturn previous internal advice. However, this provision would likely deny many SMP firms access to their firm's internal technical and industry expertise. We would therefore question the need for such stringent measures if "new" engagement partners within SMPs are forced to avoid appropriate consultation with their firm's best available experts.

Paragraph 290.153 remains the only paragraph that might offer some relief for SMPs faced with difficulties in complying with the Code. Although recourse to a

regulator may be a solution where listed entities are concerned, we are not convinced that this is practicable in respect of all SMEs that are public interests entities in all jurisdictions.

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.

N/A

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.

N/A

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.

We have not considered possible translation issues in detail, however in responding to the questions we have pointed out a number of passages where the text is potentially unclear, and which could thus prove difficult on translation.

For example reading only of the amended paragraphs in the ED those unfamiliar with the Code may not realize that an engagement quality control reviewer is also required to rotate after 7 years (this only becomes clear in the context of the definition of KAP at the end of the Code).

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?

In our view piecemeal changes to the Code should be avoided where possible, as each change needs to be read, understood, publicized, the impact fully assessed and measures put into place to facilitate compliance with new or changed provisions.

In addition, in the event that the proposals are not changed significantly, certain issues, as we have pointed out, are likely to pose significant challenges to SMPs who audit the financial statements of smaller entities that are public interest entities. Auditing firms may therefore need considerable time to be able to accommodate certain of the specific changes.